AUSTRALIAN STOCK EXCHANGE RELEASE

Melbourne, Australia, Friday, 28 August 2008: Freshtel Holdings Limited (ASX: FRE) has today released its full year financial results for the year ending 30 June 2009.

Chairman Dr Allan Sullivan has made the following statement:

Chairman's Statement

This has been an extremely difficult year for Freshtel with revenues shrinking significantly from the previous year and with costs running at a high monthly rate which, together, have caused large cash losses. Consequently, costs have been significantly reduced from January 2009 but cash burn still exceeds some $300,000 a month as at July 2009.

In April this year the board announced a fully renounceable pro-rata rights issue fully underwritten by Custodial Capital Management Pty Ltd that successfully raised $1.8m. Since finalising the entitlement issue the company has focused on achieving this restructuring, lowering our costs, protecting our capital base and focusing on improvement of our global Voicedot Network services.

We also had other changes during the year with longstanding board members David Elbourn and Les Taylor stepping down from the board in November 2008, followed by our newest appointment, Spiros Nikolakopolous standing down in April 2009 to take up a global position with his former employer. I must also express my thanks to Ken Loughnan AO who stood down from the board in May 2009 when I was appointed Chairman. Mr Loughnan brought professionalism and strength to the board and his service is very much appreciated.

Management has achieved much in reducing costs but the poor year end result means that further significant cost reductions have been identified and will be implemented to try to achieve the margins required to bring the business to break even.

To contribute to the necessary cost reductions, Ms Rhonda O'Donnell has tendered her resignation and leaves on 31st August 2009. Ms O'Donnell has worked diligently as CEO for the past two years to rationalise the Freshtel team and focus the Company's product offerings. I will be Executive Chairman in the interim.

The board is examining the potential for the company to delist. This will not only save hundreds of thousands of dollars in listing fees, audit and support infrastructure and staff costs but will give the company a profile more in accordance with its current financial performance, i.e. revenues of 4-5MA$; EBIT result of (2)MA$. Moreover, cash burn is, and will remain in the short term, an absolutely critical issue for the company. This delisting will be an issue that your board will consider carefully prior to the Annual General Meeting as we are determined to understand how you, the shareholders, wish us to decide in this regard, given that a decision to delist will affect your ability to trade on the ASX but may give us better opportunities for rebuilding and securing the future of the business.

The company strategy has been revisited to ensure a simple, clear set of actions for the coming 12 months, and plans to further significantly reduce costs in this 12 month period are in place.

We are not limiting ourselves, however, to only improving what we have – we are also looking at some merger opportunities that will assist in broadening our market offering in the wholesale SME sector and consequently global sales, and we will continue to develop key applications for mobile VoIP, calling card applications and an API interface that will enable 'white label' customers to develop their own business models with their own billing systems that integrate with the Voicedot Network using its call termination capabilities.

To all Freshtel staff in Australia and overseas, I thank you for your commitment during these difficult times and look forward to rebuilding a successful company during the coming years.

Dr Allan Sullivan
Chairman

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 2009	**30 June 2008**

Results for announcement to the market

	% change	30 June 2009 $	30 June 2008 $
Revenue from ordinary activities	**-34%**	**3,223,245**	**4,848,447**
Loss from ordinary activities after tax attributable to members	**-30%**	**(10,181,473)**	**(7,811,604)**
Net loss for the period attributable to members	**-30%**	**(10,181,473)**	**(7,811,604)**
Basic loss per share (cents per share)	**-13%**	**(4.86)**	**(4.31)**
Diluted loss per share (cents per share)	**-13%**	**(4.86)**	**(4.31)**
Net tangible asset per share (cents per share)		**-**	**5.08**

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 28 August 2009 accompanying this report.

The results as announced have been subject to audit and signed.

Directors' commentary on the results:

Operating Results

The consolidated loss for the year of Freshtel Holdings Limited ('Freshtel'), after recognising a tax credit of $487,704, was $10,181,473 (30 June 2008 – loss of $7,811,604). This loss included an impairment of intangible assets amounting to approximately $2.0M.

Revenue from ordinary activities amounted to $3,223,245 for the year, a decrease of 34%. This was largely due to the decline in Tesco revenues and delays in new product releases .

Expenditure decreased by 9% for the year, mainly on employment costs due to non-replacement of certain senior executive positions. Administration, occupancy and facility expenses increased by $95,027 or 3%. These increases took into account the CPI/market increase on the lease of our premises at Coventry Street, South Melbourne.

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

Financing Activities

The company undertook a fully underwritten rights issue in May 2009 raising $1.8M less costs. It has now implemented processes to preserve cash reserves to the fullest extent possible.

Milestones for the period under review

- Network rationalisation and centralisation to improve quality, reliability and scaleability
- Ongoing development of mobile applications, particularly for iPhone, Blackberry and Android handsets
- Commencement of PTCL calling card solution offering expatriates in the UK cheap calling rates to Pakistan
- Signing and roll-out of Yippi (Australian Christian Church) white label offering

Revenue opportunities announced post 30 June 2009

Tesco has indicated it is ready to proceed to have the Voicedot backed Tesco calling card in place by the end of October 2009.

In conclusion

The company is looking at some merger opportunities that will assist in broadening our market offering in the wholesale SME sector and consequently global sales. Freshtel will continue to develop key applications for mobile VoIP, calling card applications and an API interface that will enable 'white label' customers to develop their own business models with their own billing systems that integrate with the Voicedot Network using its call termination capabilities.

FRESHTEL HOLDINGS LTD
And Controlled Entities
ACN 111 460 121

FINANCIAL REPORT
FOR THE YEAR ENDED 30 JUNE 2009

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Financial Report

CORPORATE GOVERNANCE

This statement outlines the main corporate governance principles and practices of Freshtel Holdings Limited that were in place during the year ended 30 June 2009. Unless otherwise stated, these comply with the ASX corporate governance principles and recommendations ('ASX recommendations') that took effect from 1 January 2008.

1. LAY SOLID FOUNDATIONS FOR MANAGEMENT AND OVERSIGHT

The board's main role is to protect and maintain long-term shareholder value by providing strategic guidance and effective oversight of management for Freshtel Holdings Limited.

To facilitate accountability to Freshtel's shareholders the board has clearly defined roles and responsibilities for the board and executive management and has ensured that there is a balance of power and appropriate authorisations to avoid any individual having sole authority.

Functions reserved for the board

The functions reserved for the board can be summarised as follows:

- Input into and final approval of the Company's strategic plan;
- Oversight of the strategic plan and accountability systems for delivery within the strategic plan;
- Review and ratification of risk management systems;
- Establishment of appointment criteria and review of board membership to identify and nominate directors for shareholder consideration;
- Appoint and remove the chief executive officer and the company secretary;
- Ratification of appointment and removal of senior executives;
- Ensuring appropriate resources are available to senior executives;
- Appoint and determine appropriate remuneration packages and performance criteria for the CEO and executive team;
- Development and approval of delegations for the CEO;
- Approval and monitoring financial and other reporting including assurance that the scope of the external audit is adequate;
- Approval and monitoring the progress of major capital expenditure, capital management and acquisitions and divestitures.

Responsibility of management

The board has delegated responsibility for management to the CEO and executive team. The CEO is accountable to the board for all authority delegated to her and the senior executives.

The directors have adopted a charter for the board, which sets out the responsibilities of the board and those matters reserved for the Board and those delegated to management. It is available from the corporate governance section of the Freshtel Holdings Limited website at www.freshtelholdings.com.

Certain senior executive positions were made redundant and the Company had a few resignations that were not replaced. These positions are now the responsibility of the CEO. Due to the number of changes in the executive team and role responsibilities, no formal assessments of the senior executive positions were made during the year.

The board's accountability

The board receives regular financial reporting and assesses financial performance against budgets and forecasts. The Company has filed cash flow statements with the ASX on a quarterly basis throughout the year. The Company places emphasis on having a strong accounting team in place, as monitoring and control of Freshtel's financial performance is paramount to its growth strategy.

The board receives reports from external auditors and takes all necessary follow-up action. In taking any required action, the board does not consider the composition of the Board or Management.

The board has developed a communication policy within its suite of policies. The Company utilises the Company website to ensure its policies are available for public scrutiny in addition to more formal notices as required by the Corporations Act or the ASX listing rules.

2. BOARD STRUCTURE

As at the date of this report, the board comprises three non-executive directors. Freshtel's constitution provides for a minimum of three directors and not more than nine directors.

The board consists of a non-executive chairman, Dr Allan Sullivan, who has a close association with the company's major shareholder. The independent non-executive director is Mr Andy Dewhurst who is not a major shareholder and does not have any current association with a party holding over 5% of the paid up capital. The remaining director, Mr Sean Wilkins, is a non-executive director but is not independent as he is an executive of Tesco Tel(E)coms, a subsidiary company of the Company's second largest shareholder.

This arrangement does not comply with ASX recommendation 2.1 that the majority of the board are not independent directors; however the board is confident that it brings independent judgement to bear on board decisions. The board continues to monitor its structure as the Group's operations develop.

The board has agreed a procedure to take independent legal advice at the expense of the company, whereby a board member advises the chairman of his intention to take such advice and the broad nature of the advice and shares the advice with the board on receiving it.

Each of the directors has been appointed for the particular skills, expertise and experience that he is able to offer the Company at this time. The Company is identifying other skills that will support its strategic direction but at present the range of skills and breadth of industry and professional expertise held by board members provides a sound basis for increasing the Company's value.

Nomination committee

Remuneration and nomination committee

A remuneration and nomination committee, made up initially of three non-executive directors was subsequently changed to the whole board when the board numbers was reduced to three. The committee met once during the financial year. –

The committee is responsible for identifying the necessary and desirable competencies of directors, reviewing board succession plans, board evaluation, making director and executive remuneration recommendations and evaluating and recommending option and bonus plans.

A policy for the selection and appointment of directors and a committee charter has been developed and published to the Company's website. The board undertakes performance evaluation in accordance with its policy for board performance evaluation and ensures that ongoing evaluation of the skills, experience and expertise of board members is made.

Remuneration

Remuneration of executives and management is in the mean range of market remuneration. An allocation of above market priced options was been offered to the company executives in August 2008.

The general counsel & company secretary is engaged on a part-time basis through a related corporate services provider and is paid on an hourly rate that has not increased since her engagement.

Board performance evaluation

The board undertook formal peer evaluation during the year and the chairman met with each board member to discuss the evaluation.

3. ETHICAL AND RESPONSIBLE DECISION MAKING

Ethical business behaviour

Freshtel Holdings Limited is committed to maintaining high ethical standards in its internal operations and its interaction with shareholders, investors, clients, stakeholders and regulatory bodies. The board has prepared a statement of professional practice that is available from the corporate governance section of the Freshtel Holdings Limited website at www.freshtelholdings.com. This policy is in the nature of a code of conduct in accordance with ASX recommendations. Recommendation 3.1, and was developed to ensure a high standard of business behaviour and to ensure all directors, executives, contractors and employees understand and carry out their obligation to treat others with fairness, honesty and respect.

The board meets on a regular basis and follows meeting guidelines set down to ensure all directors are made aware of and have all necessary information to participate in informed discussion on all agenda items.

The board of directors identifies risks and opportunities and seeks assistance from the Company executives and, where applicable, from other professional advisors to the Company.

Dealing in company securities

The Company has in place an insider trading policy that sets out a procedure for Directors, officers and staff members dealing in the company's securities. The policy is on the company's website at www.freshtelholdings.com The Company's constitution permits directors, officers and staff members to acquire shares in the Company.

The insider trading policy allows directors, officers and staff members to deal in Company shares only when the public is fairly well-informed about the Company. Freshtel considers it is reasonable for directors, officers and staff members to buy, sell or otherwise deal in the securities of Freshtel during the so-called 'windows' which are:

- during the currency of a prospectus and any supplementary prospectus;
- for a new issue, while rights are being traded;
- between 3 and 30 days after the release of the half yearly results, preliminary final results and any dividend announcements;
- during the period from 3 days after the release of the annual report to 30 days after the annual general meeting;
- at other times with the approval of the chair providing the director, officer or staff member is not in possession of any price sensitive information.

The board can order the suspension of trading activities at any time during the trading windows if they believe that the directors, officers or staff members are in possession of price sensitive information not yet announced to the market. A copy of the insider trading policy is available from the corporate governance section of the Freshtel Holdings Limited website at www.freshtelholdings.com

4. SAFEGUARDING INTEGRITY IN FINANCIAL REPORTING

Audit, risk and compliance committee

The Company established an audit, risk and compliance committee chaired during the first part of the financial year by Mr Les Taylor, an independent director. The other members were the independent chairman, Mr Ken Loughnan AO and Mr David Elbourn. Following the resignations of all three of the directors the full board assumed the responsibility of the committee and this has continued.

The composition of the audit, risk and compliance committee initially complied with recommendation 4.2 of the ASX recommendations where all directors are independent but as at 30 June 2009, not all directors are independent. The board is confident that it brings independent judgement to bear on board decisions and continues to monitor its structure as the Group's operations develop.

Committee meetings generally precede board meetings. The general counsel/company secretary attends the audit, risk and compliance committee meetings and the company's external auditor attends meetings on request.

The board has delegated to the audit, risk and compliance committee responsibility for;

- advising the board on the matter of internal control including financial statements, due diligence, financial systems integrity and risk management;
- establishing and maintaining processes to ensure that there is adequate systems of internal control, risk management and safeguard of assets; and
- overseeing the relationship, appointment and work of external auditors.

