Freshtel HOLDINGS

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AUSTRALIAN STOCK EXCHANGE RELEASE

FRESHTEL REPORTS SIGNFICANT REVENUE INCREASE FOR FIRST YEAR OF TESCO WHITE LABEL AGREEMENT

Melbourne, Australia, 30th August 2007

- Revenue has increased by 137% to $4.6 million
- Tesco a major contributor to sales revenue, up 140%
- Operational expenses up 47% in-line with re-investment to capture growth opportunities

Freshtel Holdings Limited (ASX:FRE) has more than doubled its operating revenue over the past year attributing its growth to the success of its white label agreement with Tesco.

The company's revenue from ordinary activity increased 137% to $4.6 million. Sales revenue, from call time, hardware royalties and license fees, increased by 165% to $3.4 million, largely due to the Tesco white label contract completing its first full year of operations.

Overall the company reported a net loss of $7.6 million, for the full year to 30 June 2007. This was in line with company expectations.

Rhonda O'Donnell, Chief Executive Officer of Freshtel said "this is a very encouraging result for the company, which demonstrates the viability of Freshtel's unique white label business model.

"This was the first full year that the Tesco white label agreement was in operation and the results have been extremely pleasing. The Tesco Internet Phone contributed to a 165 per cent increase in sales revenue.

"Furthermore, we expect this revenue growth to continue strongly over the next year as we realise the full potential of the Tesco contract. This growth will be reinforced by our increased capacity to support the growth of the Tesco subscriber base through the newly strengthened V2 network, and the execution of Tesco's product re-launch next month," said Ms O'Donnell.

Expenditure during the year increased, largely due to investment in R&D projects Freshtel's V2 next generation network, the converged mobile technology solution which is on track for commercialisation in 2008 and enhancements to the existing product range.

"We consider this a very valuable and necessary investment that will drive our future growth and ensure our ability to cater for several prospective white label agreements that form the cornerstone of our competitive advantage."

"The development of V2, our next generation telecommunications grade network was critical to achieving greater scale. This network infrastructure will enable us to accommodate growth in subscribers through existing and new white label partnerships without the need for excessive capital expenditure," Ms O'Donnell said.

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Employee expenses represent the most significant increase and related directly to Freshtel's investment in research and development. A proportion of this was derived from the purchase of Teragen International Pty Ltd in December 2005, resulting in a shift of expenses from consulting (reported in other expenses) to employee expenses.

Significant support costs in Australia were also incurred to support and stabilise the network platforms in both UK and Australia. Administration costs also increased due to the rollout of the new network, including a once off contract for maintenance of the UK network.

Raw materials and consumables increased with revenue, and largely represent call time paid to third party suppliers before passing onto customers.

Depreciation and amortisation reflects the additional investment in the core network platform in both UK and Australia.

"We enter the new financial year with a new leadership team, strong prospects and the right foundations in place for growth. However, I will be reviewing some aspects of the operational expenditure with a view to improving the bottom line performance and margins in subsequent years," Ms O'Donnell said.

An interview with Rhonda O'Donnell, CEO and John Coates, CFO of Freshtel regarding the full year financial results can be heard at www.boardroomradio.com.au

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About Freshtel Holdings

Freshtel Holdings Limited (ASX:FRE) is an Australian internet telephone technology company that develops and markets VoIP telephony products and services. Freshtel Holdings Limited offers end-to-end white label VoIP solutions to wholesale customers globally through its wholly owned subsidiaries, Voicedot Networks and Virbiage and has a direct-to-market retail channel through www.freshtel.net

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APPENDIX 4E

Preliminary Final Report

Name of entity

FRESHTEL HOLDINGS LIMITED and its Controlled Entities

Reporting Period (year ended) | Previous Corresponding Period (year ended)

30 June 2007 | **30 June 2006**

Results for announcement to the market

	% change	30 June 2007 $'000	30 June 2006 $'000
Revenue from ordinary activities	+137%	4,646	1,957
Loss from ordinary activities after tax attributable to members	-24%	(7,614)	(6,154)
Net loss for the period attributable to members	-24%	(7,614)	(6,154)
Basic loss per share (cents per share)	+2%	(4.46)	(4.55)
Diluted loss per share (cents per share)	-14%	(3.67)	(3.21)
Net tangible asset per share (cents per share)	+59%	10.15	6.37

Dividends	**Nil**	**Nil**
No dividends were declared or paid during the year.		

Explanation

Following is a brief explanation of directional and percentage changes to revenue and profit;

Full commentary on the results for the reporting period is contained in the ASX release dated 30 August 2007 accompanying this report.

The results as announced have been subject to audit.

Directors' commentary on the results:

Operating Results

The consolidated loss for the year of Freshtel Holdings Limited ('Freshtel'), after recognising a tax credit of $294,000, was $7,614,000 (30 June 2006 – loss of $6,154,000). The loss for the year is in line with management's expectations.

Revenue from ordinary activities amounted to $4,646,000 for the year, an increase of 137%. Sales revenue derived from call time, hardware sales and royalties, consulting income and license fees increased by 165% to $3,411,000 for the year, largely due to the Tesco white label contract completing its first full year of operations. Other revenue included export market development grants and recovery of services, which were not reported last year.

Expenditure increased during the year, largely due to the Tesco contract and Freshtel's ongoing investment in R&D and new product development. Employee expenses increased significantly as the company invested more into research and development and new product, which will be rolled out in 2007/08. A proportion of the labour cost growth in R&D was derived from the purchase of Teragen Pty Ltd in December 2005, resulting in a shift of expenses from consulting (reported in other expenses) to employee expenses. Significant support costs in Australia were also incurred to support and stabilise the network platforms in both UK and Australia. The increase in administration expenses reflect the rental of offsite rack and cage storage for Freshtel's network and also a once off contract to maintain and operate the UK network.

There were no dividends declared or paid during the year under review.

Financing Activities

In December 2006 Freshtel issued 17,135,453 ordinary shares to Tesco Plc, raising $12,300,000 share capital in the process. This issued resulted in Tesco increasing its shareholding in Freshtel to 14.9%.

Milestones for the period under review

2007 has been another year of intense effort and sound achievement for Freshtel.

Following the successful completion of trials in September 2006 to make internet telephony calls over the Freshtel network using a 3G and WiFi handset, the business has been working to refine the technology. Freshtel is collaborating with a number of handset manufacturers, to ensure the technology has a wide application and can be used with a wide range of devices that have mass market appeal. Freshtel has lodged several patents in relation to its converged mobile technology.

In November 2006, Freshtel and Tesco announced a new strategic alliance for the continued development of innovative internet telephony products and services. To reinforce this alliance, Tesco increased its investment in Freshtel by $12,300,000 as noted under 'Financing Activities'.

In March 2007, Freshtel was invited to join Country Energy as the voice partner in their trial of Broadband over Powerlines (BPL). Country Energy, which manages Australia's largest power supply network across 95 per cent of New South Wales' land mass, launched a six month trial in May, with 300 participating households in the Queanbeyan area.

Freshtel's next generation telecommunications grade network – known as V2 – was launched in Australia in May 2007 and in the UK in June 2007. Developed in the Cisco and IBM test labs, V2 was Freshtel's main development focus for 12 months and its completion and smooth roll out was a significant achievement for the company. The new V2 Voicedot network delivers enhanced scalability, reliability and security and provides the foundation for Freshtel to significantly increase its customer base and enhance product functionality.

In June 2007 Freshtel announced that it had signed a letter of intent to enter into a strategic partnership with a European Mobile Virtual Network Enabler (EMVNE). The letter of intent paved the way for Freshtel to commence business planning for its collaboration to offer the converged mobile service in Europe

As the business heads into the new financial year, Freshtel has a reinvigorated leadership team that brings important new skills and experience to the business. The changes to our organisational structure have been fundamental in preparing the company to move forward with its business plan. The leadership team has been bolstered with the appointment of Rhonda O'Donnell as Chief Executive Officer, John Coates as Chief Financial Officer and Ian Jackson as Chief Operating Officer.

In conclusion

Much of Freshtel's activity in the 2007 financial year was centred on establishing and stabilising the white label solution for Tesco and rolling out V2. Freshtel is now well positioned to roll out further white labels in both Australia and international markets.

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Freshtel Holdings Limited and Controlled Entities

ACN 111 460 121

Income Statement

For the Year Ended 30 June 2007

	Note	Consolidated entity		Parent Entity	
		2007 $'000	2006 $'000	2007 $'000	2006 $'000
Revenue from continuing operations	2	4,646	1,957	1,770	944
Raw materials and consumables used		(1,793)	(1,030)	-	-
Employee benefits expense		(5,764)	(2,578)	(1,840)	-
Administrative expense		(2,606)	(1,958)	(1,326)	(394)
Marketing expenses		(87)	(187)	-	(20)
Depreciation and amortisation expenses	3	(1,352)	(839)	-	-
Occupancy and facilities expenses		(793)	(502)	-	-
Finance costs	3	(11)	(509)	-	-
Other expenses		(148)	(853)	-	(125)
(Loss) / Profit before income tax		(7,908)	(6,499)	(1,396)	405
Income tax benefit	4	294	345	294	345
(Loss) / Profit from continuing activities after income tax		(7,614)	(6,154)	(1,102)	750
(Loss) / Profit attributable to members of Freshtel Holdings Limited		(7,614)	(6,154)	(1,102)	750
Loss per share attributable to the ordinary equity holders of the company					
Basic loss per share (cents per share)	8	(4.46)	(4.55)		
Diluted loss per share (cents per share)	8	(3.67)	(3.21)		

The accompanying notes form part of these financial statements.

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Freshtel Holdings Limited and Controlled Entities

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Balance Sheet

As at 30 June 2007

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	Note	Consolidated Entity 2007 $'000	Consolidated Entity 2006 $'000	Parent Entity 2007 $'000	Parent Entity 2006 $'000
Current Assets					
Cash and cash equivalents	9	14,896	11,361	14,501	10,942
Trade and other receivables	10	1,304	1,308	1,191	736
Inventories	11	188	284	-	-
Other current assets	12	312	167	57	60
Total Current Assets		16,700	13,120	15,749	11,738
Non-Current Assets					
Trade and other receivables	10	189	65	18,372	10,505
Other financial assets	13	-	-	11,820	11,820
Property, plant and equipment	15	2,177	1,214	-	-
Deferred tax assets	19	234	118	72	17
Intangible assets	16	1,800	1,225	-	-
Total Non-Current Assets		4,400	2,622	30,264	22,342
Total Assets		21,100	15,742	46,013	34,080
Current Liabilities					
Trade and other payables	17	1,093	1,190	215	63
Short term borrowings	18	41	46	-	-
Short term provisions	20	342	218	25	-
Total Current Liabilities		1,476	1,454	240	63
Non-Current Liabilities					
Trade and other payables	17	-	-	155	155
Long term borrowings	18	26	71	-	-
Deferred tax liabilities	19	501	316	-	-
Long term provisions	20	129	22	88	-
Total Non-Current Liabilities		656	409	243	155
Total Liabilities		2,132	1,863	483	218
Net Assets		18,968	13,879	45,530	33,862
Equity					
Issued capital	22	34,392	22,094	45,338	33,040
Reserves	23	525	120	560	88
(Accumulated losses) / Retained profits	23	(15,949)	(8,335)	(368)	734
Total Equity		18,968	13,879	45,530	33,862

The accompanying notes form part of these financial statements.

