

**FRESHTEL HOLDINGS LIMITED
AND CONTROLLED ENTITIES
A.C.N. 111 460 121**

**APPENDIX 4E
PRELIMINARY FINAL REPORT
FOR THE PERIOD FROM 20 OCTOBER 2004
TO 30 JUNE 2005**

APPENDIX 4E

Preliminary Final Report

Name of entity

FRESHTEL HOLDINGS LIMITED and its Controlled Entities

Reporting Period (year ended)

Previous Corresponding Period (yr ended)

30 JUNE 2005

n/a*

Results for announcement to the market

	30 June 2005 \$'000	30 June 2004 \$'000
Revenue from ordinary activities	158	n/a*
Loss from ordinary activities after tax attributable to members	(859)	n/a*
Net loss for the period attributable to members	(859)	n/a*

*As the company was only incorporated on 20 October 2004, there are no comparable results for the previous financial year.

Dividends

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 31 August 2005 accompanying this report.

The results as announced have been subject to audit.

Directors' commentary on the results;

Freshtel Holdings Limited ('Freshtel') listed on the Australian Stock Exchange on 26th April 2005 by means of an oversubscribed Initial Public Offering raising A\$3 million. At the same time the Company acquired 100% of Freshtel Australia Pty Ltd and its subsidiaries via a share for share exchange. The value of the shares exchanged was A\$11.82million.

Freshtel Australia Pty Ltd develops and markets leading edge Voice Over Internet technology products and services.

Since listing, several significant features affected Freshtel operating performance during the reporting period;

- On 4 May 2005 Freshtel announced the opening of its UK office. The company's presence in the UK has enabled concerted marketing throughout the UK and Europe.
- On 9 June 2005 Freshtel announced a major licensing agreement with leading European Telecommunications provider, Maskina Inc.
- On 22 June 2005 Freshtel announced it had signed a Letter of Intent with a major UK retailer for technical and commercial testing of its product suite. Freshtel and the UK retailer continue to work through the technical testing with a view to commercialisation in the 2006 financial year.

Some events are also likely to affect future results:

- On 4 August 2005 the Company announced it had determined to seek expressions of interest in relation to a private placement of up to 50 million ordinary shares. It is expected this capital raising will facilitate the commercialisation of significant opportunities that have emerged in international markets for Freshtel's products and services.
- On 10 August 2005 Freshtel and Unwired announced a partnership to provide access to an easy to use internet phone service (VoIP).

Whilst the effect of these events is unable to be quantified it is expected that they will contribute to the future performance of the Company.

FRESHTEL HOLDINGS LIMITED AND CONTROLLED ENTITIES
A.C.N. 111 460 121

**STATEMENT OF FINANCIAL PERFORMANCE
FOR THE PERIOD 20 OCTOBER 2004 TO 30 JUNE 2005**

	Economic entity	Parent Entity
Note	30 June 2005	30 June 2005
	\$'000	\$'000
Revenues from ordinary activities	2 158	33
Cost of Sales	(45)	-
Employee benefits expense	(103)	-
Administrative expenses	(409)	(83)
Marketing expenses	(231)	-
Amortisation and depreciation expenses	(170)	-
Borrowing costs	3 (1)	-
Other operating expenses from ordinary activities	(92)	-
Profit from ordinary activities before income tax expense	3 (893)	(50)
Income tax relating to ordinary activities	4 34	34
Profit from ordinary activities after related income tax expense	(859)	(16)
Equity issue costs charged direct to equity	(754)	(754)
Total changes in equity other than those resulting from transactions with owners as owners	<u>(1,613)</u>	<u>(780)</u>
Basic loss per share (cents per share)	8 (0.97) cents	
Diluted loss per share (cents per share)	8 (0.46) cents	
Net tangible assets per share	0.03 cents	

The accompanying notes form part of these financial statements.