The audit, risk and compliance committee is governed by an audit committee charter and operates under terms of reference. Both the charter and terms of reference have been published to the Company's website at www.freshtelholdings.com

The audit, risk and compliance committee meetings are separately minuted and where appropriate, the committee reports to the board at the next board meeting following the audit, risk and compliance committee meeting.

The audit, risk and compliance committee is responsible for establishing and maintaining an appropriate framework of internal control. The functions of the committee include:

- reviewing reports prepared by the external auditors, liaising with the external auditors and ensuring that the annual audit and half-yearly review are conducted in an effective manner;
- reviewing internal controls and recommending enhancements;
- monitoring compliance with the Corporations Act, Australian Stock Exchange listing rules and any matters outstanding with taxation and other regulatory authorities;
- monitoring the accounting function;
- nomination of external auditors; and
- overseeing the financial reporting process.

Representations by the CEO and the financial controller

The CEO and the financial controller have provided a management representation letter to the board for the financial statements where they certify that the Company's financial reports present a true and fair view of the results and the financial position of the Company and are in accordance with relevant accounting standards.

5. MAKE TIMELY AND BALANCED DISCLOSURE

The board recognises the significance of relevant and timely disclosure and has developed a continuous disclosure policy that is available from the corporate governance section of the Freshtel Holdings Limited website at www.freshtelholdings.com

This policy and ongoing formal and informal meetings of the directors and executives, ensures provision of relevant, factual, fulsome and timely information to all market participants and stakeholders.

The Company complies with the Australian Stock Exchange listing rules on continuous disclosure and consults with the ASX whenever there is any question relating to continuous disclosure.

6. RESPECT THE RIGHTS OF SHAREHOLDERS

The directors recognise that for shareholders of Freshtel Holdings Limited to be able to make informed decisions regarding their investment and to properly participate in Company meetings, they need relevant, balanced and timely information. The board adheres to its shareholder communication policy available from the corporate governance section of the Freshtel Holdings Limited website at www.freshtelholdings.com

The Company regularly updates its website with ASX releases and during the year has made several presentations to market representatives and financial analysts that are also released to market and placed on the website. The chief executive officer, other executives, the Company's investor and media relations consultants and directors regularly communicate with shareholder representatives and financial analysts to ensure a full understanding of the company.

7. RECOGNISE AND MANAGE RISK

The board has put into place a sound system of risk oversight and management and internal control.

The company risk management policy is available from the corporate governance section of the Freshtel Holdings Limited website at www.freshtelholdings.com The board implements this policy by ensuring that adequate procedures are in place to identify the principal risks of Freshtel's business and ensuring the implementation of appropriate systems to manage these risks. The procedures are not static and are amended to reflect changing circumstances of the developing business.

In its risk management role, the audit, risk and compliance committee assists the board in reviewing the efficiency and effectiveness of the Company's risk management and compliance environment.

The primary responsibilities of the audit, risk and compliance committee are:

- advising the board on the matter of internal control including financial statements, due diligence, financial systems integrity and risk management;
- establishing and maintaining processes to ensure that there are adequate systems of internal control, risk management and safeguarding of assets;
- overseeing the relationship, appointment and work of internal and external auditors;
- communicating the risk management processes to those responsible for implementing them; and
- ensuring relevant staff education and awareness of the risk process.

The directors have received assurance from the chief executive officer and the financial controller that the declaration provided in accordance with section 295A of the Corporations Act is founded on a sound system of risk management and internal control and that they believe the system is operating effectively in all material respects in relation to financial reporting risks.

8. REMUNERATE FAIRLY AND RESPONSIBLY

Remuneration and nomination committee

In its remuneration role, the remuneration and nomination committee reviews and recommends to the board, the remuneration policies of the Company, including the basis for setting fees for non-executive directors within the limit fixed by shareholders in a general meeting, the remuneration packages of the CEO and senior executives and incentive schemes. There are no schemes for retirement benefits other than statutory superannuation for non-executive directors.

The board's remuneration and nomination committee considers the remuneration of the directors and senior executives annually on an individual basis after considering performance and market information. The total allowable remuneration of non-executive directors is fixed by shareholders in general meetings.

Remuneration is designed to be market competitive and to incorporate incentives that align executive focus with shareholder interests. The remuneration and nomination committee reviews executive packages annually by reference to company performance, executive performance, market parity and appropriate independent advice.

The amount of remuneration for all directors and the highest paid continuing executives, including all monetary and non-monetary components, is detailed in the directors' report.

The board has established an employee option plan and the performance share regime which was approved by members in 2005. The remuneration and nomination committee makes recommendations to the board in relation to any offers to be made to directors, executives or others engaged by the Company.

No remuneration was made to directors during the 2009 year other than by way of fees.

DIRECTORS REPORT

The directors of Freshtel Holdings Limited submit herewith the annual financial report of the company for the financial year ended 30 June 2009. In order to comply with the provisions of the Corporations Act 2001, the directors report as follows

Information about the directors and senior management

The names and particulars of the directors of the company during or since the end of the financial year are:

Dr Allan Sullivan PhD Elec.Eng., BElec.Eng, BSc
Non-Executive Chairman

Dr Sullivan is closely associated with Custodial Capital Management Pty Ltd, Freshtel's largest shareholder with a 23.6 per cent interest in the Company. He brings more than 30 years of international experience in technology and engineering companies and has held a number of executive roles in technology-based companies including his current position as a non-executive director of EBet (ASX.EBT) and as an advisor to Utilico / Ingot group of companies and director of Ellect Holdings. Dr Sullivan was previously the CEO and director of ERG Group, and a member of the executive board of Siemens Building Technologies Asia Pacific.

Mr Andy Dewhurst
Non-Executive Director

Mr Dewhurst joined the Freshtel board in January 2007. He was chief executive officer for the Telecoms business within Tesco, including Tesco mobile, branded handset and landline categories, Tesco home phone and Tesco internet phone and Tesco broadband. Mr Dewhurst first joined Tesco Stores Ltd in 1983 and was a divisional director for over 21 years. His experience spans Tesco marketing, commercial, supply chain, property, and Tesco personal finance. He has considerable experience in joint ventures and start-up companies. In June 2003, Andy was appointed CEO of another new joint venture - between O2 and Tesco - Tesco Mobile Ltd. The business launched in September of that year and has developed to around two million customers. Tesco secured its position as a key telecoms retail destination, under Mr Dewhurst's direction. Mr Dewhurst resigned from Tesco in July 2008 and in addition to his role in Freshtel is now an advisor to a number of companies in the UK, France and Ireland.

Mr Sean Wilkins BA, ACMA
Non-Executive Director

Mr Wilkins was appointed to the Freshtel board on 2 July 2008 and is an Oxford University graduate with a depth of global executive experience in the telecommunications and finance fields. He has formerly held senior positions with O2, British Telecoms and top tier accounting firm Coopers and Lybrand. He heads Tesco Telecoms financial and commercial division.

Mr David Elbourn BCom, ACA
Non-Executive Director

Mr Elbourn is a Chartered Accountant and has been working in the accounting profession since 1984 including a period of five years with international accounting firm Coopers and Lybrand. Mr Elbourn has been a partner during the past ten years in boutique accounting firm, Dillon and Elbourn, Chartered Accountants, specialising in fast growing SME's from all over Australia. Clients include companies ranked in Business Review Weekly fast 100. During the past 20 years in the accounting profession Mr Elbourn has broad experience in audit, taxation and financial and business management.

Mr Leslie Taylor FAIBF
Non-Executive Director

Mr Taylor is the former chief solicitor of the Commonwealth Bank Group and was involved in banking and commercial law in Australia for over 40 years. During his period as chief solicitor of the Commonwealth Bank, Mr Taylor handled the legal work for the conversion of the Commonwealth Bank from a statutory authority to a public company, and headed the bank's legal team for the acquisition of the State Bank of Victoria in 1991, as well as the takeover in 2001 of the Colonial Bank Group. Mr Taylor is chairman of the safety, rehabilitation and compensation commission, a statutory authority established by the Federal Government to oversee worker's compensation arrangements for Commonwealth employees and he serves on the national electronic conveyancing system steering committee. He is also a director of Arab Bank Australia, a wholly owned subsidiary of the international banking group Arab Bank plc.

Mr Spiros Nikolakopoulos
Non-Executive Director

Mr Nikolakopoulos was formerly the managing director of Motorola Australia and joined the Freshtel board on 15 September 2008 with an outstanding track record in sales and marketing for Motorola. Prior to joining Motorola, Mr Nikolakopoulos spent four years as general manager of Bearcom Australia; the Australian arm of a US based communications company.

Mr Kenneth V Loughnan AO FCPA, FAICD
Non-Executive Chairman

With a background in international telecommunications, finance and audit, Mr Loughnan AO has extensive experience as a director in both the private and public sectors. He has chaired boards under corporate regulatory environments in some 8 countries around the world, including the US, Europe and the Middle East (most in the field of telecommunications). For 15 years, Mr Loughnan AO has been chairman of the Skilled Group Ltd. At Skilled he chairs the nominations committee and is a member of the risk & compliance committee and the IT & remuneration sub committees of the board. Mr Loughnan AO is also chairman of the ministerial steering committee for emergency services Telecommunications for the Victorian Government, and serves on the gaming commission. Ken is also chairman of the environmental consulting company OTEK Australia P/L and this year has held the national presidency of the children's charity – Variety. As a member of council at Victoria University, Mr Loughnan AO serves in a number of strategic and leadership roles. In addition, he is a member of the advisory committee of the centre for international corporate governance research. In the 1994 Queen's birthday honours list, Mr Loughnan AO was appointed an officer in the Order of Australia (AO) for outstanding services to international business and telecommunications. At the time, Mr Loughnan AO was the youngest Australian to have received an honour at officer level for services to business.

The above named directors held office during the whole of the financial year and since the end of the financial year except for:

- Mr Leslie Taylor – resigned 25 November 2008
- Mr David Elbourn – resigned 25 November 2008
- Mr Spiros Nikolakopoulos – appointed 15 September 2008, resigned 24 April 2009
- Mr Ken Loughnan AO – resigned 22 May 2009
- Mr Sean Wilkins – appointed 2 July 2008
- Dr Allan Sullivan – appointed 22 May 2009

Company secretary

Ms Jan Macpherson MBA, LLB, Grad Dip App Corp Gov, AICS was appointed general counsel and company secretary of Freshtel Holdings at the time of listing on the ASX in 2005. Ms Macpherson is a legal practitioner and chartered secretary with wide ranging commercial legal experience in corporate, government and private practice. She provided part-time legal and company secretarial services to the Freshtel Group during the financial year and during that time was also company secretary and general counsel for listed company, Environmental Clean Technologies Limited and is a director and company secretary of Global Seismic Solutions Pty Ltd, vice-president and company secretary of Greening Australia (Vic) Ltd and a director of SSK Real Estate Pty Ltd.

Directors' shareholdings

The following table sets out each director's relevant interest in shares, debentures, and rights or options in shares or debentures of the company or a related body corporate as at the date of this report.

	Freshtel Holdings Limited		
	Fully paid ordinary shares	Share Options	Convertible Notes
Directors	Number	Number	Number
Dr Allan Sullivan	-	-	-
Mr Andy Dewhurst	892,400	-	-
Mr Sean Wilkins	-	-	-

Remuneration of directors and senior management

Information about the remuneration of directors and senior management is set out in the remuneration report of this directors' report, on pages 11 to 13.

Share options granted to directors and senior management

During and since the end of the financial year no options were granted to directors as part of their remuneration.

Share options with a high and increasing strike rate were issued to Ms Rhonda O'Donnell, Mr Ian Jackson and Ms Jan Macpherson during the financial year. Mr Jackson's expired after he had resigned and Ms O'Donnell and Ms Macpherson forfeited theirs in the company's interest in May 2009.

Principle activities

The principal activity of the consolidated entity during the period was the development and commercialisation of Voice over Internet Protocol products and services. There were no significant changes in the nature of the consolidated entity's principal activity during the period.

Review of operations

The parent company was incorporated on 20 October 2004. The consolidated entity was established by the acquisition of Freshtel Australia Pty Ltd and its subsidiaries. Consolidated sales revenue for the period was $2,952,191 (2008: $4,053,587). Interest and other revenue from both the economic and parent entities were $254,230 (2008: $794,860), resulting in total revenue of $3,223,245 (2008: $4,848,447).

The Company undertook a fully underwritten rights issue in May 2009 for $1,826,835 and has implemented processes to preserve cash reserves to the fullest extent possible.

Certain senior executive positions were made redundant and the Company had some resignations where the positions were not replaced. This resulted in a significant reduction of employee benefits expense in the consolidated entity during the year to $4,989,257 (2008: $6,258,466).

Operating results

The consolidated loss of the consolidated entity after providing for income tax amounted to $10,181,473 (2008: $7,811,604)

Financial position

The net assets of the consolidated entity were $2,702,556 at 30 June 2009 (2008: $11,181,662). Full details of the net assets are disclosed on page 20.

Business strategies, future developments and strategies

The consolidated entity will continue its strategy of enhancing the Voicedot network quality to increase its market share, particularly in the wholesale arena, and become the leading provider of wholesale Voice over Internet Protocol services both here in Australia and overseas.

To further improve the consolidated entity's profit and maximise shareholder wealth, the following developments have been or are intended to be implemented in the near future:

- Protection of converged mobile technology through Australian patent application for the telecommunications method and system and filing of an international patent cooperation treaty application
- Ongoing development of 'computer-off' facilities, particularly for iPhone, Blackberry and Android handsets
- Strategic negotiations with potential partners both in Australia and globally
- Further roll-out of the calling card technology

These developments, together with the current strategy of continuous improvement of the existing technology are expected to assist in the achievement of the consolidated entity's long-term goals and expansion of new network licensing opportunities.