Freshtel Holdings Limited and Controlled Entities

ACN 111 460 121

Statement of Changes in Equity

For the Year Ended 30 June 2007

	Note	Consolidated Entity 2007 $'000	Consolidated Entity 2006 $'000	Parent Entity 2007 $'000	Parent Entity 2006 $'000
ISSUED CAPITAL					
Ordinary shares					
Balance at start of period		21,494	4,731	32,440	15,677
Issue of share capital		12,300	16,939	12,300	16,939
Share issue costs		(82)	(906)	(82)	(906)
Share options exercised		80	730	80	730
Balance at end of period	22(b)	33,792	21,494	44,738	32,440
Performance shares					
Balance at start of period		600	600	600	600
Balance at end of period	22(d)	600	600	600	600
Total share capital	22	34,392	22,094	45,338	33,040
RESERVES					
Share based payments reserve					
Balance at start of period		88	-	88	-
Option expense	23(a)	472	88	472	88
Balance at end of period		560	88	560	88
Translation Reserve					
Balance at start of period		32	-	-	-
Exchange differences on translating foreign operations		(67)	32	-	-
Balance at end of period	23(a)	(35)	32	-	-
Total reserves		525	120	560	88
RETAINED EARNINGS					
Balance at start of period		(8,335)	(2,181)	734	(16)
(Loss) / profit for the period		(7,614)	(6,154)	(1,102)	750
Balance at end of period	23(b)	(15,949)	(8,335)	(368)	734
Total Equity		18,968	13,879	45,530	33,862

The accompanying notes form part of these financial statements.

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Freshtel Holdings Limited and Controlled Entities

ACN 111 460 121

Cash Flow Statement

For the Year Ended 30 June 2007

	Note	Consolidated Entity		Parent Entity	
		2007	2006	2007	2006
		$'000	$'000	$'000	$'000
Cash Flow from Operating Activities					
Receipts from customers		4,248	1,101	196	444
Payments to suppliers and employees		(11,237)	(6,372)	(2,425)	(434)
Interest received		807	669	1,113	497
Finance costs		(11)	(509)	-	-
Taxation		369	-	369	-
Net cash (used in) / provided by operating activities	28	(5,824)	(5,111)	(747)	507
Cash Flow from Investing Activities					
Sale of investments		-	187	-	-
Purchase of business, net of cash acquired	25(b)	-	(240)	-	-
Purchase of property, plant and equipment		(1,611)	(1,147)	-	-
Research and development expenditure		(1,279)	(1,004)	-	-
Loan to controlled entity		-	-	(7,992)	(6,328)
Net cash used in investing activities		(2,890)	(2,204)	(7,992)	(6,328)
Cash Flow from Financing Activities					
Proceeds from issue of ordinary shares		12,298	16,763	12,298	16,763
Proceeds from borrowings		-	119	-	-
Repayment of borrowings		(49)	(527)	-	-
Net cash used in financing activities		12,249	16,355	12,298	16,763
Net increase in cash held		3,535	9,040	3,559	10,942
Cash and cash equivalents at the beginning of the year		11,361	2,321	10,942	-
Cash and cash equivalents at the end of the year	9	14,896	11,361	14,501	10,942

The accompanying notes form part of these financial statements.

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Note 1: Statement of Significant Accounting Policies

The following is a summary of the material accounting policies adopted by the consolidated entity in the preparation of the financial report. The accounting policies have been consistently applied, unless otherwise stated.

(a) Basis of preparation

This general purpose financial report has been prepared in accordance with Australian equivalents to International Financial Reporting Standards (AIFRSs), other authoritative pronouncements of the Australian Accounting Standards Board and the Corporations Act 2001.

Historical cost convention
These financial statements have been prepared on an accruals basis under the historical cost convention, as modified by the revaluation to fair value of financial assets and liabilities (including derivative instruments).

(b) Principles of consolidation

When Freshtel Holdings Limited acquired (as the legal parent) the Freshtel Australia Pty Limited group of companies, the shareholders of Freshtel Australia Pty Limited (the legal subsidiary) obtained 63.1% of the shares in Freshtel Holdings Limited and therefore control of the combined entity. This financial report discloses the consolidated financial statements of the group, with the above transaction accounted for as a reverse acquisition.

The consolidated financial statements incorporate the assets and liabilities of all subsidiaries of Freshtel Holdings Limited (''company'' or ''parent entity'') as at 30 June 2007 and the results of all subsidiaries for the year then ended as if the Group was headed by Freshtel Australia Pty Limited. Freshtel Holdings Limited and its subsidiaries are together referred to in this financial report as the Group or the consolidated entity.

Subsidiaries are all those entities (including special purpose entities) over which the Group has the power to govern the financial and operating policies, generally accompanying a shareholding of more than one-half of the voting rights.

Subsidiaries are fully consolidated from the date on which control is transferred to the Group. They are de-consolidated from the date that control ceases. The purchase method of accounting is used to account for the acquisition of subsidiaries by the Group (refer to note 1(h)).

Inter-company transactions, balances and unrealised gains on transactions between Group companies are eliminated. Unrealised losses are also eliminated unless the transaction provides evidence of the impairment of the asset transferred. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the Group.

Minority interests in the results and equity of subsidiaries are shown separately in the consolidated income statement and balance sheet, respectively.

Investments in subsidiaries are accounted for at cost in the individual financial statements of Freshtel Holdings Limited.

(c) Segment reporting

A business segment is a group of assets and operations engaged in providing products or services that are subject to risks and returns that are different to those of other business segments. A geographical segment is engaged in providing products or services within a particular economic environment and is subject to risks and returns that are different from those of segments operating in other economic environments. The Group operates in a single business segment being the development and commercialisation of products and services that enables communications over the internet. It operates in two geographic segments being Australia and the United Kingdom.

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Note 1: Statement of Significant Accounting Policies (continued)

(d) Revenue recognition

Revenue is recognised to the extent that it is probable that the economic benefits will flow to the entity and the revenue can be reliably measured. Revenue is measured at the fair value of the consideration received or receivable. Amounts disclosed as revenue are net of returns, allowances, duties and taxes paid. Revenue is recognised as set out below:

Revenue from the sale of goods is recognised upon the delivery of goods 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. Dividends received from associates and joint venture entities are accounted for in accordance with the equity method of accounting.

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

(e) Foreign currency translation

(i) Functional and presentation currency
Items included in the financial statements of each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates ("the functional currency'). The consolidated financial statements are presented in Australian dollars, which is Freshtel Holdings Limited's functional and presentation currency.

(ii) Transactions and balances
Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the income statement, except when deferred in equity as qualifying cash flow hedges and qualifying net investment hedges. Translation differences on non-monetary financial assets and liabilities are reported as part of the fair value gain or loss. Translation differences on non-monetary financial assets and liabilities such as equity held at fair value through profit or loss are recognised in profit or loss as part of the fair value gain or loss. Translation differences on non-monetary financial assets such as equities classified as available-for-sale financial assets are included in the fair value reserve in equity.

(iii) Group companies

The results and financial position of all the Group entities (none of which has the currency of a hyperinflationary economy) that have a functional currency different from the presentation currency are translated into the presentation currency as follows:

• assets and liabilities for each balance sheet presented are translated at the closing rate at the date of that balance sheet;

• income and expenses for each income statement are translated at average exchange rates (unless this is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case income and expenses are translated at the dates of the transactions); and

• all resulting exchange differences are recognised as a separate component of equity.

On consolidation, exchange differences arising from the translation of any net investment in foreign entities, and of borrowings and other financial instruments designated as hedges of such investments, are taken to shareholders' equity. When a foreign operation is sold or any borrowings forming part of the net investment are repaid, a proportionate share of such exchange differences are recognised in the income statement, as part of the gain or loss on sale where applicable.

Note 1: Statement of Significant Accounting Policies (continued)

(f) Income tax

The income tax expense or revenue for the period is the tax payable on the current period's taxable income based on the income tax rate adjusted by changes in deferred tax assets and liabilities attributable to temporary differences between the tax bases of assets and liabilities and their carrying amounts in the financial statements, and to unused tax losses.

Deferred tax assets and liabilities are recognised for temporary differences at the tax rates expected to apply when the assets are recovered or liabilities are settled, based on those tax rates which are enacted or substantially enacted. The relevant tax rates are applied to the cumulative amounts of deductible and taxable temporary differences to measure the deferred tax asset or liability. An exception is made for certain temporary differences arising from the initial recognition of an asset or a liability. No deferred tax asset or liability is recognised in relation to these temporary differences if they arose in a transaction, other than a business combination, that at the time of the transaction did not affect either accounting profit or taxable profit or loss.

Deferred tax assets are recognised for deductible temporary differences and unused tax losses only if it is probable that future taxable amounts will be available to utilise those temporary differences and losses. Deferred tax liabilities and assets are not recognised for temporary differences between the carrying amount and tax bases of investments in controlled entities where the parent entity is able to control the timing of the reversal of the temporary differences and it is probable that the differences will not reverse in the foreseeable future.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets and liabilities and when the deferred tax balances relate to the same taxation authority. Current tax assets and tax liabilities are offset where the entity has a legally enforceable right to offset and intends either to settle on a net basis, or to realise the asset and settle the liability simultaneously

Current and deferred tax balances attributable to amounts recognised directly in equity are also recognised directly in equity.

Freshtel Holdings Limited and its wholly owned Australian subsidiaries formed a tax consolidated group with effect from 1 May 2005 and also entered into a tax sharing and funding agreement. Under the terms of this agreement, the wholly owned subsidiaries reimburse Freshtel Holdings Limited, as the head entity of the tax consolidated group, for any current income tax payable by Freshtel Holdings Limited arising in respect of their activities. There was no material impact arising from implementing tax consolidation.

(g) Leases

Leases of property, plant and equipment where the Group has substantially all the risks and rewards of ownership are classified as finance leases. Finance leases are capitalised at the lease's inception at the lower of the fair value of the leased property and the present value of the minimum lease payments. The corresponding rental obligations, net of finance charges, are included in other long term payables. Each lease payment is allocated between the liability and finance charges so as to achieve a constant rate on the finance balance outstanding. The interest element of the finance cost is charged to the income statement over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period. The property, plant and equipment acquired under finance leases are depreciated over the shorter of the asset's useful life and the lease term.

Leases in which a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating leases. Payments made under operating leases (net of any incentives received from the lessor) are charged to the income statement on a straight-line basis over the period of the lease. Lease income from operating leases is recognised in income on a straight line basis over the lease term.