FRESHTEL HOLDINGS LIMITED AND CONTROLLED ENTITIES
A.C.N. 111 460 121

**STATEMENT OF FINANCIAL POSITION
AS AT 30 JUNE 2005**

	Note	Economic entity 30 June 2005 \$'000	Parent Entity 30 June 2005 \$'000
CURRENT ASSETS			
Cash assets	9	2,321	-
Receivables	10	592	372
Inventory		246	-
Other	14	<u>125</u>	<u>62</u>
TOTAL CURRENT ASSETS		<u>3,284</u>	<u>434</u>
NON-CURRENT ASSETS			
Receivables	10	2	4,392
Other financial assets	11	187	11,820
Property, plant and equipment	12	148	-
Intangible assets	13	12,266	-
Other	14	819	-
Deferred tax asset		<u>60</u>	<u>60</u>
TOTAL NON-CURRENT ASSETS		<u>13,482</u>	<u>16,272</u>
TOTAL ASSETS		<u>16,766</u>	<u>16,706</u>
CURRENT LIABILITIES			
Payables	15	572	47
Interest-bearing liabilities	16	4	-
Provisions	17	<u>17</u>	<u>-</u>
TOTAL CURRENT LIABILITIES		<u>593</u>	<u>47</u>
NON-CURRENT LIABILITIES			
Interest-bearing liabilities	16	14	-
Deferred tax liability		243	243
Other	18	<u>498</u>	<u>155</u>
TOTAL NON-CURRENT LIABILITIES		<u>755</u>	<u>398</u>
TOTAL LIABILITIES		<u>1,348</u>	<u>445</u>
NET ASSETS		<u>15,418</u>	<u>16,261</u>
EQUITY			
Contributed equity	19	16,277	16,277
Retained profits/(accumulated losses)	20	<u>(859)</u>	<u>(16)</u>
TOTAL EQUITY		<u>15,418</u>	<u>16,261</u>

The accompanying notes form part of these financial statements.

FRESHTEL HOLDINGS LIMITED AND CONTROLLED ENTITIES
A.C.N. 111 460 121

**STATEMENT OF CASH FLOWS
FOR THE PERIOD 20 OCTOBER 2004 TO 30 JUNE 2005**

	Economic entity	Parent Entity
	Note	30 June 2005
	30 June 2005	30 June 2005
	\$'000	\$'000
CASH FLOWS FROM OPERATING ACTIVITIES		
Receipts from customers	62	-
Payments to suppliers and employees	(959)	(98)
Interest received	68	33
Interest paid	(1)	-
NET CASH PROVIDED BY OPERATING ACTIVITIES	22(a) <u>(830)</u>	<u>(65)</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Acquisition of property, plant and equipment	(33)	-
Research and Development Expenditure	(173)	-
Purchase of controlled entity, net of cash acquired	22(b) 3,261	-
Loan to related entity	(4,375)	-
Loan to controlled entity	-	(4,392)
NET CASH (USED IN) PROVIDED BY INVESTING ACTIVITIES	<u>(1,320)</u>	<u>(4,392)</u>
CASH FLOWS FROM FINANCING ACTIVITIES		
Cash proceeds from issue of shares	4,457	4,457
Proceeds from borrowings	14	-
NET CASH PROVIDED BY FINANCING ACTIVITIES	<u>4,471</u>	<u>4,457</u>
NET INCREASE (DECREASE) IN CASH HELD	2,321	-
Cash at 20 October 2004	-	-
CASH AT 30 JUNE 2005	9 <u>2,321</u>	<u>-</u>

The accompanying notes form part of these financial statements

FRESHTEL HOLDINGS LIMITED AND CONTROLLED ENTITIES
A.C.N. 111 460 121
NOTES TO THE FINANCIAL STATEMENTS
FOR THE PERIOD 20 OCTOBER 2004 TO 30 JUNE 2005

NOTE 1. STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES

This financial report is a general purpose financial report that has been prepared in accordance with Accounting Standards, Urgent Issues Group Consensus Views and other authoritative pronouncements of the Australian Accounting Standards Board and the Corporations Act 2001. The financial report covers the economic entity of Freshtel Holdings Limited and controlled entities, and Freshtel Holdings Limited as an individual parent entity. Freshtel Holdings Limited is a listed public company, incorporated and domiciled in Australia. The financial report has been prepared on an accruals basis and is based on historical costs and does not take into account changing money values or, except where stated, current valuations of non-current assets. Cost is based on the fair values of the consideration given in exchange for assets. The following is a summary of the material accounting policies adopted by the economic entity in the preparation of the financial report. The accounting policies have been consistently applied, unless otherwise stated.