Significant changes in state of affairs

Freshtel has altered its focus to concentrate on its wholesale network, portal suite, calling card and licensing of services and mobile offerings on the Voicedot network, whilst still providing support and innovation for its existing white label customers.

Subsequent events

No matters or circumstances have arisen since the end of the financial year which significantly affected or may significantly affect the operations of the consolidated entity, the results of those operations, or the state of the consolidated entity in future financial years except for:

- Tesco has indicated it is ready to proceed to have the Voicedot backed Tesco calling card in place by the end of October 2009.
- A loan facility for $1M has been negotiated between Freshtel Holdings Limited and Custodial Capital Management Pty Ltd that it will draw down on an as needs basis. The terms and conditions are as follows:
  - maximum $1M drawdown over two years
  - $50k fee on entering the agreement
  - 10% draw down fee on the draw down amount
  - draw down is available on 15 days notice

  The loan facility remains unexecuted as a $50k fee is payable upon execution. Custodial Capital Management is a 23.6% shareholder in Freshtel Holdings Limited.

Environmental regulations

The Company and the Group's operations are not subject to any particular or significant environmental regulation.

Dividends

No dividends were paid or recommended by the directors.

Shares under option or issued on exercise of options

At the date of this report, no unissued ordinary shares of Freshtel Holdings Limited were under option. During the year ended 30 June 2009 options over the ordinary shares of Freshtel Holdings Limited were issued to key executives but these either expired or were forfeited by the executives concerned during the financial year.

No amounts are unpaid on any of the shares. No person entitled to exercise an option had or has any right by virtue of an option to participate in any share issue of any other body corporate.

Indemnification of officers and auditors

During the financial year, the company paid a premium in respect of a contract insuring the directors of Freshtel Holdings Limited, the Company secretary, Ms Jan Macpherson, and all executive officers of the company against a liability incurred as such a director, secretary or executive officer to the extent permitted by the Corporations Act 2001, other than for conduct involving:

- a wilful breach of duty; or
- a contravention of Sections 232(5) or (6) of the Corporations Act, as permitted by section 241A(3) of the Act.

The contract of insurance prohibits disclosure of the nature of the liability and the amount of the premium.

Directors' meetings

The following table sets out the number of directors' meetings (including meetings of committees of directors) held during the financial year and the number of meetings attended by each director (while they were a director or committee member). During the financial year, 14 board meetings, 1 nomination and remuneration committee meeting and 3 audit , risk and compliance committee meetings were held.

	Board of directors		Nomination & remuneration committee		Audit, risk & compliance committee	
	Eligible to attend	Attended	Eligible to attend	Attended	Eligible to attend	Attended
Dr Allan Sullivan	2	2	-	-	-	-
Mr Andy Dewhurst	14	14	-	-	-	-
Mr Sean Wilkins	13	12	-	-	-	-
Mr David Elbourn	5	5	1	1	3	3
Mr Leslie Taylor	5	5	1	1	3	3
Mr Spiros Nikolakopoulos	10	10	-	-	-	-
Mr Ken Loughnan AO	13	13	1	1	3	3

The current members of the audit, risk and compliance committee are all the board members.
The current members of the nomination and remuneration committee are all the board members.

Proceedings on behalf of the company

No person has applied for leave of court to bring material proceedings on behalf of the Company or intervene in any proceedings to which the Company is a party for the purpose of taking responsibility on behalf of the Company for all or any part of these proceedings.

Non-audit services

The board of directors, sitting as the audit, risk and compliance committee, is satisfied that the provision of non-audit services during the year is compatible with the general standard of independence for auditors imposed by the Corporations Act 2001. The directors are satisfied that the services disclosed below did not compromise the external auditor's independence for the following reasons:

- all non-audit services are reviewed and approved by the board prior to commencement to ensure they do not adversely affect the integrity and objectivity of the auditor; and
- the nature of the services provided do not compromise the general principles relating to auditor independence as set out in the Institute of Chartered Accountants in Australia and CPA Australia's Professional Statement F1: Professional Independence.

The external auditor did not perform any non-audit services during the year ended 30 June 2009.

Likely developments and expected results of operations

Likely developments in the operations of the Group constituted by Freshtel Holdings Limited and the entities it controls from time to time that were not finalised at the date of this report include:

The consolidated entity will continue to operate in the telecommunications market and pursue its strategy of expansion through organic growth. The operating and financial review above and the CEO's review set out more details about likely developments in the operations of the consolidated entity in future financial years.

Further information on likely developments in the operations of the Group and the expected results of operations has not been included in this annual financial report.

Auditor's independence declaration

The auditor's independence declaration is included on page 14 of the annual report.

REMUNERATION REPORT (AUDITED)

This remuneration report, which forms part of the directors' report, sets out information about the remuneration of Freshtel Holdings Limited directors and its senior management for the financial year ended 30 June 2009. The prescribed details for each person covered by this report are detailed below under the following headings:

- director and senior management details
- remuneration policy
- remuneration of directors and senior management
- key terms of employment contracts.

Key management personnel details

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

Dr Allan Sullivan (Chairman, appointed 22 May 2009)

Mr Andy Dewhurst

Mr Sean Wilkins (appointed 2 July 2009)

Mr Leslie Taylor (resigned 25 November 2008)

Mr David Elbourn (resigned 25 November 2008)

Mr Spiros Nikolakopoulos (appointed 15 September 2008, resigned 24 April 2009)

Mr Kenneth Loughnan AO (resigned 22 May 2009)

The term 'key management personnel' is used in this remuneration report to refer to the following persons. Except as noted, the named persons held their current position for the whole of the financial year and since the end of the financial year:

Ms Rhonda O'Donnell (Chief Executive Officer – Freshtel Holdings Limited, resigned 31 August 2009)

Mr John Coates (Chief Financial Officer – Freshtel Holdings Limited, resigned 15 August 2008)

Mr Ian Jackson (Chief Operating Officer – Freshtel Holdings Limited, resigned 2 March 2009)

Mr John McMullan (Chief Technical Officer – Freshtel Holdings Limited, resigned 5 August 2009)

Ms Jan Macpherson (Company Secretary & General Counsel – Freshtel Holdings Limited)

Mr Dan Hazel (General Manager UK – Freshtel UK Limited)

Remuneration Policy

The remuneration policy of Freshtel Holdings Limited has been designed to align director and executive objectives with shareholder value and business objectives by providing a fixed remuneration component and offering specific long-term incentives based on key performance areas affecting the consolidated entity's financial results. The board of Freshtel Holdings Limited believes the remuneration policy to be appropriate and effective in its ability to attract and retain the best executives and directors to run and manage the consolidated entity, as well as create goal congruence between directors, executives and shareholders.

The remuneration policy, setting the terms and conditions for the executive directors and other senior executives, was developed by the nomination and remuneration committee and approved by the board.

The Australian directors and executives receive a superannuation guarantee contribution required by the government, which is currently 9% of their salary or the maximum payable by law, and do not receive any other retirement benefits.

All remuneration paid to directors and executives is valued at the cost to the company and expensed.

The board policy is to remunerate non-executive directors at market rates for comparable companies for time, commitment and responsibilities. The nomination and remuneration committee determines payments to the non-executive directors and reviews their remuneration annually, based on market practice, duties and accountability. Independent external advice is sought when required.

The maximum aggregate amount of fees that can be paid to non-executive directors is subject to approval by shareholders at the annual general meeting. Fees for non-executive directors are not linked to the performance of the consolidated entity. However, to align directors' interests with shareholder interests, the directors are encouraged to hold shares in the Company and with member's approval have participated in the, now discontinued, staff option plan.

In accordance with best practice corporate governance, the structure of non-executive director and executive compensation is separate and distinct

The company rewards executives with level and mix of compensation commensurate with their position and responsibilities within the company, ensuring the compensation is competitive by market standards and ties to achievement of the company's strategies and goals.

The Freshtel (FRE) share price opened at 0.21 cents on 1 July 2008 and closed at 0.01 cents on 30 June 2009.

Remuneration of directors and senior management

2009	Short-term employee benefits			Post-employment benefits	Other long-term employee benefits	Share-based payments	
	Salary & fees	Bonus	Non-monetary	Super-annuation		Options & rights	Total
	$	$	$	$	$	$	$
Non-executive directors							
Dr Allan Sullivan	-	-	-	-	-	-	-
Mr Andy Dewhurst [1, 2]	108,350	-	-	-	-	-	108,350
Mr Sean Wilkins	-	-	-	-	-	-	-
Mr Leslie Taylor [5]	27,083	-	-	2,438	-	-	29,521
Mr David Elbourn [3, 5]	30,000	-	-	2,700	-	-	32,700
Mr Spiros Nikolakopoulos [5]	40,688	-	-	3,662	-	-	44,350
Mr K Loughnan AO [5]	48,000	-	-	4,320	-	-	52,320
Other key management personnel							
Ms Rhonda O'Donnell [1, 2, 5]	400,000	-	-	13,694	-	-	413,694
Mr John Coates [5]	39,077	-	-	2,240	-	-	41,317
Mr Ian Jackson [1, 2, 5]	274,793	-	-	24,083	-	-	298,876
Mr John McMullan [5]	24,329	-	-	1,953	-	-	26,282
Ms Jan Macpherson [2, 4]	107,797	-	-	-	-	-	107,797
Mr Dan Hazell [1]	151,690	-	-	4,550	-	-	156,240
Mr Michael Carew [1, 2, 5]	200,000	-	-	-	-	-	200,000
							1,511,447

2008	Short-term employee benefits			Post-employment benefits	Other long-term employee benefits	Share-based payments	
	Salary & fees	Bonus	Non-monetary	Super-annuation		Options & rights	Total
	$	$	$	$	$	$	$
Executive directors							
Mr Michael Carew [1, 2, 5]	250,000	-	34,343	22,500	-	-	306,843
Non-executive directors							
Dr Allan Sullivan	-	-	-	-	-	-	-
Mr Andy Dewhurst	8,636	-	-	-	-	-	8,636
Mr Leslie Taylor [5]	65,000	-	-	6,338	-	46,898	118,236
Mr David Elbourn [3, 5]	60,000	-	-	5,400	-	-	65,400
Mr K Loughnan AO [5]	72,000	-	-	6,480	-	-	78,480
Other key management personnel							
Ms Rhonda O'Donnell [1, 2, 5]	400,000	-	-	13,130	1,217	-	414,347
Mr John Coates [1, 2, 5]	283,077	-	-	12,036	747	-	295,860
Mr Ian Jackson [1, 2, 5]	224,615	-	-	12,036	594	-	237,245
Mr John McMullan [1, 2, 5]	177,416	-	-	13,103	-	58,348	248,867
Ms Jan Macpherson [4]	92,197	-	-	-	-	15,632	107,829
Mr Dan Hazell	140,201	-	-	16,924	-	2,232	159,357
							2,041,100

[1] Denotes one of the five highest paid executives of the Group as required to be disclosed under the Corporations Act 2001

[2] Denotes one of the five highest paid executives of the Company as required to be disclosed under the Corporations Act 2001

[3] Paid to Dillon and Elbourn Chartered Accountants for the services of Mr David Elbourn

[4] Consulting fees paid to Blairgowrie Pty Limited, Ms Macpherson's employer

[5] Resigned

	2009	2008	2007	2006	2005
Net loss attributable to shareholders of the parent entity	$10,181,473	$7,811,604	$7,614,000	$6,154,000	$859,000
Dividends paid	$ nil	$ nil	$ nil	$ nil	$ nil
Share price	$0.011	$0.200	$0.400	$0.620	$0.220
Return of capital	0.00%	0.00%	0.00%	0.00%	0.00%

Options granted as remuneration

There were no options granted as remuneration to key management personnel of the Company in 2008 or 2009.
The employee must be in the service of Freshtel Holdings Limited at the date of exercise to satisfy the service conditions for this offer.

Key terms of employment contracts

All executives other than the general counsel/company secretary, Ms Jan Macpherson who is engaged in her professional capacity through her professional service firm, are engaged by formal employment contracts.

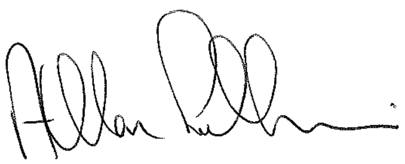
The executive employment contracts stipulate a three month resignation period. The Company may terminate an employment contract without cause by providing 3 months written notice or making payment in lieu of notice, based on the individual's annual salary component together with any applicable redundancy payment. Termination payments are generally not payable on resignation or dismissal for serious misconduct. In the instance of serious misconduct the Company can terminate employment at any time.

During the year the chief financial officer, Mr John Coates resigned to take on another role and his role was not replaced, Mr Ian Jackson's role as chief operations officer was made redundant and Ms Rhonda O'Donnell tendered her resignation with her notice period expiring on 31 August 2009. The current chairman Dr Allan Sullivan will be the Executive Chairman in the interim. The remuneration of the directors and senior executives is considered annually on an individual basis after considering performance and market information.

END OF AUDITED REMUNERATION REPORT

This directors' report is signed in accordance with a resolution of directors made pursuant to s.298(2) of the Corporations Act 2001.

On behalf of the directors



Dr Allan Sullivan

Chairman

Melbourne, 27 August 2009

BDO Kendalls

BDO Kendalls Audit & Assurance
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ABN 17 114 673 540

27 August 2009

DECLARATION OF INDEPENDENCE BY JUSTIN OWEN TO THE DIRECTORS OF FRESHTEL HOLDINGS LIMITED

As lead auditor of Freshtel Holdings Limited for the year ended 30 June 2009, I declare that, to the best of my knowledge and belief, there have been no contraventions of:

- the auditor independence requirements of the Corporations Act 2001 in relation to the audit; and
- any applicable code of professional conduct in relation to the audit.