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Note 1: Statement of Significant Accounting Policies (continued)

(h) Business combinations

The purchase method of accounting is used to account for all acquisitions of assets (including business combinations) regardless of whether equity instruments or other assets are acquired. Cost is measured as the fair value of the assets given, shares issued or liabilities incurred or assumed at the date of exchange plus costs directly attributable to the acquisition. Where equity instruments are issued in an acquisition, the value of the instruments is their published market price as at the date of exchange. Transaction costs arising on the issue of equity instruments are recognised directly in equity.

Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date, irrespective of the extent of any minority interest. The excess of the cost of acquisition over the fair value of the Group's share of the identifiable net assets acquired is recorded as goodwill (refer to note 1(n)). If the cost of acquisition is less than the fair value of the net assets of the subsidiary acquired, the difference is recognised directly in the income statement, but only after a reassessment of the identification and measurement of the net assets acquired.

Where settlement of any part of cash consideration is deferred, the amounts payable in the future are discounted to their present value as at the date of exchange. The discount rate used is the entity's incremental borrowing rate, being the rate at which a similar borrowing could be obtained from an independent financier under comparable terms and conditions.

(i) Impairment of assets

Assets that have an indefinite useful life are not subject to amortisation and are tested annually for impairment. Assets that are subject to amortisation are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash generating units). Non-financial assets other than goodwill that suffered impairment are reviewed for possible reversal of the impairment at each reporting date.

(j) Cash and cash equivalents

Cash and cash equivalents include cash on hand, deposits held at call with financial institutions, other short-term, highly liquid vestments with original maturities of three months or less that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value, and bank overdrafts. Any bank overdrafts are shown within borrowings in current liabilities on the balance sheet.

(k) Receivables

Trade receivables are recognised initially at fair value and subsequently measured at amortised cost, less provision for doubtful debt. Trade receivables are due for settlement no more than 30 days. Collectibility of trade receivables is reviewed on an ongoing basis. Debts which are known to be uncollectible are written off. A provision for doubtful receivables is established when there is objective evidence that the Group will not be able to collect all amounts due according to the original terms of receivables. The amount of the provision is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the original effective interest rate. Cash flows relating to short-term receivables are not discounted if the effect of discounting is immaterial. The amount of the provision is recognised in the income statement.

(l) Inventories

Inventories are stated at the lower of cost and net realisable value. Cost comprises direct materials and, where appropriate, a proportion of variable and fixed overhead. Costs are assigned to individual items of inventory predominantly on the basis of weighted average cost. Net realisable value is the estimated selling price in the ordinary course of business less the estimated costs necessary to make the sale.

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Note 1: Statement of Significant Accounting Policies (continued)

(m) Property, plant and equipment

Property, plant and equipment are carried at historical cost less depreciation or amortisation. Historical cost includes expenditure that is directly attributable to the acquisition of the items.

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

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount (note 1(i)).

Depreciation of all fixed assets including leasehold improvements is calculated using the straight line method to allocate their cost or revalued amounts, net of their residual values, over their estimated useful lives, as follows:

Leasehold improvements	11 %
Plant and equipment	11 – 34 %
Purchased software	33.3 %
Leased plant and equipment	10 – 20 %

The cost of improvements to or on leasehold properties is amortised over the unexpired period of the lease or the estimated useful life of the improvement to the consolidated entity, whichever is shorter. The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at each balance sheet date.

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount. (note 1(i)).

Gains and losses on disposals are determined by comparing proceeds with the carrying amount. Gains and losses are included in the income statement. When revalued assets are sold, it is Group policy to transfer the amounts included in other reserves in respect of those assets to retained earnings.

(n) Intangible assets

(i) Goodwill
Goodwill represents the excess of the cost of an acquisition over the fair value of the Group's share of the net identifiable assets of the acquired business at the date of acquisition. Goodwill on acquisitions of business is included in intangible assets. Goodwill acquired in business combinations is not amortised. Instead, goodwill is tested for impairment annually or more frequently if events or changes in circumstances indicate that it might be impaired, and is carried at cost less accumulated impairment losses. Goodwill is allocated to cash-generating units for the purpose of impairment testing.

(ii) Research and development
Research expenditure is recognised as an expense as incurred. Costs incurred on development projects (relating to the design and testing of new or improved products) are recognised as intangible assets when it is probable that the project will be a success considering its commercial and technical feasibility and its costs can be measured reliably. The expenditure capitalised comprises all directly attributable costs, including costs of materials, services, direct labour and an appropriate proportion of overheads. Other development expenditures that do not meet these criteria are recognised as an expense as incurred. Development costs previously recognised as an expense are not recognised as an asset in a subsequent period. Capitalised development costs are recorded as intangible assets and amortised from the point at which the asset is ready for use on a straight-line basis over its useful life, which varies from 2 to 3 years.

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Note 1: Statement of Significant Accounting Policies (continued)

(o) Trade and other payables

Trade and other payables represent liabilities for goods and services provided to the Group prior to the end of financial year which had not been settled at balance date. The amounts are unsecured and are usually paid within 30 days of recognition.

(p) Borrowings

Borrowings are initially recognised at fair value, net of transaction costs incurred. Borrowings are subsequently measured at amortised cost. Any difference between the proceeds (net of transaction costs) and the redemption amount is recognised in the income statement over the period of the borrowings using the effective interest rate method. Fees paid on the establishment of loan facilities, which are not incremental cost relating to the actual draw-down of the facility, are recognised as prepayments and amortised on a straight-line basis over the term of the facility.

Preference shares, which are mandatory redeemable on a specific date, are classified as liabilities. The dividends on these preference shares are recognised in the income statement as interest expense.

The fair value of the liability portion of a convertible bond is determined using a market interest rate for an equivalent non-convertible bond. This amount is recorded as a liability on an amortised cost basis until extinguished on conversion or maturity of the bonds. The remainder of the proceeds is allocated to the conversion option. This is recognised and included in shareholders' equity, net of income tax effects.

Borrowings are classified as current liabilities unless the Group has an unconditional right to defer settlement of the liability for at least 12 months after the balance sheet date.

(q) Investments and other financial assets

From 1 July 2005

(i) Financial assets at fair value through profit or loss
Financial assets at fair value through profit or loss are financial assets held for trading which are acquired principally for the purpose of selling in the short term with the intention of making a profit.

(ii)Loans and receivables
Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They arise when the Group provides money, goods or services directly to a debtor with no intention of selling the receivable. They are included in current assets, except for those with maturities greater than 12 months after the balance sheet date which are classified as non current assets. Loans and receivables are included in receivables in the balance sheet (notes 12 and 15).

(iii) Held-to-maturity investments
Held-to-maturity investments are non-derivative financial assets with fixed or determinable payments and fixed maturities that the Group's management has the positive intention and ability to hold to maturity.

(iv) Available-for-sale financial assets
Available-for-sale financial assets, comprising principally marketable equity securities, are non-derivatives that are either designated in this category or not classified in any of the other categories.

They are included in non-current assets unless management intends to dispose of the investment within 12 months of the balance sheet date.

Investments are initially recognised at fair value plus transaction costs for all financial assets not carried at fair value through profit or loss. Financial assets carried at fair value through profit or loss is initially recognised at fair value and transaction costs are expensed in the income statement. Financial assets are derecognised when the rights to receive cash flows from the financial assets have expired or have been transferred and the Group has transferred substantially all the risks and rewards of ownership.

Available-for-sale financial assets and financial assets at fair value through profit and loss are subsequently carried at fair value. Loans and receivables and held-to-maturity investments are carried at amortised cost using the effective interest method. Gains or losses arising from changes in the fair value of the 'financial assets at fair value through profit or loss' category, including interest and dividend income, are presented in the income statement within other income or other expenses in the period in which they arise.

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Note 1: Statement of Significant Accounting Policies (continued)

(q) Investments and other financial assets (continued)

The Group assesses at each balance date whether there is objective evidence that a financial asset or group of financial assets is impaired. In the case of equity securities classified as available-for-sale, a significant or prolonged decline in the fair value of a security below its cost is considered in determining whether the security is impaired. If any such evidence exists for available-for-sale financial assets, the cumulative loss - measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that financial asset previously recognised in profit and loss - is removed from equity and recognised in the income statement. Impairment losses recognised in the income statement on equity instruments classified as available-for-sale are not reversed through the income statement.

(r) Employee benefits

Wages and salaries, annual leave and sick leave

Liabilities for wages and salaries, including non-monetary benefits, annual leave and accumulating sick leave expected to be settled within 12 months of the reporting date are recognised in other payables and provision for employee benefits in respect of employees' services up to the reporting date and are measured at the amounts expected to be paid when the liabilities are settled, including appropriate on-costs. Liabilities for non-accumulating sick leave are recognised when the leave is taken and measured at the rates paid or payable.

Long service leave

The liability for long service leave is recognised in the provision for employee benefits and is measured as the present value of expected future payments to be made in respect of services provided by employees up to the reporting date, including appropriate on-costs. Consideration is given to expected future wage and salary levels, experience of employee departures and periods of service. Expected future payments are discounted using market yields at the reporting date on national government bonds with terms to maturity and currency that match, as closely as possible, the estimated future cash outflows.

Bonus Plans

The Group recognises a liability in other payables and an expense for bonus plans when there is no realistic alternative but to settle the liability and at least one of the following conditions is met:

- there are formal terms in the plan for determining the amount of the benefit
- the amounts to be paid are determined before the time of completion of the financial report, or past practices give clear evidence of a constructive obligation.

Retirement benefits

Employees of the Group are entitled to benefits on retirement, disability or death from the Group sponsored defined contribution superannuation plans. Fixed statutory contributions are made by the Group to these plans and are recognised as an expense as they become payable. The Group's liability is limited to these contributions.

Share based payments

The Group provides share-based compensation benefits to employees, whereby employees render services in exchange for options over shares.

- *Shares options granted before 7 November 2002 and/or vested before 1 January 2005*
  No expense is recognised in respect of these options. The shares are recognised when the options are exercised and the proceeds received allocated to share capital.

- *Shares options granted after 7 November 2002 and vested after 1 January 2005*
  The fair value of options granted is recognised as an employee benefit expense with a corresponding increase in equity (share-based payments reserve). The fair value is measured at grant date and recognised over the period during which the employees become unconditionally entitled to the options.

The fair value at grant date is independently determined using a binomial option pricing model that takes into account the exercise price, the term of the option, the vesting and performance criteria, the impact of dilution, the non-tradable nature of the option, the share price at grant date and expected price volatility of the underlying share, the expected dividend yield and the risk-free interest rate for the term of the option.

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Note 1: Statement of Significant Accounting Policies (continued)

(r) Employee benefits (continued)

The fair value of the options granted excludes the impact of any non-market vesting conditions (for example, profitability and sales growth targets). Non-market vesting conditions are included in assumptions about the number of options that are expected to become exercisable. At each balance sheet date, the entity revises its estimate of the number of options that are expected to become exercisable. The employee benefit expense recognised each period takes into account the most recent estimate.