(a) Principles of Consolidation

A controlled entity is any entity controlled by Freshtel Holdings Limited. Control exists where Freshtel Holdings Limited has the capacity to dominate the decision making in relation to the financial and operating policies of another entity so that the other entity operates with Freshtel Holdings Limited to achieve the objectives of Freshtel Holdings Limited. Details of the controlled entities are contained in Note 11 to the financial statements. All inter-company balances and transactions between entities in the economic entity, including any unrealised profits or losses, have been eliminated on consolidation. Where controlled entities have entered or left the economic entity during the year, their operating results have been included from the date control was obtained or until the date control ceased.

(b) Income Tax

Income tax is accounted for using the balance sheet method as required by AASB 1020, whereby the current and future tax consequences of all transitions and other events recognised in the statement of financial position give rise to current and deferred tax assets and liabilities as a result of temporary differences between carrying values of assets and liabilities for accounting and taxation purposes. Deferred tax assets are not brought to account unless realisation of the asset is assured beyond any reasonable doubt. Deferred tax assets in relation to tax losses are not brought to account unless there is virtual certainty of realisation of the benefit. The amount of benefits brought to account or which may be realised in the future is based on the assumption that no adverse change will occur in income tax legislation and the anticipation that the economic entity will derive sufficient future assessable income to enable the benefit to be realised and comply with the conditions of deductibility imposed by the law.

(c) Inventories

Inventories are measured at the lower of cost and net realisable value. Costs are assigned to inventory on hand by the method most appropriate to each particular class of inventory, with the majority being valued on a first in first out basis.

(d) Property, Plant and Equipment

Each class of property, plant and equipment is carried at cost, less, where applicable, any accumulated depreciation or amortisation.

Property, plant and equipment

The carrying amount of property, plant and equipment is reviewed annually by directors to ensure it is not in excess of the recoverable amount from these assets. The recoverable amount is assessed on the basis of the expected net cash flows which will be received from the assets employment and subsequent disposal. The expected net cash flows have not been discounted to their present values in determining recoverable amounts.

Depreciation

The depreciable amount of all fixed assets including capitalised leased assets is depreciated on a straight line basis over their estimated useful lives to the economic entity commencing from the time the asset is held ready for use. Leasehold improvements are depreciated over the shorter of either the unexpired period of the lease or the estimated useful lives of the improvements. The depreciation rates used for each class of depreciable assets are:

Class of Fixed Assets:	Depreciation Rate
Plant and equipment	11 – 34 %
Leased plant and equipment	10 – 20 %
Purchased software	33.3%
Leasehold improvements	11 %

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NOTES TO THE FINANCIAL STATEMENTS
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NOTE 1. STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES (cont)

(e) Leases

Leases of fixed assets where substantially all the risks and benefits incidental to the ownership of the asset, but not the legal ownership, are transferred to entities in the economic entity are classified as finance leases. Finance leases are capitalised by recording an asset and a liability equal to the present value of the minimum lease payments, including any guaranteed residual values. Leased assets are depreciated on a straight line basis over their estimated useful lives where it is likely that the economic entity will obtain ownership of the asset or over the term of the lease. Lease payments are allocated between the reduction of the lease liability and the lease interest expense for the period. Lease payments for operating leases, where substantially all the risks and benefits remain with the lessor, are charged as expenses in the periods in which they are incurred.

(f) Investments

Non-current investments are measured at cost. The carrying amount of non-current investments is reviewed annually by directors to ensure it is not in excess of the recoverable amount of these investments. The recoverable amount is assessed from the quoted market value for listed investments or the underlying net assets for other non-listed investments. The expected net cash flows from investments have not been discounted to their present value in determining the recoverable amounts.