This declaration is in respect of Freshtel Holdings Limited and the entities it controlled during the period.

Justin Owen.

JUSTIN OWEN
Director

BDO Kendalls

BDO Kendalls Audit & Assurance (NSW-VIC) Pty Ltd
Chartered Accountants

Melbourne, 27 August 2009

DECLARATION BY DIRECTORS

The directors of the company declare that:

1. The financial statements, comprising the income statement, balance sheet, cash flow statement, statement of changes in equity, accompanying notes, are in accordance with the Corporations Act 2001 and:

   (a) comply with Accounting Standards and the Corporations Regulations 2001; and

   (b) give a true and fair view of the financial position as at 30 June 2009 and of the performance for the year ended on that date of the company and the consolidated entity.

2. In the directors' opinion, there are reasonable grounds to believe that the company will be able to pay its debts as and when they become due and payable.

3. The directors have been given the declarations by the chief executive officer and financial controller required by section 295A.

This declaration is made in accordance with a resolution of the Board of Directors and is signed for and on behalf of the directors by:

Director

Melbourne, 27 August 2009

BDO Kendalls

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ABN 17 114 673 540

INDEPENDENT AUDITOR'S REPORT

To the members of Freshtel Holdings Limited

Matters Relating to the Electronic Presentation of the Audited Financial Report

This auditor's report relates to the financial report of Freshtel Holdings Limited for the year ended 30 June 2009 included on Freshtel Holdings Limited's web site. The company's directors are responsible for the integrity of Freshtel Holdings Limited's web site. We have not been engaged to report on the integrity of Freshtel Holdings Limited's web site. The auditor's report refers only to the statements named below. It does not provide an opinion on any other information which may have been hyperlinked to/from these statements. If users of this report are concerned with the inherent risks arising from electronic data communications they are advised to refer to the hard copy of the audited financial report to confirm the information included in the audited financial report presented on this web site.

Report on the Financial Report

We have audited the accompanying financial report of Freshtel Holdings Limited, which comprises the balance sheet as at 30 June 2009, and the income statement, statement of changes in equity and cash flow statement for the year ended on that date, a summary of significant accounting policies, other explanatory notes and the directors' declaration of the consolidated entity comprising the company and the entities it controlled at the year's end or from time to time during the financial year.

Directors' Responsibility for the Financial Report

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

Auditor's Responsibility

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

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

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

Independence

In conducting our audit, we have complied with the independence requirements of the *Corporations Act 2001*. We confirm that the independence declaration required by the *Corporations Act 2001* would be in the same terms if it had been given to the directors at the time that this auditor's report was made.

Auditor's Opinion

In our opinion:

(a) the financial report of Freshtel Holdings Limited is in accordance with the *Corporations Act 2001*, including:

  (i) giving a true and fair view of the company's and consolidated entity's financial position as at 30 June 2009 and of their performance for the year ended on that date; and

  (ii) complying with Australian Accounting Standards (including the Australian Accounting Interpretations) and the *Corporations Regulations 2001*; and

(b) the financial report also complies with International Financial Reporting Standards as disclosed in Note 1(a).

Material Uncertainty Regarding Continuation as a Going Concern

Without qualifying our opinion, we draw attention to Note 1(z) in the financial report which indicates that the Group has a net asset position of $2,702,556 as at 30 June 2009 and has incurred a loss of $10,181,473 for the twelve months ended 30 June 2009. The operations of the consolidated entity are subject to significant risk due to the product development activities of the company and the risks inherent with the commercialisation of these products. These conditions, along with other matters as set forth in Note 1(z), indicate the existence of a material uncertainty which may cast significant doubt about the Group's ability to continue as a going concern.

BDO Kendalls

Report on the Remuneration Report

We have audited the Remuneration Report included in pages 11 to 13 of the directors' report for the year ended 30 June 2009. The directors of the company are responsible for the preparation and presentation of the Remuneration Report in accordance with section 300A of the *Corporations Act 2001.* Our responsibility is to express an opinion on the Remuneration Report, based on our audit conducted in accordance with Australian Auditing Standards.

Auditor's Opinion

In our opinion, the Remuneration Report of Freshtel Holdings Limited for the year ended 30 June 2009, complies with section 300A of the *Corporations Act 2001.*

BDO Kendalls

BDO Kendalls Audit & Assurance (NSW-VIC) Pty Ltd
Chartered Accountants

Justin Owen.

Justin Owen
Director

Melbourne, 27 August 2009

FRESHTEL HOLDINGS LTD
ACN 111 460 121

INCOME STATEMENT
FOR THE FINANCIAL YEAR ENDED 30 JUNE 2009

	Notes	Consolidated Entity		Parent Entity	
		2009	2008	**2009**	2008
		$	$	**$**	$
Revenue from continuing operations	2	**3,206,421**	4,848,447	**1,362,929**	1,829,185
Other Income		**16,824**	-	**4,276**	-
Raw materials and consumables used		**(1,148,434)**	(1,196,099)	**-**	-
Employee benefits expense	3	**(4,989,257)**	(6,258,466)	**(1,119,646)**	(2,188,834)
Administrative expense		**(2,823,138)**	(2,715,199)	**(759,373)**	(741,794)
Marketing expenses		**(63,374)**	(72,536)	**(222)**	(1,093)
Depreciation and amortisation expenses	3	**(1,980,199)**	(1,966,663)	**(3,192)**	(2,128)
Impairment of intangible asset	3	**(2,086,966)**	-	**-**	-
Occupancy and facilities expenses		**(796,459)**	(809,371)	**(350,955)**	(377,378)
Finance costs	3	**(4,595)**	(25,640)	**(4,036)**	(1,128)
Impairments	3	**-**	-	**(18,866,555)**	(25,090,000)
Loss before income tax		**(10,669,177)**	(8,195,527)	**(19,736,774)**	(26,573,170)
Income tax benefit	4	**487,704**	383,923	**487,704**	383,923
Loss from continuing activities after income tax		**(10,181,473)**	(7,811,604)	**(19,249,070)**	(26,189,247)
Loss attributable to members of Freshtel Holdings Limited		**(10,181,473)**	(7,811,604)	**(19,249,070)**	(26,189,247)
Loss per share attributable to the ordinary equity holders of the Parent Entity					
Basic loss per share (cents per share)	8	**(4.86)**	(4.31)		
Diluted loss per share (cents per share)	8	**(4.86)**	(4.31)		

The accompanying notes from part of these financial statements.

FRESHTEL HOLDINGS LTD
ACN 111 460 121

BALANCE SHEET
AS AT 30 JUNE 2009

	Notes	Consolidated Entity		Parent Entity	
		2009	2008	**2009**	2008
		$	$	**$**	$
Current Assets					
Cash and cash equivalents	9	**2,366,630**	8,159,115	**1,638,909**	7,612,943
Trade and other receivables	10	**947,176**	1,135,654	**751,206**	834,473
Inventories	11	**5,000**	187,687	**-**	-
Other current assets	12	**131,180**	327,520	**11,407**	62,767
Total Current Assets		**3,449,986**	9,809,976	**2,401,522**	8,510,183
Non-Current Assets					
Trade and other receivables	10	**168,224**	155,300	**-**	-
Other financial assets	13, 30	**-**	-	**-**	11,220,024
Plant and equipment	15	**551,317**	1,280,061	**7,980**	11,172
Deferred tax assets	19	**-**	374,074	**-**	311,199
Intangible assets	16	**-**	2,173,180	**-**	-
Total Non-Current Assets		**719,541**	3,982,615	**7,980**	11,542,395
Total Assets		**4,169,527**	13,792,591	**2,409,502**	20,052,578
Current Liabilities					
Trade and other payables	17	**872,662**	1,402,477	**223,717**	362,887
Short-term borrowings	18	**-**	18,982	**-**	-
Short-term provisions	20	**275,786**	298,724	**268,475**	293,563
Total Current Liabilities		**1,148,448**	1,720,183	**492,192**	656,450
Non-Current Liabilities					
Trade and other payables	17	**154,940**	155,035	**154,940**	155,035
Deferred tax liabilities	19	**-**	629,743	**-**	-
Long-term provisions	20	**163,583**	105,968	**163,583**	105,968
Total Non-Current Liabilities		**318,523**	890,746	**318,523**	261,003
Total Liabilities		**1,466,971**	2,610,929	**810,715**	917,453
Net Assets		**2,702,556**	11,181,662	**1,598,787**	19,135,125
Equity					
Contributed equity	22	**37,096,277**	34,976,979	**47,405,329**	45,286,031
Reserves		**2,648,350**	3,065,281	**-**	406,566
Accumulated losses		**(37,042,071)**	(26,860,598)	**(45,806,542)**	(26,557,472)
Total Equity		**2,702,556**	11,181,662	**1,598,787**	19,135,125

The accompanying notes from part of these financial statements.

FRESHTEL HOLDINGS LTD
ACN 111 460 121

STATEMENT OF CHANGES IN EQUITY
FOR THE FINANCIAL YEAR ENDED 30 JUNE 2009

	Notes	Consolidated Entity		Parent Entity	
		2009	2008	**2009**	2008
		$	$	**$**	$
ISSUED CAPITAL					
Ordinary shares					
Balance at start of period		**34,976,979**	34,429,155	**45,286,031**	44,738,207
Transactions with equity holders in their capacity as equity holders					
Issue of share capital		**2,029,791**	-	**2,029,791**	-
Share issue costs		**(90,185)**	-	**(90,185)**	-
Share options exercised		**179,692**	547,824	**179,692**	547,824
Balance at end of period	22(b)	**37,096,277**	34,976,979	**47,405,329**	45,286,031
Performance shares					
Balance as previously stated		**-**	-	**-**	600,000
Restatement of error	30	**-**	-	**-**	(600,000)
Restated balance at start and end of period *	22 (d)	**-**	-	**-**	-
Total share capital	22	**37,096,277**	34,976,979	**47,405,329**	45,286,031
RESERVES					
Share-based payments reserve					
Balance at start of period		**406,566**	559,307	**406,566**	559,307
Option expense		**-**	201,083	**-**	201,083
Option waived		**(402,301)**	-	**(402,301)**	-
Option settled		**(4,265)**	-	**(4,265)**	-
Options exercised		**-**	(353,824)	**-**	(353,824)
Balance at end of period		**-**	406,566	**-**	406,566
Foreign currency translation reserve					
Balance at start of period		**2,658,715**	1,757,700	**-**	-
Exchange differences on translating foreign operations		**(10,365)**	901,015	**-**	-
Total income and expense for period recognised directly in equity		**(10,365)**	901,015	**-**	-
Balance at end of period		**2,648,350**	2,658,715	**-**	-
Total reserves		**2,648,350**	3,065,281	**-**	406,566
ACCUMULATED LOSSES					
Balance at start of period		**(26,860,598)**	(19,048,994)	**(26,557,472)**	(368,225)
Loss for the period		**(10,181,473)**	(7,811,604)	**(19,249,070)**	(26,189,247)
Total income and expense for period		**(10,181,473)**	(7,811,604)	**(19,249,070)**	(26,189,247)
Balance at end of period		**(37,042,071)**	(26,860,598)	**(45,806,542)**	(26,557,472)
Total Equity		**2,702,556**	11,181,662	**1,598,787**	19,135,125

* Performance shares to the value of $600,000 are held as treasury shares in the parent entity. These shares expired on 31 December 2008.

FRESHTEL HOLDINGS LTD
ACN 111 460 121

CASH FLOW STATEMENT
FOR THE FINANCIAL YEAR ENDED 30 JUNE 2009

	Notes	Consolidated Entity		Parent Entity	
		2009	2008	**2009**	2008
		$	$	**$**	$
Cash Flows from Operating Activities					
Receipts from customers		**3,126,958**	4,991,293	**1,202,859**	1,510,086
Payments to suppliers and employees		**(9,919,823)**	(11,150,466)	**(2,263,081)**	(2,681,445)
Interest received		**254,230**	710,443	**225,215**	685,500
Finance costs		**(4,595)**	(7,645)	**(4,036)**	(291)
Taxation		**232,035**	361,783	**798,903**	361,783
Net cash used in operating activities	26	**(6,311,195)**	(5,094,592)	**(40,140)**	(124,367)
Cash Flows from Investing Activities					
Purchase of plant and equipment		**(64,617)**	(196,522)	**-**	(13,300)
Capitalised development costs		**(1,100,624)**	(1,377,117)	**-**	-
Loans to controlled entities		**-**	-	**(7,646,627)**	(6,944,750)
Net cash used in investing activities		**(1,165,241)**	(1,573,639)	**(7,646,627)**	(6,958,050)
Cash Flows from Financing Activities					
Proceeds from issue of ordinary shares		**1,712,733**	194,000	**1,712,733**	194,000
Repayment of borrowings		**(18,322)**	(48,483)	**-**	-
Net cash provided by financing activities		**1,694,411**	145,517	**1,712,733**	194,000
Net decrease in cash held		**(5,782,025)**	(6,522,714)	**(5,974,034)**	(6,888,417)
Cash and cash equivalents at the beginning of the year		**8,159,115**	14,896,191	**7,612,943**	14,501,360
Effects of exchange rate changes on the balance of cash held in foreign currencies		**(10,460)**	(214,362)	**-**	-
Cash and cash equivalents at the end of the year	9	**2,366,630**	8,159,115	**1,638,909**	7,612,943

The accompanying notes from part of these financial statements.