Upon the exercise of options, the exercise proceeds received are allocated to share capital and the balance of the share-based payments reserve relating to those options is transferred to share capital.

(s) Issued capital

Ordinary shares are classified as equity.

Incremental costs directly attributable to the issue of new shares or options are shown in equity as a deduction, net of tax, from the proceeds. Incremental costs directly attributable to the issue of new shares or options, or for the acquisition of a business, are included in the cost of the acquisition as part of the purchase consideration.

(t) Dividends

Provision is made for the amount of any dividend declared on or before the end of the financial year but not distributed at balance date.

(u) Earnings per share

Basic earnings per share is calculated by dividing the profit attributable to equity holders of the Company, excluding any costs of servicing equity other than ordinary shares, by the weighted average number of ordinary shares outstanding during the financial year.

Diluted earnings per share adjusts the figures used in the determination of basic earnings per share to take into account the after income tax effect of interest and other financing costs associated with dilutive potential ordinary shares and the weighted average number of shares assumed to have been issued for no consideration in relation to dilutive potential ordinary shares.

(v) Goods and Services Tax (GST)

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 balance sheet are shown inclusive of GST.

Cash flows are included in the Cash Flow Statement on a gross basis and the GST component of cash flows arising from investing and financing activities, which is recoverable from or payable to the Australian Taxation Office, are classified as operating cash flows.

(w) Rounding of amounts

The company is of a kind referred to in Class order 98/0100, issued by the Australian Securities and Investments Commission, relating to "rounding of" of amounts in the financial report. Amounts in the financial report have been rounded off in accordance with that Class Order to the nearest thousand dollars, or in certain cases, the nearest dollar.

(x) Critical accounting estimates, judgements and assumptions

Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that may have a financial impact on the entity and that are believed to be reasonable under the circumstances.

The Group makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below.

Note 1: Statement of Significant Accounting Policies (continued)

(x) Critical accounting estimates, judgements and assumptions (continued)

(i) Useful life cycle of developed product or technology

The Group's management determines the useful lives of capitalised assets and hence the amortisation charges for products and technology developed from IT projects. This estimate is based on the life cycle of the product or technology developed.

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	Consolidated Entity		Parent Entity	
	2007	2006	2007	2006
	$'000	$'000	$'000	$'000
Note 2: Revenue from continuing operations				
Sales revenue				
Sale of goods	210	137	-	-
Provision of services	3,201	1,151	-	-
	3,411	1,288	-	-
Other revenue				
Other persons/corporations	428	-	2	-
Wholly owned group – controlled entities	-	-	655	447
Interest revenues				
Other persons/corporations	807	669	787	458
Wholly owned group – controlled entities	-	-	326	39
	1,235	669	1,770	944
Total Revenue from continuing operations	4,646	1,957	1,770	944

Note 3: Expenses

Profit before income tax includes the following specific expenses:

	Consolidated 2007	Consolidated 2006	Parent 2007	Parent 2006
Depreciation				
Property, plant and equipment	648	248	-	-
Total depreciation	648	248	-	-
Amortisation of non-current assets				
Research and development	704	591	-	-
Total amortisation	704	591	-	-
Total depreciation and amortisation	1,352	839	-	-
Finance Costs				
Interest paid and payable	11	509	-	-
Total financing costs	11	509	-	-
Rental expense on operating leases				
Minimum lease payments	455	227	136	-
Contingent rentals	81	23	81	-
Total rental expense on operating leases	536	250	217	-

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	Consolidated Entity		Parent Entity	
	2007	2006	2007	2006
	$'000	$'000	$'000	$'000
Note 4: Income Tax				
(a) Income tax expense				
Current tax	(363)	(360)	(363)	(360)
Deferred tax	69	15	69	15
Income tax expense attributable to ordinary activities	(294)	(345)	(294)	(345)
Deferred income tax expense included in income tax expense comprises:				
Decrease/(Increase) in deferred tax assets	(116)	(58)	(116)	(58)
Increase in deferred tax liabilities	185	73	185	73
	69	15	69	15
(b) Reconciliation of income tax expense to prima facie tax payable				
Profit from continuing operations before income tax expense				
Prima facie tax at 30% (2006: 30%) on profit from ordinary activities	(2,373)	(1,950)	(418)	122
Tax effect of amounts which are not deductible/(taxable) in calculation of taxable income				
Impairment of assets	-	19	-	19
Non allowable / deductible items	(40)	(12)	(40)	(12)
Share based payments expense	141	26	141	26
Losses not recognised	2,083	1,695	1,624	1,695
Under/(over) provision in prior years	-	41	-	41
Deferred tax asset not recognised	(105)	(164)	(105)	(164)
Tax consolidation adjustments	-	-	(1,496)	(2,072)
Income tax expense attributable to ordinary activities	(294)	(345)	(294)	(345)
(c) Tax Losses				
Unused tax losses for which no deferred tax asset has been recognised				
Potential tax benefit @30%	4,372	1,695	3,438	1,695

(d) Tax consolidation legislation

Freshtel Holdings Limited and its wholly-owned Australian controlled entities have implemented the tax consolidation legislation as of 1 May 2005. The accounting policy in relation to this legislation is set out in note 1(f). On adoption of the tax consolidation legislation, the entities in the tax consolidated group entered into a tax sharing agreement which, in the opinion of the directors, limits the joint and several liability of the wholly-owned entities in the case of a default by the head entity, Freshtel Holdings Limited.

The entities have also entered into a tax funding agreement under which the wholly-owned entities fully compensate Freshtel Holdings Limited for any current tax payable assumed and are compensated by Freshtel Holdings Limited for any current tax receivable and deferred tax assets relating to unused tax losses or unused tax credits that are transferred to Freshtel Holdings Limited under the tax consolidation legislation. The funding amounts are determined by reference to the amounts recognised in the wholly-owned entities' financial statements.

The amounts receivable/payable under the tax funding agreement is due upon receipt of the funding advice from the head entity, which is issued as soon as practicable after the end of each financial year.

The head entity may also require payment of interim funding amounts to assist with its obligations to pay tax instalments. The funding amounts are recognised as current inter company receivables or payables.

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Note 5: Key Management Personnel

(a) Directors

The following persons were directors of Freshtel Holdings Limited during the financial year:

Non-Executive Directors

Mr Ken Loughnan AO
Mr Leslie Taylor
Mr Andy Dewhurst – *appointed 29 January 2007*

Executive Directors

Mr Michael Carew
Mr Peter Warner
Mr David Elbourn
Mr Sebastian Filzek – *resigned 13 November 2006*

(b) Other key management personnel

The following persons also had authority and responsibility for planning, directing and controlling the activities of the Group, directly or indirectly, during the financial year:

Name	Position	Employer / contracted by
Ms Jan Macpherson	Company Secretary / General Counsel	Freshtel Pty Limited
Mr Sebastian Filzek	Chief Technical Officer	Freshtel R&D Pty Limited
Mrs Vivienne Eyles	HR Manager	Freshtel Pty Limited
Mr Iain McKimm	Operations Manager	Freshtel Pty Limited
Mr Roy Wise	Head of Project Management	Freshtel Pty Limited
Mr Dan Hazell	Manager UK office	Freshtel UK limited
Mr Jim Kelly	Process Manager	Freshtel Pty Limited
Mr John Butkiewicz	Chief Executive Officer	Freshtel Holdings Limited

The appointments / resignations of key management personnel during the year were as follows:

Mr Jim Kelly	resigned: 17 October 2006	
Mr Dan Hazell	appointed: 27 February 2007	
Mr Roy Wise	appointed: 6 September 2006	
Mr John Butkiewicz	appointed: 29 January 2007	resigned: 12 April 2007

(c) Compensation Practices

The remuneration of the directors and senior executives is considered annually on an individual basis after considering performance and market information.

Short term incentives are provided by way of salary reviews and bonuses. Bonuses are paid on achievement of predetermined individual and department milestones that will assist in the company achieving its strategic goals.

Options form an integral part of the medium to long term remuneration incentives as this directly aligns the goals of the individual with that of the shareholders. The three year vesting date is intended to ensure long term shareholder value is maintained.

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Note 5: Key Management Personnel (continued)

(d) Key management personnel compensation

The remuneration paid to the key management persons was paid through the controlled entities of Freshtel Holdings Limited, being Freshtel Pty Limited, Freshtel R&D Pty Limited and Freshtel UK Limited.

	Consolidated Entity 2007 $'000	Consolidated Entity 2006 $'000	Parent Entity 2007 $'000	Parent Entity 2006 $'000
Short-term employee benefits	1,682	970	-	-
Post-employment benefits	119	64	-	-
Termination benefits	16	9	-	-
Share-based payments	269	45	-	-
	2,086	1,088	-	-

2006

Key Management Persons	Short-term employee benefits			Post-employment benefits	Termination benefits	Share-based payments	
	Cash salary or fees $'000	Short-term cash bonus $'000	Non-monetary benefits $'000	Super-annuation $'000	Long service leave $'000	Options $'000	Total $'000
Mr M Carew	227	-	24	20	3	-	274
Mr L Taylor	72	-	-	6	-	10	88
Mr P Warner	162	35	5	19	1	16	238
Mr D Elbourn *	60	-	-	-	-	-	60
Mr S Filzek	153	-	-	13	5	16	187
Ms J Macpherson **	176	-	-	-	-	3	179
Mr J Kelly	39	-	-	4	-	-	43
Mrs V Eyles	7	-	-	1	-	-	8
Mr I McKimm	10	-	-	1	-	-	11
Total	906	35	29	64	9	45	1,088

2007

Key Management Persons	Short-term employee benefits			Post-employment benefits	Termination benefits	Share-based payments	
	Cash salary or fees $'000	Short-term cash bonus $'000	Non-monetary benefits $'000	Super-annuation $'000	Long service leave $'000	Options $'000	Total $'000
Mr M Carew	250	-	35	23	6	-	314
Mr L Taylor	70	-	-	6	-	36	112
Mr P Warner	219	20	-	16	2	60	317
Mr D Elbourn *	60	-	-	2	-	-	62
Mr K Loughnan - AO	73	-	-	7	-	58	138
Ms J Macpherson **	187	-	-	-	-	12	199
Mr J Butkiewicz	93	-	-	4	-	-	97
Mr S Filzek	220	-	-	18	8	60	306
Mrs V Eyles	60	-	-	5	-	2	67
Mr I McKimm	113	-	-	9	-	-	122
Mr R Wise	112	-	-	10	-	-	122
Mr D Hazell	137	-	-	16	-	41	194
Mr J Kelly	33	-	-	3	-	-	36
Total	1,627	20	35	119	16	269	2,086

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Note 5: Key Management Personnel (continued)

* - Directors fees paid to Dillon & Elbourn Chartered Accountants in which Mr Elbourn is a partner until 31 March 2007. From that point Mr Elbourn was paid directly.
** - Consulting fees paid to Flexpertise Pty Limited which contracts Blairgowrie Pty Limited, Ms Macpherson's employer

(e) Equity instrument disclosures relating to key management personnel

Option and Right Holdings

The numbers of options over ordinary shares in the Company held during the financial year by key management personnel of the Group, including their personally related parties, are set out below.