(g) Intangibles

Goodwill

Goodwill and goodwill on consolidation are initially recorded at the amount by which the purchase price for a business or for an ownership interest in a controlled entity exceeds the fair value attributed to its net assets at the date of acquisition. Both purchased goodwill and goodwill on consolidation are amortised on a straight line basis over the period of 20 years. The balances are reviewed annually and any balance representing future benefits for which the realisation is considered to be no longer probable are written off. For further disclosure refer to Note 13.

Software Development Expenditure

The group carries software development expenditure at its cost of acquisition and amortises it over the period in which the benefits are expected to be realised.

(h) Employee Benefits

Provision is made for the company's liability for employee benefits arising from services rendered by employees to balance date. Employee benefits expected to be settled within one year together with entitlements arising from wages and salaries, annual leave and sick leave which will be settled after one year, have been measured at the amounts expected to be paid when the liability is settled, plus related on-costs. Other employee benefits payable later than one year have been measured at the present value of the estimated future cash outflows to be made for those benefits. Contributions are made by the economic entity to employee superannuation funds and are charged as expenses when incurred.

(i) Cash

For the purposes of the statement of cash flows, cash includes: cash on hand and at call deposits with banks or financial institutions, net of bank overdrafts and investments in bank accepted bills.

(j) Comparative Figures

No comparatives have been shown as the company was incorporated on 20 October 2004.

(k) Rounding of Amounts

The parent entity has applied the relief available to it under ASIC Class Order 98/100 and accordingly, amounts in the financial report and directors' report have been rounded off to the nearest \$1,000.

(l) Revenue

Revenue from the sale of goods is recognised when control passes to the customer. Revenue from the rendering of services is recognised upon the delivery of the service to customers. Interest revenue is recognised on a proportional basis taking into account the interest rates applicable to the financial assets.

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NOTES TO THE FINANCIAL STATEMENTS
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NOTE 1. STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES (cont)

(m) Research and Development Expenditures

Expenditure on research is charged to profit on ordinary activities before income tax as incurred, since the company considers that the future benefits cannot be demonstrated beyond reasonable doubt. Development expenditure is charged to profit on ordinary activities before income tax as incurred, or deferred. Expenditure is only deferred where sufficient future benefits can be expected beyond reasonable doubt to be derived and the following have been demonstrated in relation to the expenditure; technical feasibility; the intention and ability to use or sell; how the benefits will arrive; and, the cost of the expenditure can be reliably measured.

(n) 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 the acquisition of the asset or as part of an item of the expense. Receivables and payables in the statement of financial position are shown inclusive of GST.

(o) Impact of Adoption of Australian Equivalents to International Financial Reporting Standards

The company is preparing and managing the transition to Australian Equivalents to International Financial Reporting Standards (AIFRS) effective for the financial years commencing from 1 January 2005. The adoption of AIFRS will be reflected in the economic entity's and the parent entity's financial statements for the year ending 30 June 2006 and the half year ending 31 December 2005. On first time adoption of AIFRS, comparatives for the financial year ended 30 June 2005 are required to be restated.

The economic entity has assessed the significance of the expected changes and is preparing for their implementation. An AIFRS committee is overseeing and managing the economic entity's transition to AIFRS. The impact of the alternative treatments and elections under AASB 1: First Time Adoption of Australian Equivalents to International Financial Reporting Standards has been considered where applicable.

The directors are of the opinion that the key material differences in the economic entity's accounting policies on conversion to AIFRS and the financial effect of these differences, where known, are as follows. Users of the financial statements should note, however, that the amounts disclosed could change if there are any amendments by standard-setters to the current AIFRS or interpretation of the AIFRS requirements changes from the continuing work of the economic entity's AIFRS committee.

(i) Business combinations and goodwill

AASB 3, Business Combinations, requires the acquirer in a business combination to be identified as the entity that obtains control of the combining entities. Control is the power to govern the financial and operating policies of the combined entity.

In a business combination achieved via the exchange of equity interests, when the legal subsidiary is identified as the acquirer, rather than the legal parent, the business combination is accounted for as if the legal subsidiary has obtained control of the legal parent. This is known as a reverse acquisition. Under current Australian accounting requirements, the legal parent is the acquirer.