NOTES TO THE FINANCIAL STATEMENTS

Note 1: Statement of Significant Accounting Policies

Freshtel Holdings Limited is a company limited by shares, incorporated and domiciled in Australia whose shares are publically traded on the Australian Stock Exchange.

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 Accounting Standards including Australian Accounting Interpretations, other authoritative pronouncements of the Australian Accounting Standards Board and the Corporations Act 2001.

The financial report is presented in Australian dollars.

Compliance with AIFRS

Australian Accounting Standards includes Australian equivalent to International Financial Reporting Standards (AIFRS). Compliance with AIFRS ensures that the financial report of Freshtel Holdings Limited and its controlled entities complies with International Financial Reporting Standards (IFRS).

Historical cost convention

These financial statements have been prepared on an accruals basis under the historical cost convention, except for certain financial instruments which are measured at fair value.

(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 2009 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 not held by the Group are allocated their share of net profit after tax in the income statement and are presented within equity in the consolidated balance sheet, separately form parent shareholders’ equity.

Investments in subsidiaries are accounted for at cost less any impairment losses 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.

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 as it accrues using the effective interest method.
- 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. Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rate as at the date of the initial transaction. Non-monetary items measured as fair value in a foreign currency are translated using the exchange rates at the date when the fair value was determined. 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.

(f) Income tax

The income tax expense or gain 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 income tax is provided on all temporary differences at the balance sheet date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

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.

Note 1: Statement of Significant Accounting Policies (continued)

(f) Income tax (continued)

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.

Current tax assets and liabilities for the current and prior periods are measured at the amount expected to be recovered from or paid to the taxation authorities based on the relevant period’s taxable income. The tax rates and tax laws used to compute the amount are those that are enacted or substantively enacted by the balance sheet date.

The head entity Freshtel Holdings Limited and the controlled entities in the tax consolidated group account for their own current and deferred tax amounts.

In addition to its own current and deferred tax amounts Freshtel Holdings Limited also recognises the current tax liabilities (or assets) and the deferred tax assets arising from unused tax losses and unused tax credits assumed from controlled entities in the tax consolidated group.

Assets or liabilities arising under tax funding agreements with tax consolidated entities are recognised as amounts receivable from or payable to other entities in the Group.

Any differences between amounts assumed and amounts receivable or payable under the tax funding agreement are recognised as a contribution to (or distribution from) wholly owned tax consolidated entities.

(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 borrowings. 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 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.

(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 fair 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. 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.

Note 1: Statement of Significant Accounting Policies (continued)

(i) Impairment of assets

Assets that have an indefinite useful life are not subject to amortisation and are tested annually for impairment or more frequently if events or changes in circumstances indicate that they might be impaired. 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. If an indication of impairment exists, an estimate of the asset's recoverable amount is calculated. 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 an impairment are reviewed for possible reversal of the impairment at each reporting date.

Impairment losses recognised for goodwill are not subsequently reversed.

(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 investments 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. For purposes of the Cash Flow Statement, cash and cash equivalents consist of cash and cash equivalents as defined above, net of outstanding bank overdrafts. Any bank overdrafts are shown within borrowings in current liabilities on the balance sheet.

(k) Trade and other receivables

Trade receivables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method less an allowance for impairment. Trade receivables are due for settlement no more than 30 days. Collectability of trade receivables is reviewed on an ongoing basis. Debts which are known to be uncollectible are written off. An impairment provision 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 impairment 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 overheads. Costs are assigned to individual items of inventory 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.

(m) Plant and equipment

Plant and equipment is carried at historical cost less accumulated depreciation or amortisation and any accumulated impairment losses. 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.

Depreciation / amortisation of all plant and equipment 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, useful lives and amortisation methods 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. (refer to 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.

Note 1: Statement of Significant Accounting Policies (continued)

(n) Intangible assets

(i) 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, it will be available for use or sale, its intention to complete and its ability to use or sell the asset, how the assets will generate future economic benefits, the availability of resources to complete the development 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. Following the initial recognition of development expenditure, the cost model is applied requiring the asset to be carried at cost less accumulated amortisation and accumulated impairment losses. The carrying value of an intangible asset arising from development expenditure is tested for impairment annually when the asset is not yet available for use or more frequently when an indication of impairment arises during the reporting period. Capitalised development costs are amortised from the point at which the asset is ready for use on a straight-line basis over its useful life, which varies from two to three years.

The amortisation period and method for capitalised development costs is reviewed at each reporting date. The amortisation expense is recognised in profit or loss.

(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. These are carried at amortised cost but due to there short term nature they are not discounted. The amounts are unsecured and are usually paid within 30 days of recognition.

(p) Investments and other financial assets

The Group classifies its financial assets in the following categories: financial assets at fair value through profit or loss, loans and receivables, held-to-maturity investments and available-for-sale financial assets. The classification depends on the purpose for which the investments were acquired. Management determines the classification of its investments at initial recognition and re-evaluates designation at each financial year end, taking into account the restrictions on reclassifying to other categories.

(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.

(iii) Available-for-sale financial assets

Available-for-sale financial assets, comprising principally marketable equity securities, are non-derivative financial assets that are either designated in this category or are 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. Fair value gains or losses on available-for-sale financial assets are recognised as a separate component of equity until the investment is derecognised or until the investment is determined to be impaired at which time the cumulative gain or loss reported in equity is recognised in profit or loss.

Recognition and de-recognition

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. For held-to-maturity investments, gains and losses are recognised in profit or loss when the investments are derecognised or impaired, as well as through the amortisation process.

Subsequent measurement

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.

Note 1: Statement of Significant Accounting Policies (continued)

(p) Investments and other financial assets (continued)

Impairment

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.

If there is evidence of impairment for any of the Group's financial assets carried at amortised cost, the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows, excluding future credit losses that have not been incurred. The cash flows are discounted at the financial asset's original effective interest rate. The loss is recognised in the income statement.

(q) 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 trade and 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

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 three years from the date of acquisition, or when leaving the employment of the Freshtel Holdings Group.

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

- 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 in which the performance and/or service conditions are fulfilled, ending on the date on which the relevant employees become fully entitled to the award.

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-tradeable 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.

Note 1: Statement of Significant Accounting Policies (continued)

(q) 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.

(r) Contributed equity

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.

(s) 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.

(t) 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.

(u) 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.

Commitments and contingencies are disclosed net of the amount of GST recoverable from, or payable to, the taxation authority.

(v) Borrowing costs

Borrowing costs incurred for the construction of any qualifying asset are capitalised during the period of time that is required to complete and prepare the asset for its intended use or sale. Other borrowing costs are expensed.

(w) Provisions

Provisions are measured at the present value of management's best estimate of the expenditure required to settle the present obligation at the reporting date. The discount rate used to determine the present value reflects current market assessments of the time value of money and the risks specific to the liability. The increase in the provision due to the passage of time is recognised as interest expense.

(x) Fair value

Fair values for financial instruments traded in active markets are based on quoted market prices at balance sheet date. The quoted market price for financial assets is the current bid price and the quoted market price. The fair value of financial instruments that are not traded in an active market are determined using valuation techniques. Assumptions used are based on observable market prices and rates at balance date. The fair value of long-term debt instruments is determined using quoted market prices for similar instruments. Estimated discounted cash flows are used to determine fair value of the remaining financial instruments. The carrying value less impairment provision of trade receivables and payables are assumed to approximate their fair values due to their short-term nature. The fair value of financial liabilities for disclosure purposes is estimated by discounting the future contractual cash flows at the current market interest rate that is available to the group for similar financial instruments.

NOTES TO THE FINANCIAL STATEMENTS

Note 1: Statement of Significant Accounting Policies (continued)

(y) 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.

(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.

(ii) Onerous contract

A provision for onerous contracts is recognised when the expected benefits to be derived by the Group from a contract are lower than the unavoidable cost of meeting its obligations under the contract. The provision is measured at the present value of the lower of the expected cost of terminating the contract and the expected net cost of continuing with the contract. Before a provision is established, the Group recognises any impairment loss on the assets associated with that contract.

(iii) Impairment of non financial assets

In the 2009 financial report, the parent entity made a significant judgement about the impairment of a number of its available-for-sale financial assets. The parent follows the guidance of AASB 139 Financial Instruments: Recognition and Measurement on determining when an available-for-sale financial asset is impaired. This determination requires significant judgement. In making this judgement, the parent evaluates, among other factors, the duration and extent to which the fair value of an investment is less than its cost and the financial health of and near term business outlook for the investee, including factors such as industry and sector performance, changes in technology and operational and financing cash flows.

(iv) Income tax

The Group is subject to income taxes in Australia and jurisdictions where it has foreign operations. Significant judgement is required in determining the worldwide provision for income taxes. There are many transactions and calculations undertaken during the ordinary course of business for which the ultimate tax determination is uncertain.

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.

In addition, the Group has recognised deferred tax assets relating to carried forward tax losses to the extent there are sufficient taxable temporary differences (deferred tax liabilities) relating to the same taxation authority and the same subsidiary against which the unused tax losses can be utilised. However, utilisation of the tax losses also depends on the ability of the entity to satisfy certain tests at the time the losses are recouped.

(z) Going concern

The financial report has been prepared on the basis that the consolidated entity is a going concern, which assumes continuity of normal business activities and the realisation of assets and the settlement of liabilities in the ordinary course of business. The consolidated entity has a net asset position of $2,702,556 as at 30 June 2009 and has incurred a loss of $10,181,473 for the twelve months ended 30 June 2009. The operations of the consolidated entity are subject to significant risk due to the product development activities of the company and the risks inherent with the commercialisation of these products but the focus now is on enhancement of existing products and services and this risk, whilst still evident, has diminished.

However, the directors are of the view that the going concern basis is appropriate due to the following factors:

- cash reserves in place at the date of this report and the budgeted business plan to which the Board is fully committed, demonstrate that the consolidated entity will be able to pay its debts as and when they fall due.
- the Company has restructured its business model to focus on supporting existing white label products and new wholesale business opportunities. The impact of this change is currently being monitored and is expected to have a positive impact on the company.
- the entity has taken significant steps to reduce overheads and additional cost reduction steps have been identified for implementation over the first half of the current financial year.
- the Company undertook a fully underwritten rights issue in May 2009 and has implemented processes to preserve cash reserves to the fullest extent possible.
- the Company has negotiated a $1M loan facility which it will draw down on an as needs basis. Terms and conditions of this loan facility are set out in Note 27.

Note 1: Statement of Significant Accounting Policies (continued)

(z) Going concern (continued)

If the entity is unable to continue as a going concern, it may be required to realise its assets and extinguish its liabilities other than in the normal course of business and at amounts different to those in the financial report.

No adjustments have been made to the financial report relating to the recoverability and classification of recorded asset amounts or to the amounts and classification of liabilities that may be necessary should the consolidated entity not continue as a going concern.

(aa) New accounting standards and interpretations

Certain new accounting standards and interpretations have been published that are not mandatory for 30 June 2009 reporting periods. The Directors' assessment of the impact of these new standards and interpretations is set out below:

(i) AASB 8 Operating Segments & AASB 2007-3 Amendments to Australian Accounting Standards arising from AASB 8.

AASB 8 and AASB 2007–3 are effective for annual reporting periods commencing on or after 1 January 2009. AASB 8 will result in a significant change in the approach to segment reporting, as it requires adoption of a 'management approach' to reporting on financial performance. The information being reported will be based on what the key decision makers use internally for evaluating segment performance and deciding how to allocate resources to operating segments.

The Group has not adopted the standards early. Application of AASB 8 may result in different segments, segment results and different types of information being reported in the segment note of the financial report. However, at this stage, it is not expected to affect any of the amounts recognised in the financial statements.

(ii) Revised AASB 123 Borrowing Costs and AASB 2007-6 Amendments to Australian Accounting Standards arising from AASB 123 [AASB 1, AASB 101, AASB 107, AASB 111, AASB 116 & AASB 138 and Interpretations 1 and 12]

The revised AASB 123 is applicable to annual reporting periods commencing on or after 1 January 2009. It has removed the option to expense all borrowing costs and – when adopted – will require the capitalisation of all borrowing costs directly attributable to the acquisition, construction or production of a qualifying asset. There will be no impact on the financial report of the Group, as the Group has no borrowing.

(iii) Revised AASB 101 Presentation of Financial Statements and AASB 2007-8 Amendments to Australian Accounting Standards arising from AASB 101

A revised AASB 101 was issued in September 2007 and is applicable for annual reporting periods beginning on or after 1 January 2009. It requires the presentation of a statement of comprehensive income and makes changes to the statement of changes in equity, but will not affect any of the amounts recognised in the financial statements. If an entity has made a prior period adjustment or has reclassified items in the financial statements, it will need to disclose a third balance sheet (statement of financial position), this one being as at the beginning of the comparative period. The Group intends to apply the revised standard from 1 July 2009.

(iv) AASB 127 (reissued March 2008): Consolidated and Separate Financial Statements

The revised standard clarifies that changes in ownership interest which result in control being retained are accounted for within equity as transactions with owners. Losses will be attributed to the non-controlling interest even if this results in a debit balance for the non-controlling interest. Investments retained where there has been a loss of control will be recognised at fair value at date of sale. This standard is effective for periods commencing on or after 1 July 2009. As there is no requirement to retrospectively restate the effect of these revisions, there is unlikely to be any impact on the financial statements when this revised standard is first adopted.