2006

Key management persons	Balance at start of year	Granted during period	Exercised during period	Other change	Qty held at 30.6.2006	Vested at 30.6.2006	Vested & exercisable at 30.6.2006	Vested & un-exercisable at 30.6.2006
Mr L Taylor	-	150,000	-	-	150,000	-	-	150,000
Mr P Warner	-	250,000	-	-	250,000	-	-	250,000
Mr S Filzek	-	250,000	-	-	250,000	-	-	250,000
Ms J Macpherson	-	50,000	-	-	50,000	-	-	50,000
Total	-	700,000	-	-	700,000	-	-	700,000

2007

Key management persons	Balance at start of year	Granted during period	Exercised during period	Other change	Qty held at 30.6.2007	Vested at 30.6.2007	Vested & exercisable at 30.6.2007	Vested & un-exercisable at 30.6.2007
Mr L Taylor	150,000	-	-	-	150,000	-	-	150,000
Mr P Warner	250,000	-	-	-	250,000	-	-	250,000
Mr S Filzek	250,000	-	-	-	250,000	-	-	250,000
Ms J Macpherson	50,000	-	-	-	50,000	-	-	50,000
Ms V Eyles	-	30,000	-	-	30,000	-	-	30,000
Mr K Loughnan - AO	-	250,000	-	-	250,000	-	-	250,000
Mr D Hazell	-	130,000	-	-	130,000	-	-	130,000
Total	700,000	410,000	-	-	1,110,000	-	-	1,110,000

Share holdings

The numbers of ordinary shares in the Company held during the financial year by key management personnel of the Group, including their personally related parties, are set out below.

Key management persons	Balance 1.7.2006	Granted as compensation	Received on exercise of options or rights	Other changes	Balance at 30.6.2007
Mr M Carew	21,340,959	-	-	-	21,340,959
Mr L Taylor	3,000,000	-	-	-	3,000,000
Mr P Warner	350,587	-	-	-	350,587
Mr D Elbourn	7,231,046	-	-	-	7,231,046
Mr S Filzek	10,347,979	-	-	-	10,347,979
Ms J Macpherson	1,250,000	-	-	-	1,250,000
Total	43,520,571	-	-	-	43,520,571

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Note 5: Key Management Personnel (continued)

The numbers of performance shares in the Company held during the financial year by key management personnel of the Group, including their personally related parties, are set out below

Key management persons	Balance A class shares 1.7.2006	Granted as compensation	Received on exercise of options or rights	Conversion of Class "B" & "C" to new Class "A" shares	Balance A class shares at 30.6.2006
Mr M Carew	12,775,246	-	-	-	12,775,246
Mr P Warner	211,856	-	-	-	211,856
Mr D Elbourn	4,173,246	-	-	-	4,173,246
Mr S Filzek	6,102,095	-	-	-	6,102,095
Total	23,262,443	-	-	-	23,262,443

Options Granted as Compensation

2006

Key management persons	Vested Number	Granted number	Grant date	Value per option at grant date $	Exercise price $	First Exercise date	Last Exercise date
Mr L Taylor	-	150,000	24.3.2006	0.96	-	30.6.2007	30.6.2011
Mr P Warner	-	250,000	24.3.2006	0.96	-	30.6.2007	30.6.2011
Mr S Filzek	-	250,000	24.3.2006	0.96	-	30.6.2007	30.6.2011
Ms J Macpherson	-	50,000	24.3.2006	0.96	-	30.6.2007	30.6.2011
Total	-	700,000					

2007

Key management persons	Vested Number	Granted number	Grant date	Value per option at grant date $	Exercise price $	First Exercise date	Last Exercise date
Mr D Hazell	-	130,000	31.7.2006	0.66	-	31.12.2007	31.12.2011
Mr K Loughnan - AO	-	250,000	13.11.2006	0.23	0.88	28.11.2006	13.11.2011
Ms V Eyles	-	30,000	29.12.2006	0.24	0.73	29.12.2007	29.12.2011
Total	-	410,000					

The employee must be in the service of Freshtel Holdings Limited at the date of exercise to satisfy the Service Conditions for this offer.

(f) Loans to key management personnel

There were no loans to Directors of the Company and other key management personnel.

(g) Other transactions with key management personnel

Other transactions with key management personnel are disclosed in note 30. Other than the items disclosed in note 30, there were no other transactions with key management personnel.

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Note 6: Auditors' Remuneration

	Consolidated Entity 2007 $'000	Consolidated Entity 2006 $'000	Parent Entity 2007 $'000	Parent Entity 2006 $'000
Remuneration of the auditor of the parent entity for:				
Audit of the financial report	42	30	42	30
Review of the financial report	20	17	20	17
Total audit and other assurance services	62	47	62	47
Taxation	4	66	4	66
Total other services	4	66	4	66
Total remuneration to WHK Horwath	66	113	66	113
Remuneration of other auditors of subsidiaries for:				
Audit of the financial report of subsidiary Freshtel UK	41	21	-	-
Total remuneration to other auditors	41	21	-	-

It is Freshtel Holding's policy to employ WHK Horwath on assignments in addition to their statutory audit duties, where WHK Horwaths' expertise and experience with the consolidated entity are important. These assignments are principally tax advice and advisory services, or where WHK Horwath is awarded assignments on a competitive basis. It is Freshtel Holding's policy to seek competitive tenders for any major consulting projects.

Note 7: Dividends

No dividends were paid or declared throughout the year (June 2006: $0)

Note 8: Earnings per Share

	Consolidated Entity 2007 $'000	Consolidated Entity 2006 $'000
Basic loss per share (cents)	4.46	4.55
Diluted loss per share (cents)	3.67	3.21
Reconciliation of Earnings to Profit and Loss		
Loss from ordinary activities after income tax	(7,614)	(6,154)
Loss used to calculate basic EPS	(7,614)	(6,154)
Loss used in the calculation of dilutive EPS	(7,614)	(6,154)
	No.	**No.**
Weighted average number of shares used as a denominator		
Weighted average number of ordinary shares used as a denominator in calculating basic earnings per share	170,801,728	135,268,030
Weighted average number of options outstanding	2,554,606	2,307,903
Weighted average number of converting performance shares on issue	33,900,603	53,626,432
Weighted average number of ordinary shares used as the denominator in calculating diluted earnings per share	207,256,937	191,202,365

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	Consolidated Entity 2007 $'000	Consolidated Entity 2006 $'000	Parent Entity 2007 $'000	Parent Entity 2006 $'000

Note 8: Earnings per Share (continued)

Options
Options granted to employees under the Employee Option Plan are considered to be potential ordinary shares and have been included in the determination of diluted earnings per share to the extent to which they are dilutive. The options have not been included in the determination of basic earnings per share. Details relating to options are set out in note 22.

Note 9: Cash and cash equivalents

	Consolidated 2007 $'000	Consolidated 2006 $'000	Parent 2007 $'000	Parent 2006 $'000
Cash at bank	14,327	10,911	14,251	10,692
Term deposits	569	450	250	250
	14,896	11,361	14,501	10,942

Cash at bank attracts floating interest rates of approximately 6.0% (2006: 5.6%)

Note 10: Trade and other receivables

	Consolidated 2007 $'000	Consolidated 2006 $'000	Parent 2007 $'000	Parent 2006 $'000
Current				
Trade receivables	456	492	-	-
Other receivables	848	816	1,191	736
	1,304	1,308	1,191	736
Non-Current				
Security deposits	189	65	-	-
Amounts receivable from:				
- wholly – owned subsidiaries	-	-	18,372	10,505
	189	65	18,372	10,505

Interest rate risks

The Group has no exposure to interest rate risk in respect of the above receivables as they are non-interest bearing.

Note 11: Inventories

	Consolidated 2007 $'000	Consolidated 2006 $'000	Parent 2007 $'000	Parent 2006 $'000
Current				
Finished goods – at cost	188	284	-	-

Note 12: Other Current Assets

	Consolidated 2007 $'000	Consolidated 2006 $'000	Parent 2007 $'000	Parent 2006 $'000
Prepayments	312	167	57	60

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Note 13: Other Financial Assets

	Consolidated Entity 2007 $'000	Consolidated Entity 2006 $'000	Parent Entity 2007 $'000	Parent Entity 2006 $'000
Shares in subsidiaries	-	-	11,820	11,820

Shares in subsidiaries are carried at cost and relate to Freshtel Holdings Limited's 100% (2006: 100%) ownership interest in Freshtel Australia Pty Limited and Freshtel UK Limited. All shares held are ordinary shares. Refer to note 14 – "Subsidiaries" for details of all controlled entities.

Note 14: Subsidiaries

The consolidated financial statements incorporate the assets, liabilities and results of the following subsidiaries, in accordance with the accounting policy in note 1(b). The proportion of ownership interest is equal to the proportion of voting power held.

Name of Entity	Country of Incorporation	Equity Holding 2007 %	Equity Holding 2006 %
Parent Entity			
Freshtel Holdings Limited			
Subsidiaries of Freshtel Holdings Limited			
Freshtel Australia Pty Limited	Australia	100%	100%
Freshtel UK Limited	United Kingdom	100%	100%
Subsidiaries of Freshtel Australia Pty Limited			
Freshtel Pty Limited	Australia	100%	100%
Freshtel R&D Pty Limited	Australia	100%	100%
Voicedot Networks Pty Limited	Australia	100%	100%
Virbiage Pty Limited	Australia	100%	100%

Note 15: Property, Plant and Equipment

	Consolidated Entity 2007 $'000	Consolidated Entity 2006 $'000	Parent Entity 2007 $'000	Parent Entity 2006 $'000
Leasehold improvements				
Leasehold Improvements at costs	13	13	-	-
Accumulated amortisation	(4)	(1)	-	-
Total Leasehold improvements	9	12	-	-
Purchased Software				
Purchased software at cost	655	234	-	-
Accumulated depreciation	(171)	(45)	-	-
Total purchased software	484	189	-	-
Plant and Equipment				
Plant and equipment at cost	2,306	1,127	-	-
Accumulated depreciation	(683)	(226)	-	-
	1,623	901	-	-

	Consolidated Entity 2007 $'000	Consolidated Entity 2006 $'000	Parent Entity 2007 $'000	Parent Entity 2006 $'000
Note 15: Property, Plant and Equipment (continued)				
Leased plant and equipment				
Leased plant and equipment at cost	121	144	-	-
Accumulated amortisation	(60)	(32)	-	-
Total leased plant and equipment	61	112	-	-
Total property, plant and equipment	2,177	1,214	-	-

(a) Movements in Carrying Amounts

Movements in the carrying amounts for each class of property, plant and equipment between the beginning and the end of the current financial year are reconciled as follows:

	Leasehold Improvements $'000	Purchased software $'000	Plant and Equipment $'000	Leased Plant and Equipment $'000	Total $'000
Consolidated Entity: 2006					
Balance at the beginning of year	2	29	99	18	148
Assets purchased during the year	11	194	824	118	1,147
Assets acquired on acquisition of business	-	-	167	-	167
Depreciation and amortisation expense	(1)	(34)	(189)	(24)	(248)
Carrying amount at the end of year	12	189	901	112	1,214

	Leasehold Improvements $'000	Purchased software $'000	Plant and Equipment $'000	Leased Plant & Equipment $'000	Total $'000
Consolidated Entity: 2007					
Balance at the beginning of year	12	189	901	112	1,214
Net assets purchased / (disposed) during the year	-	424	1,193	(6)	1,611
Depreciation and amortisation expense	(3)	(129)	(471)	(45)	(648)
Carrying amount at the end of year	9	484	1,623	61	2,177

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	Consolidated Entity 2007 $'000	Consolidated Entity 2006 $'000	Parent Entity 2007 $'000	Parent Entity 2006 $'000
Note 16: Intangible Assets				
Goodwill	-	64	-	-
Accumulated amortisation and impairment	-	(64)	-	-
Net carrying value	-	-	-	-
Development costs	2,842	2,198	-	-
Accumulated amortisation and impairment	(1,042)	(973)	-	-
Net carrying value	1,800	1,225	-	-
Total intangibles	1,800	1,225	-	-

	Goodwill $'000	Development costs $'000	Total $'000
Consolidated movements in intangible assets during the year			
For the year ended 30 June 2006			
Balance at the beginning of year	-	812	812
Internal development	-	1,004	1,004
Amortisation charge	-	(591)	(591)
Impairment losses	(64)	-	(64)
Acquisition through business combinations	64	-	64
Balance at the end of the year	-	1,225	1,225
For the year ended 30 June 2007			
Balance at the beginning of the year	-	1,225	1,225
Internal development	-	1,279	1,279
Amortisation charge	-	(704)	(704)
Balance at the end of the year	-	1,800	1,800

Intangible assets, other than goodwill, have finite useful lives. The current amortisation charges in respect of intangible assets are included under depreciation and amortisation expense per the income statement.

The recoverable amount of each cash-generating unit above is determined based on value-in-use calculations. Value-in-use is calculated based on the present value of cash flow projections over a 5 year period with the period extending beyond 5 years extrapolated using an estimated growth rate. The cash flows are discounted using a discount rate of 20% and an estimated growth rate of 3%.

Management has based the value-in-use calculations on budgets for each reporting segment. These budgets use historical weighted average growth rates to project revenue. Costs are calculated taking into account historical gross margins as well as estimated weighted average inflation rates over the period which is consistent with inflation rates applicable to the locations in which the segments operate. Discount rates are pre-tax and are adjusted to incorporate risks associated with a particular segment.

Note 17: Trade and other payables

	Consolidated Entity 2007 $'000	Consolidated Entity 2006 $'000	Parent Entity 2007 $'000	Parent Entity 2006 $'000
Current				
Trade payables	201	622	-	8
Sundry payables and accrued expenses	709	408	215	55
Income in advance	183	160	-	-
	1,093	1,190	215	63
Non - Current				
Other loans	-	-	155	155
	-	-	155	155

Trade and other creditors are unsecured, non-interest bearing and are normally settled within 30 day terms.

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	Consolidated Entity		Parent Entity	
	2007	2006	2007	2006
	$'000	$'000	$'000	$'000
Note 18: Borrowings				
Short term borrowings				
Secured				
Lease liabilities	41	46	-	-
Long term borrowings				
Secured				
Lease liabilities	26	71	-	-
Note 19: Taxation				
(a) **Liabilities**				
Non-Current				
Deferred tax liabilities	(501)	(316)	-	-
Deferred tax liability comprises :				
Development costs	(501)	(316)	-	-
(b) **Assets**				
Deferred tax assets	234	118	72	17
Deferred tax assets comprise :				
Amounts recognised in profit or loss:				
Provisions	173	68	-	-
Accruals and other	61	50	72	17
	234	118	72	17
(c) **Movements in Deferred Tax Balances**				
(i) The net movement in deferred taxes is as follows:				
Opening balance	(198)	(183)	8	8
Net charge/(credit) to income statement	(69)	(15)	(69)	(15)
Tax consolidation adjustments	-	-	133	24
Closing balance	(267)	(198)	72	17
(ii) Deferred tax liabilities to be settled after more than 12 months	(501)	(316)	-	-
Deferred tax liabilities to be settled within 12 months	-	-	-	-
Note 20: Provisions				
Current				
Provision for employee benefits	317	218	-	-
Provision for lease incentives	25	-	25	-
	342	218	25	-
Non - Current				
Provision for employee benefits	41	22	-	-
Provision for lease incentives	88	-	88	-
	129	22	88	-

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	Consolidated Entity		Parent Entity	
	2007 $'000	2006 $'000	2007 $'000	2006 $'000
Note 21: Provisions for employee benefits				
Current				
Employee benefits	317	218	-	-
Non-Current				
Liability for long service leave	41	22	-	-

(a) Employee Share Options and Performance Rights Plan

An employee share option scheme was approved by the Annual General Meeting and established on 21 November 2005.

Each option granted over un-issued shares of Freshtel Holdings Limited entitles the holder to subscribe for one fully paid ordinary share in the capital of the Company. Options are granted for varying consideration and carry no dividend or voting rights. No option holder has any rights under the options to participate in any other share issue of the Company or any other entity.

The options granted to participants in the Employee Share Option Plan in the year under review will vest as follows:

(i) for the 570,000 zero priced options issued on 31 July 2006, the 1st third becomes exercisable on 31 December 2007 and expires on 31 December 2009, the 2nd third becomes exercisable on 31 December 2008 and expires on 31 December 2010 and the last third becomes exercisable on 31 December 2009 and expires on 31 December 2011.

(ii) for the 250,000 options with and exercise price of $0.88 issued on 13 November 2006, the entire issue becomes exercisable on 28 November 2006.

(ii) for the 705,000 options with an exercise price of $0.733 issued on 29 December 2006, the 1st third becomes exercisable on 31 December 2007 and expires on 31 December 2009, the 2nd third becomes exercisable on 31 December 2008 and expires on 31 December 2010 and the last third becomes exercisable on 31 December 2009 and expires on 31 December 2011.

No option can be exercised until it has vested.

Unless otherwise determined, under the Employee Share Option Plan, vested options of employees may be exercised at any time prior to the expiry of two years from the first exercisable date.

The total number of shares issued upon exercise of the options, under the Plan must not exceed 10% of the total number of shares on issue in the capital of Freshtel Holdings Limited (or shares capable of being issued under an equity security). However, if an applicable law at any time imposes a lower limit, then that lower limit will apply.

Once options issued under the Plan have reached their vesting dates, options may be exercised in whole or in part, as long as they are in marketable parcels of no less than $5,000 worth of shares.

Set out below is a summary of the movement in options during the year, including those held by Directors and other key management personnel. Details of the movements in the numbers of options over ordinary shares in Freshtel Holdings Limited held by each Director and other key management personnel are set out in Note 5.

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Note 21: Provisions for employee benefits (continued)

2006 – Consolidated and Parent entity

Grant date	Expiry date	Exercise price	Balance at start of year No	Issued during year No	Exercised during year No	Lapsed during year No	Balance at end of year No	Exercisable at end of year No
24.3.2006	30.6. 2009	nil	-	453,329	-	-	453,329	-
24.3.2006	30.6. 2010	nil	-	453,334	-	-	453,334	-
24.3.2006	30.6. 2011	nil	-	453,337	-	-	453,337	-
			-	1,360,000	-	-	1,360,000	-

2007 – Consolidated and Parent entity

Grant date	Expiry date	Exercise price $	Balance at start of year No	Issued during year No	Exercised during year No	Lapsed during year No	Balance at end of year No	Exercisable at end of year No
24.3.2006	30.6. 2009	nil	453,329	-	-	-	453,329	453,329
24.3.2006	30.6. 2010	nil	453,334	-	-	80,000	373,334	-
24.3.2006	30.6. 2011	nil	453,337	-	-	80,000	373,337	-
31.7.2006	31.12.2009	nil	-	189,999	-	33,332	156,667	-
31.7.2006	31.12.2010	nil	-	190,000	-	33,334	156,666	-
31.7.2006	31.12.2011	nil	-	190,001	-	33,334	156,667	-
13.11.2006	13.11.2011	0.88	-	250,000	-	-	250,000	-
29.12.2006	29.12.2009	0.73	-	235,000	-	55,000	180,000	-
29.12.2006	29.12.2010	0.73	-	235,000	-	55,000	180,000	-
29.12.2006	29.12.2011	0.73	-	235,000	-	55,000	180,000	-
			1,360,000	1,525,000	-	425,000	2,460,000	453,329

(b) Employee Share Acquisition Plan

Freshtel Holdings has also established an employee share acquisition plan which affords eligible Australian employees the opportunity to acquire $1,000 shares in Freshtel Holdings limited per annum at no cost, in two equal instalments of $500 each. Employees can withdraw or sell their shares from the plan after 3 years from the date of acquisition, or when leaving the employment of the Freshtel Holdings group. The Plan acquired $13,587 worth of shares for employees during the year under review (2006: $5,686).

	Consolidated Entity		Parent Entity	
	2007	2006	2007	2006
(c) Employee numbers				
Number of full-time equivalent employees	68	46	-	-

(d) Superannuation plan
The company contributes to accumulation type employee superannuation plans in accordance with statutory requirements in Australia. In the United Kingdom the company contributes to National Insurance in accordance with statutory requirements.