The requirement to account for the business combination as a reverse acquisition is a significant change. Currently, the legal parent recognises its cost of investment and the net assets of the legal subsidiary at their fair values at the date of the combination. Under AASB3, the legal subsidiary will recognise its cost of investment and the fair values of the legal parent's identifiable net assets at the date of the combination at their fair values. This leads to a significantly different value for goodwill, arising on the combination. (*refer to v below*).

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) ended up with 63% of the shares in Freshtel Holdings Limited and control of the combined entity. Accordingly the transaction will be accounted for as a reverse acquisition under AASB 3.

The IFRS consolidated financial statements of Freshtel Holdings Limited will disclose the individual financial statements of Freshtel Holdings Limited (the legal parent) and the consolidated financial statements of the group, accounted for as a reverse acquisition by Freshtel Australia Pty Limited. The individual financial statements of Freshtel Holdings Limited will however continue to show the cost of investment in Freshtel Australia Pty Limited at the fair value of the consideration given at the date of the combination.

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NOTES TO THE FINANCIAL STATEMENTS
FOR THE PERIOD 20 OCTOBER 2004 TO 30 JUNE 2005

NOTE 1. STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES (Cont)

(o) Impact of Adoption of Australian Equivalents to International Financial Reporting Standards (cont)

(ii) Impairment of Assets

Under AASB 136: Impairment of Assets, the recoverable amount of an asset is determined as the higher of fair value less costs to sell, and value in use. In determining value in use, projected future cash flows are discounted using a risk adjusted pre-tax discount rate and impairment is assessed for the individual asset or at the 'cash generating unit' level. A 'cash generating unit' is determined as the smallest group of assets that generates cash flows that are largely independent of the cash inflows from other assets or groups of assets. The current policy is to determine the recoverable amount of an asset on the basis of undiscounted net cash flows that will be received from the asset's use and subsequent disposal. It is likely that this change in accounting policy will lead to impairments being recognised more often. The economic entity has tested all assets for impairment as at 30 June 2005. The impact of the change is estimated to be nil.

(iii) Income Tax

Currently, as required under AASB 1020, the economic entity adopts the balance sheet of tax-effect accounting. Under AASB 112: Income Taxes, the entity will also be required to adopt a balance sheet approach, under which temporary differences are identified for each asset and liability. No material differences in treatment are expected to arise as a result of the application of AASB 112, but differences to the tax balances will arise as a result of the adoption of other AIFRS.

(iv) Share-Based Payment

Share-Based compensation forms part of the remuneration of employees of the economic entity (including executives) as disclosed in the notes to the financial statements. The economic entity does not recognise an expense for any share-based compensation granted. Under AASB2: Share-Based Payments the economic entity will be required to recognise an expense for such share-based compensation. Share-based compensation is measured at the fair value of the share based payments determined at grant date and recognised over the expected vesting period of the payments. (*refer to v below*).

(v) Reconciliation of Equity as presented under AGAAP to that under AIFRS

Since the company was incorporated on 20 October 2004, there was no total equity at 1 July 2004 and accordingly, the total changes to equity in the period to 30 June 2005 are shown here, not the change in equity at the start of the period, which would have been nil, since total equity was nil.

ADJUSTMENTS TO TOTAL EQUITY UNDER AGAAP (NET OF TAX)	Economic Entity 30 June 2005 \$'000
Total equity under AGAAP	15,418
Accounting for the acquisition of Freshtel Australia Pty Limited as a reverse acquisition	(12,364)
Reversal of goodwill amortisation	98
Recognition of share based payment expense	(2)
Total Equity under AIFRS	<u><u>3,150</u></u>

(vi) Reconciliation of Net Profit under AGAAP to that under AIFRS

ADJUSTMENTS TO NET PROFIT AFTER TAX FOR THE YEAR ENDED 30 JUNE 2005	Economic Entity \$'000
Net profit after tax under AGAAP	(859)
Reversal of goodwill amortisation	98
Recognition of share based payment expense	(2)
Net profit after tax under AIFRS	<u><u>(763)</u></u>

There is no material differences between the cash flow statement presented under AIFRS and the cash flow statement presented under previous AGAAP.