(v) AASB 2008-3 (issued March 2008) Amendments to Australian Accounting Standards arising from the Annual Improvements Project

This amendment makes consequential changes to 20 standards and 2 interpretations arising from the reissue of AASB 3 and AASB 127, including to AASB 128: Investments in Associates and AASB 131: Interests in Joint Ventures. When an investment ceases to be an associate or jointly controlled entity and is subsequently accounted for under AASB 139, the fair value of the investment at the date when it ceases to be an associate or jointly controlled entity is its fair value. As there is no requirement to retrospectively restate the effect of these revisions, there is unlikely to be any impact on the financial statements when this revised standard is first adopted.

However, in future, if the Group loses significant influence over associates which are equity accounted, at that date such investments are recognised at fair value rather than at the carrying value of the equity accounted investment. Where the fair value of such investments exceeds the equity accounted carrying amounts, this could result in a significant increase in earnings in the period when significant influence is lost.

There will also be a number of additional/amended disclosures. The application date is for periods commencing on or after 1 July 2009.

NOTES TO THE FINANCIAL STATEMENTS

Note 1: Statement of Significant Accounting Policies (continued)

(aa) New accounting standards and interpretations (continued)

(vi) AASB 2008-7 (issued July 2008) Amendments to Australian Accounting Standards – Cost of an Investment in a Subsidiary, Jointly Controlled Entity or Associate

This amendment removed the definition of the "cost method" in AASB 127, meaning that pre and post-acquisition dividends no longer need to be differentiated and all dividends are to be recognised as revenue. However, whenever a dividend is received from a subsidiary, associate or jointly controlled entity, an impairment test will be required under AASB 136 where there is an indicator for impairment, i.e. where:

- the carrying amount of the investment in the separate financial statements exceeds the carrying amount of the net assets (including goodwill) of the investee in the consolidated financial statements,
- the dividend exceeds the total comprehensive income of the subsidiary, associate or jointly controlled entity in the period that the dividend is declared.

There will be no impact as these requirements are only required to be applied prospectively for periods commencing on or after 1 July 2009. However, any pre-acquisition dividends received after this date may result in additional impairment charges on investments in subsidiaries, associates and jointly controlled entities. This is because such amounts would previously have been written off directly against the cost of the investment, whereas in future they will be recognised as revenue which may result in the investment being stated at an amount exceeding recoverable amount.

(vii) AASB 2009-2 (Issued April 2009) Amendments to Australian Accounting Standards – Improving Disclosures about Financial Instruments

This amendment requires additional disclosures about financial instrument fair values and liquidity risk and is applicable for periods commencing on or after 1 January 2009 As this is a disclosure standard only, there will be no impact on amounts recognised in the financial statements. However, various additional disclosures will be required about fair values of financial instruments and the entity's liquidity risk. No comparative disclosures are required in the first year that these amendments are applied.

(ab) Comparative figures

When required by Accounting Standards, comparative figures have been adjusted to conform to changes in presentation for the current financial year.

FRESHTEL HOLDINGS LTD
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NOTES TO THE FINANCIAL STATEMENTS

	Consolidated Entity		Parent Entity	
	2009	2008	**2009**	2008
	$	$	**$**	$
Note 2: Revenue from continuing operations				
Sales revenue				
Sale of goods	**224,780**	145,897	**-**	-
Provision of services	**2,727,411**	3,907,690	**673,197**	673,197
	2,952,191	4,053,587	**673,197**	673,197
Interest revenues				
Other corporations	**254,230**	794,860	**225,215**	759,425
Wholly owned Group-controlled entities	**-**	-	**464,517**	396,563
	254,230	794,860	**689,732**	1,155,988
Total revenue from continuing operations	**3,206,421**	4,848,447	**1,362,929**	1,829,185
Note 3: Expenses				
Loss before income tax includes the following expenses				
Depreciation				
Plant and equipment	**793,361**	973,236	**3,192**	2,128
Total depreciation	**793,361**	973,236	**3,192**	2,128
Amortisation of intangible asset				
Development costs	**1,186,838**	993,427	**-**	-
Impairment	**2,086,966**	-	**-**	-
Total amortisation	**3,273,804**	993,427	**-**	-
Total depreciation, amortisation and impairment	**4,067,165**	1,966,663	**3,192**	2,128
Finance costs				
Interest paid and payable	**4,595**	25,640	**4,036**	1,128
Total finance costs	**4,595**	25,640	**4,036**	1,128
Employee benefits expense				
Personnel and salaries	**4,243,441**	5,052,300	**1,068,071**	1,488,070
Superannuation	**441,937**	440,577	**125,809**	88,218
Share based payments	**(222,609)**	201,083	**(222,609)**	201,083
Other employee benefits	**526,488**	564,506	**148,375**	411,463
Total finance costs	**4,989,257**	6,258,466	**1,119,646**	2,188,834
Rental expense on operating leases				
Minimum lease payments	**598,253**	582,290	**242,965**	246,679
Total rentals on operating leases	**598,253**	582,290	**242,965**	246,679
Impairments				
Impairment of subsidiary loans (refer Note 10)	**-**	-	**7,646,532**	25,090,000
Impairment of other financial assets (refer Note 13)	**-**	-	**11,220,023**	-
Total impairments	**-**	-	**18,866,555**	25,090,000

NOTES TO THE FINANCIAL STATEMENTS

	Consolidated Entity		Parent Entity	
	2009	2008	**2009**	2008
	$	$	**$**	$
Note 4: Income Tax				
(a) Income tax expense				
Current income tax	**(232,035)**	(372,091)	**(232,035)**	(372,091)
Deferred income tax	**(255,669)**	(11,832)	**(255,669)**	(11,832)
Income tax expense attributable to ordinary activities	**(487,704)**	(383,923)	**(487,704)**	(383,923)
(b) Reconciliation of income tax expense to prima facie tax payable				
Profit from continuing operations before income tax expense				
Prima facie tax at 30% (2008: 30%) on profit from ordinary activities	**(3,200,753)**	(2,458,658)	**(5,921,032)**	(7,971,951)
Tax effect of amounts which are not (deductible)/taxable in calculation of taxable income				
Amortisation of development costs	**(939,553)**	(276,482)	**-**	-
Non allowable / deductible items	**(94,090)**	(54,845)	**(108,623)**	(111,588)
Impairments	**-**	-	**5,659,967**	7,527,000
R&D tax concession	**(232,035)**	(374,243)	**(232,035)**	(374,243)
Movement on deferred tax asset not recognised	**3,978,727**	2,780,305	**114,019**	546,859
Income tax expense attributable to ordinary activities	**(487,704)**	(383,923)	**(487,704)**	(383,923)
(c) Tax losses				
Unused tax losses for which no deferred tax asset has been recognised				
Potential tax benefit @ 30%	**7,732,865**	5,428,335	**7,732,865**	5,428,335

(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.

Note 5: Key Management Personnel

(a) 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		Parent Entity	
	2009	2008	**2009**	2008
	$	$	**$**	$
Short-term employee benefits	**1,451,807**	1,807,485	**-**	-
Post-employment benefits	**59,640**	107,947	**-**	-
Termination benefits	**-**	2,558	**-**	-
Share-based payments	**-**	123,110	**-**	-
Total compensation	**1,511,447**	2,041,100	**-**	-

(b) Equity instrument disclosures relating to key management personnel

Options and rights 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.

2008 Key Management Personnel	**Balance at start of year**	**Granted during period**	**Exercised during period**	**Other change**	**Quantity held at 30.6.2008**	**Vested at 30.6.2008**	**Vested & exercisable at 30.6.2008**	**Not vested & unexercisable at 30.6.2008**
Mr L Taylor	150,000	-	(50,000)	-	100,000	-	-	100,000
Mr P Warner	250,000	-	(83,333)	(166,667)	-	-	-	-
Mr S Filzek	250,000	-	(83,333)	(166,667)	-	-	-	-
Ms J Macpherson	50,000	-	(16,666)	-	33,334	-	-	33,334
Mr K Loughnan AO	250,000	-	-	-	250,000	-	-	250,000
Mr J McMullan	400,000	-	(93,332)	(240,001)	66,667	-	-	66,667
Mr D Hazell	130,000	-	(43,333)	-	86,667	-	-	86,667
Total	1,480,000	-	(369,997)	(573,335)	536,668	-	-	536,668

2009 Key Management Personnel	**Balance at start of year**	**Granted during period**	**Exercised during period**	**Other change**	**Quantity held at 30.6.2009**	**Vested at 30.6.2009**	**Vested & exercisable at 30.6.2009**	**Not vested & unexercisable at 30.6.2009**
Mr L Taylor	100,000	-	(50,000)	(50,000)	-	-	-	-
Ms J Macpherson	33,334	300,000	(33,333)	(300,001)	-	-	-	-
Mr K Loughnan AO	250,000	-	-	(250,000)	-	-	-	-
Mr J McMullan	66,667	-	-	(66,667)	-	-	-	-
Mr D Hazell	86,667	8,500	-	(95,167)	-	-	-	-
Ms R O'Donnell	-	1,750,000	-	(1,750,000)	-	-	-	-
Mr I Jackson	-	750,000	-	(750,000)	-	-	-	-
Total	536,668	2,808,500	(83,333)	(3,261,835)	-	-	-	-

Note 5: Key Management Personnel (continued)

(c) Equity instrument disclosures relating to key management personnel (continued)

Shareholdings

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 Personnel	Balance at 1.7.2008	Granted as remuneration	Received on exercise of options or rights	Other changes	Balance at 30.6.2009
Mr L Taylor	3,050,000	-	50,000	(3,100,000)	-
Mr D Elbourn	7,231,046	-	-	(7,231,046)	-
Ms J Macpherson	1,266,666	-	33,333	975,526	2,275,525
Mr A Dewhurst	96,200	-	-	796,200	892,400
Ms R O'Donnell	847,720[1]	-	-	847,720	1,695,440
Mr J McMullan	26,801	-	-	(26,801)	-
Mr D Hazell	66,333	-	-	300,000	366,333
Total	12,584,766	-	83,333	(7,438,401)	5,229,698

Notes

[1] Shares purchased on the ASX.

(d) Loans to key management personnel

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

(e) Other transactions with key management personnel

Other transactions with key management personnel are disclosed in note 29. Other than the items disclosed in note 29, there were no other transactions with key management personnel.

	Consolidated Entity		Parent Entity	
	2009	2008	**2009**	2008
	$	$	**$**	$
Note 6: Auditors' Remuneration				
Remuneration of the auditor for:				
Audit of the financial report	**50,000**	58,000	**50,000**	58,000
Review of the financial report	**17,074**	20,000	**17,074**	20,000
Total audit and other assurance services	**67,074**	78,000	**67,074**	78,000
Remuneration of other auditors of subsidiaries for:				
Audit of the financial report of subsidiary Freshtel UK Limited	**33,950**	35,672	**33,950**	-
Total remuneration to auditors'	**101,024**	113,672	**101,024**	78,000
Total other services – Taxation	**-**	23,751	**-**	23,751

Note 7: Dividends

No dividends were paid or declared throughout the year (2008: $0).

NOTES TO THE FINANCIAL STATEMENTS

	Consolidated Entity	
	2009	2008
	$	$
Note 8: Earnings per share		
Basic loss per share (cents)	4.86	4.31
Diluted loss per share (cents)	4.86	4.31
Reconciliation of earnings to profit and loss		
Loss from ordinary activities after income tax	**(10,181,473)**	(7,811,604)
Loss used to calculate basic EPS	**(10,181,473)**	(7,811,604)
Loss used in the calculation of dilutive EPS	**(10,181,473)**	(7,811,604)
Weighted average number of shares used as a denominator	**No.**	No.
Weighted average number of ordinary shares used as a denominator in calculating basic earnings per share	209,302,032	180,515,437
Weighted average number of options outstanding	992,095	2,572,725
Weighted average number of converting performance shares on issue	17,089,619	33,900,603
Weighted average number of ordinary shares used as the denominator in calculating diluted earnings per share	227,382,746	216,988,765

There are no instruments excluded from the calculation of diluted earnings per share that could potentially dilute basic earnings per share in the future because they are anti-dilutive in either of the periods presented.

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

	Consolidated Entity		Parent Entity	
	2009	2008	**2009**	2008
	$	$	**$**	$
Note 9: Cash and cash equivalents				
Cash at bank	**2,066,630**	1,188,670	**1,538,909**	845,943
Term deposits	**300,000**	6,970,445	**100,000**	6,767,000
	2,366,630	8,159,115	**1,638,909**	7,612,943

The effective interest rate on term deposits was 8.3% (2007: 7.8%).
The Group's exposure to interest rate risk is discussed in note 29.

	Consolidated Entity		Parent Entity	
	2009	2008	**2009**	2008
	$	$	**$**	$
Note 10: Trade and other receivables				
Current				
Trade receivables	**143,860**	237,560	**-**	-
Other receivables	**803,316**	898,094	**751,206**	834,473
	947,176	1,135,654	**751,206**	834,473
Non-current				
Security deposits	**168,224**	155,300	**-**	-
Amounts receivable from:				
Wholly-owned subsidiaries	**-**	-	**7,646,532**	25,090,000
Impairment allowance for subsidiary loans	**-**	-	**(7,646,532)**	(25,090,000)
	168,224	155,300	**-**	-

Note 10: Trade and other receivables (continued)

(a) Impaired trade receivables

As at 30 June 2009 there were no trade receivables which were past due and impaired.

(b) Past due but not impaired

As at 30 June 2009 there were no trade receivables which were past due and not impaired.