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	Consolidated Entity		Parent Entity	
	2007	**2006**	**2007**	**2006**
	$'000	**$'000**	**$'000**	**$'000**

Note 21: Provisions for employee benefits (continued)

(e) Expenses arising from share based payment transactions

Total expenses arising from share-based payment transactions recognised during the period as part of employee benefit expense were as follows:

	Consolidated 2007 $'000	Consolidated 2006 $'000	Parent 2007 $'000	Parent 2006 $'000
Options issued under employee option plan	472	88	472	88
Shares issued under employee share scheme	14	6	14	6
	486	94	486	94

Note 22: Issued Capital

(a) Share Capital

	Consolidated 2007 $'000	Consolidated 2006 $'000	Parent 2007 $'000	Parent 2006 $'000
90,945,641 fully paid ordinary shares (2006: 73,410,188) – **(b)**	33,792	21,494	-	-
179,634,925 fully paid ordinary shares (2006: 162,099,472) – **(c)**	-	-	44,738	32,440
33,900,603 performance shares (2006: 33,900,603) – **(d)**	600	600	600	600
	34,392	22,094	45,338	33,040

(b) Movements on ordinary share capital: Consolidated entity

Date	**Details**	**Freshtel Holdings Limited Number of shares**	**Issue price**	**Consolidated Entity $'000**
1 July 2005	Opening balance	159,217	-	4,731
26 October 2005	Private placement	60,000,001	0.22	13,200
6 January 2006	Private placement	9,500,970	0.39	3,739
12 January 2006	Options exercised	600,000	0.20	120
9 March 2006	Options exercised	1,550,000	0.20	290
15 March 2006	Options exercised	50,000	0.20	10
23 March 2006	Options exercised	50,000	0.20	10
31 March 2006	Options exercised	1,500,000	0.20	300
30 June 2006	Less: transaction costs arising on share issue	-	-	(906)
30 June 2006	**Balance**	**73,410,188**	**-**	**21,494**
1 December 2006	Options exercised	25,000	0.20	5
28 December 2006	Private placement	17,135,453	0.72	12,300
8 May 2007	Options exercised	25,000	0.20	5
10 May 2007	Options exercised	300,000	0.20	60
31 May 2007	Options exercised	50,000	0.20	10
30 June 2007	Less: transaction costs arising on share issue	-	-	(82)
30 June 2007	**Balance**	**90,945,641**		**33,792**

The issued share capital of the consolidated entity comprises the value of the share capital of Freshtel Australia Pty Limited prior to the reverse acquisition of Freshtel Holdings Limited, the value of the share capital issued as a result of this reverse acquisition, and the share capital issued by the group to outside shareholders by Freshtel Holdings Limited after the date of the acquisition, net of the costs associated with capital raisings.

Note 22: Issued Capital (continued)

(c) Movements on ordinary share capital: Parent entity

Date	Details	Number of shares	Issue price	$'000
1 July 2005	Opening balance	88,848,501	-	15,677
26 October 2005	Private placement	60,000,001	0.22	13,200
6 January 2006	Private placement	9,500,970	0.39	3,739
12 January 2006	Options exercised	600,000	0.20	120
9 March 2006	Options exercised	1,550,000	0.20	290
15 March 2006	Options exercised	50,000	0.20	10
23 March 2006	Options exercised	50,000	0.20	10
31 March 2006	Options exercised	1,500,000	0.20	300
30 June 2006	Less: transaction costs arising on share issue	-	-	(906)
30 June 2006	**Balance**	**162,099,472**		**32,440**
1 December 2006	Options exercised	25,000	0.20	5
28 December 2006	Private placement	17,135,453	0.72	12,300
8 May 2007	Options exercised	25,000	0.20	5
10 May 2007	Options exercised	300,000	0.20	60
31 May 2007	Options exercised	50,000	0.20	10
30 June 2007	Less: transaction costs arising on share issue	-	-	(82)
30 June 2007	**Balance**	**179,634,925**		**44,738**

Ordinary Shares

Ordinary shares entitle the holder to participate in dividends and the proceeds on winding up of the Company in proportion to the number of and amounts paid on the shares held. On a show of hands every holder of ordinary shares present at a meeting in person or by proxy, is entitled to one vote, and upon a poll each share is entitled to one vote.

(d) Movement on Performance shares

Date	Details	Number of shares	$'000
1 July 2005	Opening balance	93,900,000	600
26 October 2005	Converted "B" class shares	(30,000,000)	-
26 October 2005	Converted "C" class shares	(30,000,000)	-
26 October 2005	Issue "A" Class shares	603	-
30 June 2006	**Balance**	**33,900,603**	**600**
30 June 2007	**Balance**	**33,900,603**	**600**

Performance shares

On 26 October 2005, as a result of a resolution by members, all of the Class B Performance Shares and Class C Performance shares previously held were converted into Class A Convertible Performance Shares at the rate of 100,000 for 1. This has the effect of cancelling Class B and Class C Performance Shares. The rights of the new Class A Convertible Performance shares were amended by resolution of members from a profit based performance share to a share value based performance share. The revised terms of the Class A Convertible Performance Shares requires an exercise price of $0.50 cents per share and an expiry date of 31 December 2008.

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Note 22: Issued Capital (continued)

(e) Movement on Options

Date	Details		Number of shares	Exercise Price	$'000
1 July 2005	Opening balance		5,065,000		-
12 January 2006	Options exercised		(600,000)	0.20	-
9 March 2006	Options exercised		(1,450,000)	0.20	-
15 March 2006	Options exercised		(50,000)	0.20	-
23 March 2006	Options exercised		(50,000)	0.20	-
24 March 2006	Employee performance rights	(i)	1,360,000	0.00	
31 March 2006	Options exercised		(1,500,000)	0.20	-
30 June 2006	**Balance**		**2,775,000**		**-**
31 July 2006	Employee performance rights	(ii)	570,000	0.00	-
13 November 2006	Employee performance rights	(iii)	250,000	0.88	
1 December 2006	Options exercised		(25,000)	0.20	-
29 December 2006	Employee performance rights	(iv)	705,000	0.73	-
8 May 2007	Options exercised		(25,000)	0.20	-
10 May 2007	Options exercised		(300,000)	0.20	-
31 May 2007	Options exercised		(50,000)	0.20	-
30 June 2007	Employee performance rights lapsed		(425,000)	-	-
30 June 2007	**Balance**		**3,475,000**		**-**

Options

(i) Employee performance rights granted on 24 March 2006. The 1,360,000 zero priced performance rights vest as follows; the 1st third becomes exercisable on 30 June 2007 and expires on 30 June 2009, the 2nd third becomes exercisable on 30 June 2008 and expires on 30 June 2010 and the last third becomes exercisable on 30 June 2009 and expires on 30 June 2011.

(ii) Employee performance rights granted on 31 July 2006. The 570,000 zero priced performance rights vest as follows; the 1st third becomes exercisable on 31 December 2007 and expires on 31 December 2009, the 2nd third becomes exercisable on 31 December 2008 and expires on 31 December 2010 and the last third becomes exercisable on 31 December 2009 and expires on 31 December 2011.

(iii) Employee performance rights granted on 13 November 2006. The 250,000 options with exercise price of $0.88 vest on the 28 November 2006.

(iv) Employee performance rights granted on 29 December 2006. The 705,000 options with exercise price of $0.73 vest as follows; the 1st third becomes exercisable on 31 December 2007 and expires on 31 December 2009, the 2nd third becomes exercisable on 31 December 2008 and expires on 31 December 2010 and the last third becomes exercisable on 31 December 2009 and expires on 31 December 2011.

Note 23: Reserves and retained profits

	Consolidated Entity 2007 $'000	Consolidated Entity 2006 $'000	Parent Entity 2007 $'000	Parent Entity 2006 $'000
(a) Reserves				
Share based payments reserve	560	88	560	88
Foreign Currency Translation Reserve	(35)	32	-	-
	525	120	560	88

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Note 23: Reserves and retained profits (continued)

	Consolidated Entity 2007 $'000	Consolidated Entity 2006 $'000	Parent Entity 2007 $'000	Parent Entity 2006 $'000
Movements:				
Share based payments reserve				
Balance at the beginning of the year	88	-	88	-
Options expense	472	88	472	88
Balance at the end of the year	560	88	560	88
Foreign Currency Translation Reserve				
Balance at the beginning of the year	32	-	-	-
Foreign exchange gain/loss	(67)	32	-	-
Balance at the end of the year	(35)	32	-	-

Nature and purpose of reserves

Share based payments reserve

The share based payments reserve is used to recognise the fair value of options issued to employees and directors, but not exercised.

Foreign Currency Translation Reserve

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

(b) Retained Profits/(Accumulated Losses)

Movements in retained profits/(accumulated losses) were as follows:

	Consolidated Entity 2007 $'000	Consolidated Entity 2006 $'000	Parent Entity 2007 $'000	Parent Entity 2006 $'000
Balance at the beginning of the year	8,335	2,181	(734)	16
Net loss / (income) for the year	7,614	6,154	1,102	(750)
Balance at the end of the year	15,949	8,335	368	(734)

Note 24: Capital and Leasing Commitments

(a) Operating Lease Commitments

Non-cancellable operating leases contracted for at the reporting date but not capitalised in the financial statements:

	Consolidated Entity 2007 $'000	Consolidated Entity 2006 $'000	Parent Entity 2007 $'000	Parent Entity 2006 $'000
Payable — minimum lease payments				
- not later than 12 months	515	303	-	-
- between 12 months and 5 years	1,329	743	-	-
	1,844	1,046	-	-

Non-cancellable operating leases contracted for at the reporting date but not capitalised in the financial statements include the following:

2006	Property $'000	Total $'000
Not later than 12 months	303	303
Between 12 months and 5 years	743	743
	1,046	1,046

2007	Property $'000	Total $'000
Not later than 12 months	515	515
Between 12 months and 5 years	1,329	1,329
	1,844	1,844

Note 24: Capital and Leasing Commitments (continued)

(b) Capital Expenditure Commitments

There was no capital expenditure commitments contracted for at the reporting date.

Note 25: Business combination

(a) Summary of acquisition

In the previous financial year Freshtel Holdings Limited acquired the trade and assets of Teragen International Pty Ltd, a company that provided specialist VoIP research and development services, developing internet telephony and electronic commerce products, customer relationship management and billing systems. The acquisition occurred on 1 December 2005 and the purchase price was satisfied by the payment of $240,000 as follows.

There were no acquisitions in the current financial year.

	Consolidated Entity 2007 $'000	Consolidated Entity 2006 $'000 Teragen International
Purchase consideration (refer to (b) below):		
Cash paid	-	240
Direct costs relating to the acquisition	-	4
Sub-total	-	244
Anticipated additional consideration (refer to (b) below)	-	-
Total purchase consideration	-	244
Fair value of net identifiable assets acquired (refer to (c) below)	-	(180)
Goodwill (refer to (c) below, note 2 and note 16)	-	64

(b) Purchase consideration

Outflow of cash to acquire subsidiary, net of cash acquired		
Cash consideration	-	(240)
Less: Cash balances acquired	-	-
Outflow of cash	-	(240)

(c) Assets and liabilities acquired

The assets and liabilities arising from the acquisition are as follows:

	Fair value	Fair value
Receivables	-	93
Plant and equipment	-	167
Provision for employee benefits	-	(80)
Net assets	-	180
Minority interests	-	-
Net identifiable assets acquired	-	180

	Consolidated Entity 2007 $'000	Consolidated Entity 2006 $'000	Parent Entity 2007 $'000	Parent Entity 2006 $'000
Note 26: Contingent Liabilities and Contingent Assets				
The parent entity and consolidated entity had contingent liabilities at 30 June 2007 in respect of bank guarantees given to Optus Pty Limited to the maximum of:	200	200	-	-

No material losses are anticipated in respect of the above liabilities.

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Note 27: Segment Reporting

Description of segments
Geographical segments

The consolidated entity's business is managed and operated in two main geographical areas:

Australia
The home country of the parent entity which is also the main operating entity. The areas of operation are principally research and development, sale of call time and hardware.

United Kingdom
This operation mainly services the Tesco contract which enables Tesco to repackage the group's developed VoIP technology and product and sell as their own brand.