FRESHTEL HOLDINGS LIMITED AND CONTROLLED ENTITIES
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NOTES TO THE FINANCIAL STATEMENTS
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NOTE 2. REVENUE

	Economic entity	Parent Entity
	Period Ended	Period Ended
	30 June 2005	30 June 2005
	\$'000	\$'000
Operating activities		
Sales revenue	98	-
Interest received – other corporations	60	33
Total revenue	<u>158</u>	<u>33</u>

NOTE 3. PROFIT FROM ORDINARY ACTIVITIES

Profit from ordinary activities before income tax has been determined after:

Expenses:

Borrowing costs - other	1	-
Depreciation of non-current assets:		
Plant and equipment	6	-
Amortisation of non-current assets:		
Goodwill	98	-
Research and development	64	-
Purchased software	2	-

NOTE 4. INCOME TAX EXPENSE

(a) The prima facie tax on profit from ordinary activities before income tax is reconciled to the income tax as follows:

Prima facie tax payable on profit/(loss) from ordinary activities before income tax at 30%	(268)	(15)
Add/(Deduct)		
Non allowable/deductible items	(6)	(6)
Losses not recognised	286	286
Deferred tax assets not recognised	(46)	(46)
Tax consolidation adjustments	<u>-</u>	<u>(253)</u>
Income tax expense attributable to profit/ (loss) from ordinary activities before income tax	<u>(34)</u>	<u>(34)</u>

The financial statements have been prepared on the assumption that the Group is tax consolidated from the date of acquiring Freshtel Australia Pty Ltd and its subsidiaries, 30 April 2005, in accordance with the requirements of UIG 52, "Income Tax Accounting Under the Tax Consolidation System", whereby the parent entity, Freshtel Holdings Limited assumes responsibility for the Group's tax balances. Under IFRS, the requirements of UIG 52 are superseded by the requirements of UIG 1052, "Tax Consolidation Accounting" whereby individual companies within the group record their individual balances relating to tax. The net effect of this change on the Group is expected to be \$nil.

The Group is currently assessing the most advantageous approach to enter into tax consolidation. Should this approach lead to different amounts being recognised from those adopted in the financial statements, any required changes will be made at that time.

FRESHTEL HOLDINGS LIMITED AND CONTROLLED ENTITIES
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NOTES TO THE FINANCIAL STATEMENTS
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NOTE 5: DIRECTORS AND EXECUTIVE REMUNERATION

The Corporation Regulations 2005 (No. 4) allows listed companies to transfer certain AASB 1046 Directors and Executives Remuneration disclosures from the notes to the financial report to the 'Remuneration Report' section in the directors' report. Freshtel Holdings Ltd has taken this option and all required details of Directors' and executives' remuneration are now disclosed in the Remuneration Report section of the Directors report. The other disclosures required by AASB 1046 that are included in the Directors' report but are not exempt from being included in the Financial Report under the Corporations Regulations as amended are duplicated below.

(a) Shareholdings

(i) Number of ordinary shares held by parent entity directors and specified executives

	Balance 20.10.04	Received as Remuneration	Options Exercised	Net Change Other*	Balance 30.6.05
Parent entity directors					
Mr Leslie Taylor	-	-	-	500,000	500,000
Mr Michael Carew	-	-	-	21,340,959	21,340,959
Mr Peter Warner	-	-	-	350,587	350,587
Mr David Elbourn	-	-	-	7,156,046	7,156,046
Mr Sebastian Filzek	-	-	-	10,297,979	10,297,979
Mr Gregory Bender	-	-	-	25,000	25,000
Mr David Roche	-	-	-	40,625	40,625
Mr Anthony Crimmins	-	-	-	691, 926	691, 926
Executives					
Mr Robert Groves	-	-	-	21,300	21,300
Ms Jan Macpherson	-	-	-	50,000	50,000
Mr George Sim	-	-	-	2,764,750	2,764,750
Total	-	-	-	43,239,172	43,239,172

* Net Change Other refers to shares acquired via prospectus or on market.