(c) Impairment allowance for subsidiary loans

Movements in the provision for impairment of receivables are as follows:

	Consolidated Entity		Parent Entity	
	2009	2008	**2009**	2008
	$	$	**$**	$
Balance at start of period			**25,090,000**	-
Provision for impairment recognised during the year	**-**	-	**7,646,532**	25,090,000
Balance at the end of period	**-**	-	**32,736,532**	25,090,000

(d) Risk exposures

The Group's exposures on interest rate, foreign exchange and credit risks are discussed in note 29.

	Consolidated Entity		Parent Entity	
	2009	2008	**2009**	2008
	$	$	**$**	$
Note 11: Inventories				
Current				
Finished goods – at cost	**5,000**	187,687	**-**	-
Note 12: Other current assets				
Prepayments	**131,180**	327,520	**11,407**	62,767
Note 13: Other financial assets				
Shares in subsidiaries	**-**	-	**11,220,023**	11,820,024
Impairment allowance for shares in subsidiaries	**-**	-	**(11,220,023)**	-
	-	-	**-**	11,820,024

Note 14: Subsidiaries

The ultimate parent entity of the Group is Freshtel Holdings Limited. 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.

	Country of Incorporation	Equity Holding	
		2009	2008
		%	%
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

NOTES TO THE FINANCIAL STATEMENTS

	Consolidated Entity		Parent Entity	
	2009	2008	**2009**	2008
	$	$	**$**	$
Note 15: Plant and equipment				
Leasehold improvements				
Leasehold improvements at cost	**25,712**	25,712	**13,300**	13,300
Accumulated amortisation	**(17,732)**	(10,239)	**(5,320)**	(2,128)
Net carrying amount of leasehold improvements	**7,980**	15,473	**7,980**	11,172
Purchased software				
Purchased software at cost	**714,692**	684,863	**-**	-
Accumulated depreciation	**(572,122)**	(342,075)	**-**	-
Net carrying amount of purchased software	**142,570**	342,788	**-**	-
Plant and equipment				
Plant and equipment at cost	**2,268,482**	2,169,306	**-**	-
Accumulated depreciation	**(1,867,715)**	(1,263,450)	**-**	-
Net carrying amount of plant and equipment	**400,767**	905,856	**-**	-
Leased plant and equipment				
Leased plant and equipment at cost	**98,724**	98,724	**-**	-
Accumulated amortisation	**(98,724)**	(82,780)	**-**	-
Net carrying amount of leased plant and equipment	**-**	15,944	**-**	-
Total plant and equipment	**551,317**	1,280,061	**7,980**	11,172

(a) Non-current assets pledged as security

Certain plant and equipment has been pledged as security by the consolidated entity as detailed in Note 18.

(b) Movements in carrying amounts

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

	Leasehold Improvements	Purchased Software	Plant & Equipment	Leased Plant & Equipment	Total
	$	$	$	$	$
Consolidated entity: 2008					
Balance at the beginning of year	8,002	483,936	1,623,425	61,550	2,176,913
Assets purchased	14,051	66,035	5,935	-	86,021
Assets disposed	-	-	-	(9,637)	(9,637)
Depreciation and amortisation expense	(6,580)	(207,183)	(723,504)	(35,969)	(973,236)
Carrying amount at the end of the year	15,473	342,788	905,856	15,944	1,280,061
Consolidated entity: 2009					
Balance at the beginning of year	15,473	342,788	905,856	15,944	1,280,061
Assets purchased	-	12,429	52,188	-	64,617
Depreciation and amortisation expense	(7,493)	(212,647)	(557,277)	(15,944)	(793,361)
Carrying amount at the end of the year	7,980	142,570	400,767	-	551,317

NOTES TO THE FINANCIAL STATEMENTS

	Consolidated Entity		Parent Entity	
	2009	2008	**2009**	2008
	$	$	**$**	$
Note 16: Intangible assets				
Development costs	**5,294,094**	4,193,470	**-**	-
Accumulated amortisation and impairment	**(5,294,094)**	(2,020,290)	**-**	-
Net carrying value of development costs	**-**	2,173,180	**-**	-

	Development Costs	Total
	$	$
Consolidated entity: 2008		
Balance at the start of the period	1,814,616	1,814,616
Internal development costs capitalised	1,351,991	1,351,991
Amortisation charge	(993,427)	(993,427)
Balance at the end of the period	2,173,180	2,173,180
Consolidated entity: 2009		
Balance at the start of the period	2,173,181	2,173,181
Internal development costs capitalised	1,100,623	1,100,623
Amortisation charge	(1,186,838)	(1,186,838)
Impairment	(2,086,966)	(2,086,966)
Balance at the end of the period	-	-

Intangible assets have finite useful lives. The current amortisation charges in respect of intangible assets are included under depreciation and amortisation expense per the income statement and Note 3.

	Consolidated Entity		Parent Entity	
	2009	2008	**2009**	2008
	$	$	**$**	$
Note 17: Trade and other payables				
Current				
Trade payables	**581,140**	411,332	**196,330**	80,376
Sundry payables and accrued expenses	**220,571**	765,041	**27,387**	282,511
Income in advance	**70,951**	226,074	**-**	-
	872,662	1,402,447	**223,717**	362,887
Non-current				
Other loans	**-**	-	**154,940**	155,035
	-	-	**154,940**	155,035

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

(a) Risk exposures

The Group's exposures on interest rate, foreign exchange and liquidity risks are discussed in note 29.

	Consolidated Entity		Parent Entity	
	2009	2008	**2009**	2008
	$	$	**$**	$
Note 18: Borrowings				
Short-term borrowings				
Secured				
Lease liabilities	**-**	18,982	**-**	-

Certain plant and equipment has been pledged as security by the consolidated entity as detailed in Note 15. There were no defaults or breaches on the lease liabilities in either of the periods presented.

NOTES TO THE FINANCIAL STATEMENTS

	Consolidated Entity		Parent Entity	
	2009	2008	**2009**	2008
	$	$	**$**	$
Note 19: Deferred tax				
(a) Liabilities				
Non-current				
Deferred tax liabilities	**-**	(629,743)	**-**	-
Deferred tax liability comprises:				
Development costs	**-**	(629,743)	**-**	-
(b) Assets				
Non-current				
Deferred tax assets	**-**	374,074	**-**	311,199
Deferred tax assets comprises:				
Amounts recognised in profit or loss:				
Provisions	**-**	304,479	**-**	301,829
Accruals and other	**-**	69,595	**-**	9,370
	-	374,074	**-**	311,199
(c) Movements in deferred tax balances				
(i) The net movement in deferred taxes is as follows:				
Opening balance	**(255,669)**	(267,501)	**311,199**	72,498
Net charge / (credit) to income statement	**255,669**	11,832	**(311,199)**	11,832
Tax consolidation adjustments	**-**	-	**-**	226,869
Closing balance	**-**	(255,669)	**-**	311,199
(ii) Deferred tax liabilities to be settled after more than 12 months	**-**	(629,743)	**-**	-
Deferred tax liabilities to be settled within 12 months	**-**	-	**-**	-
Note 20: Provisions				
Current				
Provision for employee benefits	**142,964**	273,509	**135,653**	268,348
Provision for lease incentives	**25,215**	25,215	**25,215**	25,215
Provision for onerous contracts	**100,000**	-	**100,000**	-
Provision for fringe benefits tax	**7,607**	-	**7,607**	-
	275,786	298,724	**268,475**	293,563
Non-current				
Provision for employee benefits	**40,761**	42,930	**40,761**	42,930
Provision for lease incentives	**37,822**	63,038	**37,822**	63,038
Provision for onerous contracts	**85,000**	-	**85,000**	-
	163,583	105,968	**163,583**	105,968
Note 21: Provisions for employee benefits				
Current				
Provision for annual leave	**142,964**	273,509	**135,653**	268,348
Non-current				
Provision for long service leave	**40,761**	42,930	**40,761**	42,930

NOTES TO THE FINANCIAL STATEMENTS

Note 21: Provisions for employee benefits (continued)

(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 unissued 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.

Options that were granted to employees during the period ending 30 June 2009 were all waived. As at 30 June 2009 there are no outstanding options.

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.

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.

(a) Employee share options and performance rights plan

2008 – Consolidated and Parent Entity

Balance at start of year No.	Granted during year No.	Exercised during year No.	Lapsed during year No.	Balance at end of year No.	Exercisable at end of year No.
2,460,000	-	(516,660)	(726,670)	1,216,670	273,337

2009 – Consolidated and Parent Entity

Balance at start of year No.	Granted during year No.	Exercised during year No.	Lapsed during year No.	Balance at end of year No.	Exercisable at end of year No.
1,216,670	3,267,500	(253,333)	(4,230,837)	-	-

(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 three years from the date of acquisition, or when leaving the employment of the Freshtel Holdings Group. The Plan acquired $ nil worth of shares for employees during the year under review (2008: $10,000).

	Consolidated Entity		Parent Entity	
	2009	2008	**2009**	2008
(c) Employee numbers				
Number of full-time equivalent employees	**30**	62	**26**	57

(d) Superannuation plan

The Company contributes to accumulation type employee superannuation plans in accordance with statutory requirements in Australia. In the UK the Company contributes to National Insurance in accordance with statutory requirements.

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 Entity		Parent Entity	
	2009	2008	**2009**	2008
	$	$	**$**	$
Options issued under employee option plan	**(222,609)**	201,083	**(222,609)**	201,083
Shares issued under employee share scheme	**-**	10,000	**-**	10,000
	(222,609)	211,083	**(222,609)**	211,083

Note 22: Issued Capital

(a) Share capital

280,540,318 fully paid ordinary shares (2008: 92,432,301) – **(b)**	**37,096,277**	34,976,979	**-**	-
369,229,602 fully paid ordinary shares (2008: 181,121,585) – **(c)**	**-**	-	**47,405,329**	45,286,031
Nil performance shares (2008: 33,900,603) – **(d)**	**-**	-	**-**	600,000
Treasury shares held	**-**	-	**-**	(600,000)
	37,096,277	34,976,979	**47,405,329**	45,286,031

(b) Movements on ordinary share capital: consolidated entity

		Consolidated entity		
Date	**Details**	**Number of shares**	**Issue Price**	**$**
1 July 2007	Opening Balance	90,945,641	-	34,429,155
15 August 2007	Employee options exercised	329,997	0.66	217,005
18 September 2007	Employee options exercised	66,666	0.66	43,840
18 October 2007	Employee options exercised	16,666	0.66	10,960
19 December 2007	Options exercised	927,500	0.20	185,500
15 January 2008	Options exercised	42,500	0.20	8,500
30 April 2008	Options exercised	103,331	0.79	82,019
30 June 2008	**Balance**	**92,432,301**		**34,976,979**
5 August 2008	Employee options exercised	230,000	0.71	163,142
5 August 2008	In lieu of services	90,000	0.23	20,700
15 August 2008	In lieu of services	301,304	0.23	69,300
3 October 2008	Employee options exercised	23,333	0.71	16,550
3 October 2008	In lieu of services	266,668	0.15	40,000
13 January 2009	In lieu of services	650,646	0.20	32,532
5 May 2009	Rights issue – underwriting entitlement	3,653,671	0.01	36,537
8 May 2009	Rights issue	182,683,536	0.01	1,826,835
13 May 2009	In lieu of services	208,859	0.02	3,887
30 June 2009	Less: transaction costs arising on share issue	-	-	(90,185)
30 June 2009	**Balance**	**280,540,318**		**37,096,277**

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

		Freshtel Holdings Limited		
Date	**Details**	**Number of shares**	**Issue Price**	**$**
1 July 2007	Opening Balance	179,634,925	-	44,738,207
15 August 2007	Employee options exercised	329,997	0.66	217,005
18 September 2007	Employee options exercised	66,666	0.66	43,840
18 October 2007	Employee options exercised	16,666	0.66	10,960
19 December 2007	Options exercised	927,500	0.20	185,500
15 January 2008	Options exercised	42,500	0.20	8,500
30 April 2008	Options exercised	103,331	0.79	82,019
30 June 2008	**Balance**	**181,121,585**		**45,286,031**
5 August 2008	Employee options exercised	230,000	0.71	163,142
5 August 2008	In lieu of services	90,000	0.23	20,700
15 August 2008	In lieu of services	301,304	0.23	69,300
3 October 2008	Employee options exercised	23,333	0.71	16,550
3 October 2008	In lieu of services	266,668	0.15	40,000
13 January 2009	In lieu of services	650,646	0.20	32,532
5 May 2009	Rights issue – underwriting entitlement	3,653,671	0.01	36,537
8 May 2009	Rights issue	182,683,536	0.01	1,826,835
13 May 2009	In lieu of services	208,859	0.02	3,887
30 June 2009	Less: transaction costs arising on share issue	-	-	(90,185)
30 June 2009	**Balance**	**369,229,602**		**47,405,329**

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) Movements on performance shares

Performance shares to the value of $600,000 are held as treasury shares in the parent entity.

		Freshtel Holdings Limited			
Date	**Details**	**Number of shares**	**Performance Shares $**	**Treasury Shares $**	**Total $**
30 June 2007/2008	**Balance**	**33,900,603**	**600,000**	**(600,000)**	**-**
31 December 2008	Expiration	(33,900,603)	(600,000)	600,000	-
30 June 2009	**Balance**	**-**	**-**	**-**	**-**

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 have an expiry date of 31 December 2008.

These shares were not exercised during the period, thus expired on 31 December 2008.

	Consolidated Entity		Parent Entity	
	2009	2008	**2009**	2008
	$	$	**$**	$
Note 23: 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 include the following:				
Payable – minimum lease payments				
– not later than 12 months	**290,932**	315,480	**284,945**	277,995
– between 12 months and 5 years	**498,013**	790,704	**452,437**	734,500
	788,945	1,106,184	**737,382**	1,012,495

Non-cancellable operating leases contracted for at the reporting date but not capitalised in the financial statements include equipment and property.