	Australia		**United Kingdom**		**Economic Entity**	
	2007 **$'000**	**2006** **$'000**	**2007** **$'000**	**2006** **$'000**	**2007** **$'000**	**2006** **$'000**
Revenue						
External sales	1,101	481	2,738	807	3,839	1,288
Other revenue	799	669	8	-	807	669
Total segment revenue	1,900	1,150	2,746	807	4,646	1,957
Segment result before tax and inter-company charges	(7,647)	(5,392)	(261)	(1,107)	(7,908)	(6,499)
Inter-company charges	1,280	464	(1,280)	(464)	-	-
Segment result before taxation	(6,367)	(4,928)	(1,541)	(1,571)	(7,908)	(6,499)
Income tax					294	345
Net loss for the year					(7,614)	(6,154)
Segment assets	19,479	14,251	1,621	1,491	21,100	15,742
Segment liabilities	(1,426)	(1,246)	(706)	(617)	(2,132)	(1,863)
Inter-company balances	3,982	2,439	(3,982)	(2,439)	-	-
Net Assets	22,035	15,444	(3,067)	(1,565)	18,968	13,879
Acquisition of non current segment assets	2,426	1,475	464	676	2,890	2,151
Depreciation & amortisation	1,049	713	303	126	1,352	839

Segment revenues are allocated based on the country in which the customer is located. Segment assets and capital expenditure are allocated based on where the assets are located.

Accounting Policies

Segment information is prepared in accordance with the accounting policies of the entity as disclosed in note 1 and accounting standard *AASB 114: Segment Reporting*. During the year, there were no changes in segment accounting policies that had a material effect on the segment information.

Inter-segment Transfers

The pricing of inter-segment transactions is the same as prices charged on transactions with parties outside the Economic Entity. Such transactions are eliminated on consolidation.

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Note 28: Cash Flow Information

	Consolidated Entity 2007 $'000	Consolidated Entity 2006 $'000	Parent Entity 2007 $'000	Parent Entity 2006 $'000
(a) Reconciliation of Cash Flow from Operations with Profit from Ordinary Activities after Income Tax				
Profit from ordinary activities after income tax	(7,614)	(6,154)	(1,102)	750
Non-cash flows in profit from ordinary activities				
Depreciation and amortisation	1,352	839	-	-
Impairment of goodwill	-	64	-	-
Write-off of capitalised expenditure	-	15	-	-
Share options expense	472	88	472	88
Foreign exchange reserves	(67)	32	-	-
Changes in assets and liabilities, net of the effects of purchase and disposal of subsidiaries				
(Increase)/decrease in trade and other debtors	(120)	(688)	(455)	(363)
Decrease/(increase) in inventories	96	(38)	-	-
(Increase)/decrease in prepayments	(146)	(42)	3	2
(Increase)/decrease in deferred tax assets	(284)	(57)	(98)	14
(Decrease)/increase in payables	(98)	534	152	16
Increase/(decrease) in deferred taxes payable	353	73	168	-
Increase/(decrease) in provisions	232	223	113	-
	(5,824)	(5,111)	(747)	507

Note 29: Events After the Balance Sheet Date

There are no significant events that have occurred after the balance sheet date.

Note 30: Related Party Transactions

(a) Parent entity
The ultimate parent entity within and for the Group is Freshtel Holdings Limited.

(b) Subsidiaries
Interests in subsidiaries are set out in note 14.

(c) Directors and key management personnel

Disclosures relating to directors and key management personnel are set out in note 5.

(d) Transactions with related parties

Transactions between related parties are on normal commercial terms and conditions no more favourable than those available to other parties unless otherwise stated.
The following transactions occurred with related parties:

		Consolidated 2007	Consolidated 2006	Parent 2007	Parent 2006
Services supplied to related parties and their entities	(i)	51	17	-	-
Services rendered by related parties and their entities	(ii)	(96)	(696)	(34)	(34)
Business combination with related party	(ii)	-	(240)	-	-
Management fee charged by the parent entity		-	-	655	447
Interest charged by the parent entity	(iii)	-	-	326	39

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Note 30: Related Party Transactions (continued)

(i) Services supplied to related parties – this relates to the supply of call termination services to Wholesale Communications Group Pty Limited - $51,000, (2006: $7,000), a company in which Mr S Filzek is a shareholder and the supply of data hosting facilities to Teragen International Pty Limited (2006: $10,000), a company which is indirectly owned and controlled by Mr S Filzek.

(ii) Services rendered by related parties – this relates to accounting and management consulting services supplied by Dillon & Elbourn Chartered Accountants - $96,000, (2006: $190,000), of which Mr D Elbourn is a partner and the supply of research and development services by Teragen International Pty Limited (2006: $506,000), a company which is indirectly owned and controlled by Mr S Filzek.

(iii)The loan made by Freshtel Holdings Limited to a controlled entity is unsecured and has no fixed terms of repayment. Interest on the loan is charged at 10% (2006: 5,5%).

	Consolidated Entity		Parent Entity	
	2007 $'000	2006 $'000	2007 $'000	2006 $'000
(e) Loans to/from related parties				
Loans to subsidiaries				
Beginning of the year	-	-	10,505	4,201
Loan advanced	-	-	7,541	6,265
Interest charged	-	-	326	39
End of year	-	-	18,372	10,505

Loans to other related parties

There were no loans to related entities at 30 June 2007 (30 June 2006: $0)

	Consolidated 2007	Consolidated 2006	Parent 2007	Parent 2006
Loans from associate				
Beginning of the year	-	(500)	-	-
Loan repayments received	-	1,000	-	-
Interest charged	-	(500)	-	-
End of year	-	-	-	-

(f) Outstanding balances arising from sales/purchase of goods and services
The following balances are outstanding at the reporting date in relation to transactions with related parties:

	Consolidated 2007	Consolidated 2006	Parent 2007	Parent 2006
Current receivables (sale of goods and services)				
- other related parties	15	3	-	-
Current payable (purchase of goods and services)				
- other related parties	-	(28)	-	-

No provisions for doubtful debts have been raised in relation to any outstanding balances, and no expense has been recognised in respect to bad or doubtful debts due to related parties.

(g) Other matters

Under income tax consolidation legislation, Freshtel Holdings Limited assumes responsibility for the income tax payable by the consolidated tax group comprising Freshtel Holdings Limited and its wholly owned entities. A tax sharing and funding agreement (TSA) between Freshtel Holdings Limited and its wholly owned entities covers the funding, accounting and calculation of the tax liability for each individual entity, and also caters for entities joining and exiting the group. Under the terms of the TSA, Freshtel Holdings Limited has appointed Freshtel Holdings Australia Pty Limited as its agent for the purpose of making tax payments and will reimburse that entity through the inter-company loan account for amounts paid except for the tax allocated to that entity.

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Note 31: Financial Instruments

(a) Financial Risk Management
The Group's financial instruments consist mainly of deposits with banks, accounts receivable and payable, loans to and from subsidiaries and leases.

The main risks the Group is exposed to through its financial instruments are interest rate risk, liquidity risk and credit risk.

Interest rate risk
The Group's deposits with banks bear interest at variable rates.

Liquidity risk
The Group manages liquidity risk by monitoring forecast cash flows to ensure adequate liquidity.

Credit risk
The maximum exposure to credit risk, excluding the value of any collateral or other security, at balance date to recognised financial assets, is the carrying amount, net of any provisions for impairment of those assets, as disclosed in the balance sheet and notes to the financial statements. The consolidated entity does not have any material credit risk exposure to any single receivable or Group of receivables under financial instruments entered into by the economic entity.

Other risks
The Group is not materially exposed to fluctuations in foreign currencies or to any material commodity price risk.

(b) Interest rate risk
The economic entity's exposure to interest rate risks is the risk that a financial instrument's value will fluctuate as a result of changes in market interest rate. There is no material risk as borrowings are relatively low and managed by fixed interest rate contracts.

(c) Net Fair Values
The net fair values of assets and liabilities approximate their carrying value. No financial assets or financial liabilities are readily traded on organised markets in standardised form.
The aggregate net fair values and carrying amounts of financial assets and financial liabilities are disclosed in the balance sheet and in the notes to the financial statements.
The carrying amount of financial assets and liabilities approximate their fair value.

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Note 31: Financial Instruments (continued)

	Weighted Average Effective Interest Rate		Floating Interest Rate		Within Year		1 to 5 years		Non Interest Bearing		Total	
	2007	**2006**	**2007**	**2006**	**2007**	**2006**	**2007**	**2006**	**2007**	**2006**	**2007**	**2006**
	%	**%**	**$000**	**$000**	**$000**	**$000**	**$000**	**$000**	**$000**	**$000**	**$000**	**$000**
Financial Assets:												
Cash	6.0%	5,5%	14,896	11,361	-	-	-	-	-	-	14,896	11,361
Trade and other receivables	0%	0%	-	-	-	-	-	-	1,493	1,373	1,493	1,373
Total Financial Assets			14,896	11,361	-	-	-	-	1,493	1,373	16,389	12,734
Financial Liabilities:												
Trade and other payables	0%	0%	-	-	-	-	-	-	1,093	1,162	1,093	1,162
Amounts payable related parties	0%	0%	-	-	-	-	-	-	-	28	-	28
Lease liabilities	12%	12%	-	-	41	46	26	71	-	-	67	117
Total Financial Liabilities			**-**	**-**	**41**	**46**	**26**	**71**	**1,093**	**1,190**	**1,160**	**1,307**

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Note 32: Company Details

Freshtel Holdings Limited is a company limited by shares, incorporated and domiciled in Australia.

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

Level 2, 95 Coventry Street,
South Melbourne, 3205.

Note 33: Authorisation of the Financial Report

This financial report was authorised for issue by the directors on 30 August 2007. The company has the power to amend and reissue this report.

Note 34: Changes in Accounting Policy

The following Australian Accounting Standards have been issued or amended and are applicable to the parent and consolidated group but are not yet effective. They have not been adopted in the preparation of the financial statements at the reporting date.

AASB Amendment	Standards affected	Outlined amendments	Application date of standard	Application date for Group
AASB 2005-10: Amendments to Australian Accounting Standards	AASB 1: First time adoption of AIFRS AASB 4: Insurance Contracts AASB 101: Presentation of Financial statements AASB 114: Segment Reporting AASB 117: Leases AASB 133: Earnings per share AASB 1023: General Insurance Contracts AASB 1038: Life Insurance Contracts AASB 139: Financial Instruments: Recognition and Measurement	The disclosure requirements of AASB 132: Financial Instruments: Disclosure and Presentation have been replaced due to the issuing of AASB 7: Financial Instruments: disclosures in August 2005. These amendments will involve changes to financial instrument disclosures within the financial report. However, there will be no direct impact on the amounts included in the financial report as it is a disclosure standard.	1 Jan 2007	1 July 2007
AASB 7: Financial Instruments: disclosures	AASB 132: Financial Instruments: Disclosure and Presentation	As above	1 Jan 2007	1 July 2007