(ii) Number of performance shares***held by parent entity directors and specified executives.

	Balance 20.10.04	Received as Remuneration	Options Exercised	Net Change Other**	Balance 30.6.05
Mr Michael Carew	-	-	-	35,385,668	35,385,668
Mr Peter Warner	-	-	-	586,212	586,212
Mr David Elbourn	-	-	-	11,559,318	11,559,318
Mr Sebastian Filzek	-	-	-	16,901,965	16,901,965
Total	-	-	-	64,433,163	64 433 163

** Net Change other refers to shares acquired as part of the purchase of Freshtel Australia Pty Ltd by Freshtel Holdings Limited.

***There are "A", "B" and "C" Class performance shares. Each class has effectively the same rights except for the performance milestones. No performance shares have rights to voting, dividends or participation in the surplus profits or assets of the Company upon winding up but the holders of the performance share rights are entitled to receive notices of general meetings and attend meetings. They are not quoted on the ASX nor are they transferable. The "A" Class Performance shares convert to ordinary shares on achievement of a net profit available to entity shareholders of at least \$6,000,000 in any calendar or financial year (Milestone 1). The "B" Class Performance shares convert to ordinary shares on achievement of a net profit available to entity shareholders of at least \$8,000,000 in any calendar or financial year (Milestone 2). The "C" Class Performance shares convert to ordinary shares on achievement of a net profit available to entity shareholders of at least \$10,000,000 in any calendar or financial year (Milestone 3). If the Milestones are not achieved by the date the Company announces to ASX its audited financial results for the year ending 31 December 2007 (End Date), every 100,000 Performance shares will convert into one (1) share (rounded up to the nearest whole number).

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NOTES TO THE FINANCIAL STATEMENTS
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NOTE 5: DIRECTORS AND EXECUTIVE REMUNERATION (cont)

(iii) Options*

1. Number of options held by specified Directors & Executives at balance date:

	Balance 20.10.04	Granted	Options Exercised	Balance 30.6.05	Total Exercisable at 31.12.08
Directors					
Mr Anthony Crimmins	-	300,000	-	300,000	300,000
Mr David Roche	-	25,000	-	25,000	25,000
Mr Gregory Bender	-	25,000	-	25,000	25,000
Executives					
Mr George Sim	-	1,450,000	-	1,450,000	1,450,000
Total	-	1,800,000	-	1,800,000	1,800,000

*Options for ordinary shares were issued on 27 October 2004 with an exercise price of 20 cents and an expiry date of 31 December 2008.

NOTE 6. AUDITORS' REMUNERATION

	Economic Entity Period Ended 30 June 2005 \$'000	Parent Entity Period Ended 30 June 2005 \$'000
Remuneration of the auditor of the parent and economic entity for:		
Auditing the financial report	24	24
Other services - tax and other advisory services	20	20
Total remuneration of auditor	<u>44</u>	<u>44</u>

NOTE 7. DIVIDENDS

No dividends were paid or declared throughout the year

NOTE 8. EARNINGS PER SHARE

Loss used in the calculation of basic EPS	<u>(859)</u>
Weighted average number of ordinary shares used in calculation of basic earnings per share	88,848,500
Loss per share	<u>(0.97) cents</u>
Effect of dilutive securities:	
Share options	5,065,000
Performance shares	<u>93,900,000</u>
Adjusted weighted average number of ordinary shares used in calculating diluted earnings per share	187,813,500
Diluted loss per share (cents per share)	<u>(0.46) cents</u>

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FOR THE PERIOD 20 OCTOBER 2004 TO 30 JUNE 2005

	Economic entity Period Ended 30 June 2005	Parent Entity Period Ended 30 June 2005
NOTE 9. CASH		
Cash at bank	2,160	-
Deposits at call	161	-
	2,321	-
Cash at the end of the financial year as shown in the statement of cash flows is reconciled to items in the statement of financial position as follows:		
Cash	2,321	-

NOTE 10. RECEIVABLES

Current		
Trade debtors	44	-
Income tax recoverable	372	372
Other debtors	176	-
	592	372
Non-current		
Amount receivable from:		
Related party	2	
Wholly owned entities	-	4,392
	2	4,392