(b) Capital expenditure commitments

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

	Consolidated Entity		Parent Entity	
	2009	2008	**2009**	2008
	$	$	**$**	$
Note 24: Contingent liabilities and contingent assets				
The consolidated entity had contingent liabilities at 30 June 2008 in respect of bank guarantees given to Optus Pty Ltd to the maximum of:	**200,000**	200,000	**-**	-

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

Note 25: 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.

Note 25: Segment reporting (continued)

	Australia		United Kingdom		Consolidated Entity	
	2009	2008	**2009**	2008	**2009**	2008
	$	$	**$**	$	**$**	$
Revenue						
External Sales	**1,265,439**	670,436	**1,940,982**	3,100,460	**3,206,421**	3,770,896
Other Revenue	**17,909**	836,132	**(1,085)**	241,419	**16,824**	1,077,551
Total segment revenue	**1,283,348**	1,506,568	**1,939,897**	3,341,879	**3,223,245**	4,848,447
Segment result before tax and inter-co charges	**(7,141,503)**	(9,238,070)	**(4,380,677)**	1,042,543	**(11,522,180)**	(8,195,527)
Inter-company charges	**(1,602,504)**	2,421,538	**1,602,504**	(2,421,538)	**-**	-
Segment result before taxation	**(8,744,007)**	(6,816,532)	**(2,778,173)**	(1,378,995)	**(11,522,180)**	(8,195,527)
Intersegment elimination					**853,003**	-
Income tax					**487,704**	383,923
Net loss for the year					**(10,181,473)**	(7,811,604)
Segment assets	**3,323,939**	12,635,798	**845,588**	1,156,793	**4,169,527**	13,792,591
Segment liabilities	**(1,196,140)**	(2,362,021)	**(270,831)**	(248,908)	**(1,466,971)**	(2,610,929)
Inter-company balances	**7,265,595**	5,661,233	**(7,265,595)**	(5,661,233)	**-**	-
Net Assets	**9,393,394**	15,935,010	**(6,690,838)**	(4,753,348)	**2,702,556**	11,181,662
Acquisition of non current segment assets	**1,080,738**	1,517,896	**84,927**	55,743	**1,165,665**	1,573,639
Depreciation and amortisation	**3,669,178**	1,544,807	**397,987**	421,856	**4,067,165**	1,966,663

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.

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.

	Consolidated Entity		Parent Entity	
	2009	2008	**2009**	2008
	$	$	**$**	$
Note 26: Cash Flow Information				
(a) Reconciliation of cash flow from operations with loss from ordinary activities after income tax				
Loss from ordinary activities after income tax	**(10,181,473)**	(7,811,604)	**(19,249,070)**	(26,189,247)
Non-cash flows in profit from ordinary activities				
Depreciation and amortisation	**1,980,199**	1,966,664	**3,192**	2,128
Impairment of intangible asset	**2,086,966**	-	**-**	-
Write-off of fixed assets	**-**	56,183	**-**	-
Share options expense	**-**	201,083	**-**	201,083
Impairments	**-**	-	**18,866,555**	25,090,000
Changes in assets and liabilities, net of the effects of purchase and disposal of subsidiaries				
Decrease in trade and other debtors	**163,830**	276,740	**60,869**	356,094
Decrease in inventories	**182,687**	387	**-**	-
Decrease / (Increase) in prepayments	**183,417**	(15,817)	**51,360**	(5,699)
(Increase) / Decrease in deferred tax	**(255,669)**	(11,832)	**311,199**	(11,832)
(Decrease) / Increase in payables	**(342,594)**	309,707	**83,227**	147,636
(Decrease) / Increase in provisions	**(128,558)**	(66,103)	**(167,472)**	285,470
	(6,311,195)	(5,094,592)	**(40,140)**	(124,367)

Note 27: Events after the Balance Sheet Date

No matters or circumstances have arisen since the end of the financial year which significantly affected or may significantly affect the operations of the consolidated entity, the results of those operations, or the state of the consolidated entity in future financial years except for:

- Tesco has indicated it is ready to proceed to have the Voicedot backed Tesco calling card in place by the end of October 2009.
- A loan facility for $1M has been negotiated between Freshtel Holdings Limited and Custodial Capital Management Pty Ltd that it will draw down on an as needs basis. The terms and conditions are as follows:
  - maximum $1M drawdown over two years
  - $50k fee on entering the agreement
  - 10% draw down fee on the draw down amount
  - draw down is available on 15 days notice

  The loan facility remains unexecuted as a $50k fee is payable upon execution. Custodial Capital Management is a 23.6% shareholder in Freshtel Holdings Limited.

Note 28: 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 Entity		**Parent Entity**	
	2009	2008	**2009**	2008
	$	$	**$**	$
(i) Services rendered by related parties and their entities	**-**	(13,000)	**-**	(13,000)
Management fee charged by the parent entity	**-**	-	673,197	672,984
(ii) Interest charged by the parent entity	**-**	-	464,517	396,563

(i) Services rendered by related parties – this relates to accounting and management consulting services supplied by Dillon & Elbourn Chartered Accountants - $ nil, (2008: $13,000), of which Mr D Elbourn is a partner.

(ii) The loan made by Freshtel Holdings Limited to a controlled entity in the UK is unsecured and has no fixed terms of repayment. Interest on the loan is charged at 8.9% (2008: 9.5%)

	Consolidated Entity		**Parent Entity**	
	2009	2008	**2009**	2008
	$	$	**$**	$
(e) Loans to Subsidiaries				
Loans to subsidiaries				
Beginning of the year	**-**	-	**-**	18,372,024
Loan advanced	**-**	-	**7,182,015**	7,719,876
Loan repayments	**-**	-	**-**	(1,398,463)
Interest charged	**-**	-	**464,517**	396,563
Impairment allowance	**-**	-	**(7,646,532)**	(25,090,000)
End of year	**-**	-	**-**	-

Note 28: Related Party Transactions (continued)

Loans to other related parties

There were no loans to other related entities at 30 June 2009 (30 June 2008: $ nil)

(f) Outstanding balances arising from sales / purchases of goods and services

There were no outstanding balances arising from sales/purchases of goods & services at 30 June 2009 (30 June 2008: $ nil)

(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 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.

Note 29: Financial Risk Management

The Group's activities expose it to a variety of financial risks: market risk (including currency risk, interest rate risk and price risk), credit risk and liquidity risk. The Group's overall risk management program seeks to minimise potential adverse effects on the financial performance of the Group. The Group uses different methods to measure different types of risk to which it is exposed. These methods include treasury operations in the case of interest rate and foreign exchange risks, and active credit management for credit risk.

The Group and the parent entity hold the following financial instruments:

	Consolidated Entity		Parent Entity	
	2009	2008	**2009**	2008
	$	$	**$**	$
Financial Assets				
Cash	**2,366,630**	8,159,115	**1,638,909**	7,612,943
Trade and other receivables	**947,176**	1,135,654	**751,206**	834,473
Investment in subsidiaries	**-**	-	**-**	11,220,024
	3,313,806	9,294,769	**2,390,115**	19,667,440
Financial Liabilities				
Trade and other payables	**876,463**	1,402,447	**223,717**	362,887

Market risk

1. Foreign currency risk

Foreign currency risk arises from recognising assets and liabilities denominated in a currency that is not the Group's functional currency and the parent entity's investment in foreign operations.

The Group operates internationally and is mainly exposed to foreign exchange risk arising from currency exposure in British pounds (GB£).

The risk management policy of the Group is to minimise risk exposure through holding the majority of funds in Australia. This entails providing the UK entity with adequate working capital, and repatriating excess funds back to Australia. The Group has no policy around hedging the net investment in the UK.

The Group's exposure to foreign currency risk at the reporting date, expressed in AU$ was as follows:

	2009	2008
	$	$
Cash	**509,367**	393,746
Trade and other receivables	**71,474**	187,651
Plant and equipment	**158,225**	397,537
Intangible assets	**-**	74,038
Other assets	**74,900**	94,407
Trade and other payables	**(263,520)**	(224,764)
Lease liabilities	**-**	(18,982)
Other liabilities	**(7,312)**	(5,162)

NOTES TO THE FINANCIAL STATEMENTS

Note 29: Financial Risk Management (continued)

1. Foreign currency risk (continued)

The carrying value of the parent entity's net investment in the UK entity is denoted and repayable in AU$. Any foreign exchange difference relating to the realisation of the UK net investment will be recognised in the UK entity.

Group sensitivity

At 30 June 2009 if exchange rates had changed by +/- 10% from the year end rates with all other variables held constant, the net equity of the UK entity would have been $583,783 higher/lower (2008 – change of +/- 10%: $412,000 higher/lower).

2. Cash flow and interest rate risk

The Groups main interest rate risk arises from cash and term deposits. During 2008 and 2007 the Group's term deposits were denominated in AU$ and GB£. At the reporting date, the Group held the following term deposits:

	2009		2008	
	Weighted average interest rate	**Balance $**	**Weighted average interest rate**	**Balance $**
Term deposits	**8.3%**	**300,000**	7.8%	6,967,000

Group sensitivity

At 30 June 2009, if interest rates had changed by +/- 10 basis points from the year end rates with all other variables held constant, the post tax profit for the year would have been $3,000 higher/lower (2008 – change of +/- 10 basis points: $49,000 higher/lower).

Parent entity sensitivity

The main risk for the parent entity is on interest on term deposits and interest on the loan account to the UK entity. The sensitivity to interest rate fluctuations for the parent entity is not materially different to that of the Group as the majority of cash funds are held in the parent entity.

The parent entity charges interest on set up and working capital that has been advanced to the UK entity. The parent entity charges interest on these funds at rates comparable to current market rates in Australia. The rate for 2009 was 8.9% (2008: 9.5%). At 30 June 2009, if interest rates had changed by +/- 10 basis points from the year end rates, with all other variables held constant, the post tax profit of the parent entity for the year would have been $53,940 higher/lower (2008 – change of +/- 10 basis points: $29,000 higher/lower).

Credit risk

Credit risk is managed on a group basis. Credit risk arises from cash and cash equivalents, deposits with banks and financial institutions, as well as credit exposures to wholesale customers, including outstanding receivables. All deposits with banks are placed with the Group's corporate bankers which have independent rating of at least 'A'. Each wholesale customer is engaged by way of a commercial agreement and independently credit checked. The credit quality of financial assets that are neither past nor impaired can be assessed by reference to external credit ratings (if available) or to historical information about counterparty default rates.

	Consolidated Entity		**Parent Entity**	
	2009	2008	**2009**	2008
	$	$	**$**	$
Trade receivables				
Counterparties with external rating A or above A	**141,992**	184,507	**-**	-
	141,992	184,507	**-**	-
Counterparties without external rating A or above A				
Existing customers for more than six months with no prior defaults	**1,868**	53,053	**-**	-
	1,868	53,053	**-**	-
Total trade receivables	**143,860**	237,560	**-**	-
Cash at bank and short term deposits				
External rating AAA	**509,366**	393,746	**-**	-
External rating AA	**1,857,264**	7,765,369	**1,638,909**	7,612,943
Total bank and short-term deposit balances	**2,366,630**	8,159,115	**1,638,909**	7,612,943

Note 29: Financial Risk Management (continued)

Credit risk (continued)

The parent entity has advanced $32,736,532 to subsidiary entities at 30 June 2009 (June 2008: $25,090,000). While there is no credit rating applied to Group entities for the purpose of advancing these funds, the parent entity is of the opinion that these funds will be recovered in the normal course of business as and when each entity becomes profitable.

The maximum exposure to credit risk amounts to $3,313,806 (2008: $9,294,769) for the consolidated entity and $2,390,115 (2008: 8,447,416) for the parent.

Liquidity risk

Prudent risk management implies maintaining sufficient cash to meet ongoing liabilities. The Group manages liquidity by continually monitoring forecast and actual cash flows. Surplus funds are only invested in highly liquid markets.

The contractual maturities of financial liabilities of the group and the parent are all due within six months of year end.

The maximum exposure to liquidity risk amounts to $876,463 (2008: $1,421,459) for the consolidated entity and $223,717 (2008: $362,887) for the parent.

Financing arrangements and capital risk management

Management controls the capital of the Group in order to maintain balance sheet strength, and provide the shareholders with adequate returns and ensure that the Group can fund its operations and continue as a going concern.

The Group has no funding arrangements in place other than credit card facilities which are repayable monthly, and asset leasing arrangements which are repayable monthly which was fully repaid by December 2008.

By monitoring the cash position through ongoing cash forecasting, management ensures that there is sufficient cash on hand to meet the Group's working capital requirement for at least one year. If the cash reserves fall below this point, management will consider all alternatives to raise further funds.

Fair value estimation

The fair value of financial assets and financial liabilities must be estimated for recognition and measurement or disclosure purposes. The carrying value less impairment provision of trade receivables and payables are assumed to approximate their fair value due to their short-term nature.

Note 30: Prior Period Error

In prior financial years treasury shares were disclosed as other financial assets in the accounts of the parent entity. These treasury shares are now deducted from the related performance shares. This has the impact that other financial assets and performance shares included in the parent entity as at 30 June 2008 reduced by $600,000 (refer Note 22(d)).

Note 31: Company Details

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

Level 2, 95 Coventry Street,

South Melbourne, 3205.

Note 32: Authorisation of the Financial Report

This financial report was authorised for issue by the Directors on 27 August 2009. The Company has the power to amend and reissue this report.