NOTE 11. OTHER FINANCIAL ASSETS

Non Current		
Shares in controlled entities	-	11,820
Units in Unit Trusts	187	-
	187	11,820

(a) Shares in controlled entities

	<u>Country of Incorporation</u>	<u>% owned 2005</u>
Parent entity:		
Freshtel Australia Pty Ltd	Australia	100%
Subsidiaries of Freshtel Australia Pty Ltd:		
Freshtel Pty Ltd	Australia	100%
Freshtel R&D Pty Ltd	Australia	100%
Voicestream Networks Pty Ltd	Australia	100%
Virbiage Pty Ltd	Australia	100%

(b) Units in Unit Trusts

Certain controlled entities hold interests in Freshwater Technology Investments Unit Trust.

37%

The trusts principal activity is that of a technology investor. Refer to Note 18 for details.

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	Economic entity	Parent Entity
	Period Ended	Period Ended
	30 June 2005	30 June 2005
	\$'000	\$'000
NOTE 12. PROPERTY, PLANT AND EQUIPMENT		
Leasehold Improvements		
At cost	2	-
Accumulated amortisation	-	-
Total Leasehold improvements	2	-
Purchased Software		
At cost	40	-
Accumulated depreciation	(11)	-
Total purchased software	29	-
Plant and Equipment - owned:		
At cost	135	-
Accumulated depreciation	(36)	-
	99	-
Plant and equipment under lease		
At cost	25	-
Accumulated amortisation	(7)	-
	18	-
Total plant and equipment	118	-
Total property, plant and equipment	148	-

Movements in the carrying amounts for each class of property, plant and equipment between the beginning and the end of the current financial year.

	Leasehold improvements	Purchased software	Plant and equipment	Plant and equipment under lease	Total
	\$'000	\$'000	\$'000	\$'000	\$'000
Economic Entity:					
Balance at the beginning of year	2	28	83	10	123
Additions	-	3	22	8	33
Depreciation and amortisation expense	-	(2)	(6)	-	(8)
Carrying amount at the end of year	2	29	99	18	148

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	Economic entity	Parent Entity
	Period Ended	Period Ended
	30 June 2005	30 June 2005
	\$'000	\$'000
NOTE 13. INTANGIBLE ASSETS		
Goodwill		
Goodwill at cost	12,364	-
Accumulated amortisation	<u>(98)</u>	<u>-</u>
Total goodwill	<u>12,266</u>	<u>-</u>
NOTE 14. OTHER ASSETS		
Current		
Prepayments	<u>125</u>	<u>62</u>
Non-current		
Research and development – at cost	1,192	-
Accumulated amortisation	<u>(380)</u>	<u>-</u>
	<u>812</u>	<u>-</u>
Other	<u>7</u>	<u>-</u>
Total other assets	<u>819</u>	<u>-</u>
NOTE 15. PAYABLES		
Current		
Trade creditors	295	6
Other creditors	135	41
Income in Advance	<u>142</u>	<u>-</u>
	572	47
NOTE 16. INTEREST-BEARING LIABILITIES		
Current		
Lease liability	<u>4</u>	<u>-</u>
Non-current		
Lease liability	<u>14</u>	<u>-</u>
	<u>18</u>	<u>-</u>

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	Economic entity Period Ended 30 June 2005 \$'000	Parent Entity Period Ended 30 June 2005 \$'000
NOTE 17. PROVISIONS		
Current		
Employee entitlements	<u>17</u>	<u>-</u>
Non-current		
Employee entitlements	<u>-</u>	<u>-</u>
Aggregate employee entitlements	<u><u>17</u></u>	<u><u>-</u></u>
	<u>No.</u>	<u>No.</u>
Number of employees at year end	<u>8</u>	<u>-</u>

NOTE 18. OTHER LIABILITIES

Non-current		
Loan from Related Party	<u>498</u>	<u>498</u>
Total other liabilities	<u><u>498</u></u>	<u><u>498</u></u>

On 10 September 2002 Freshtel Australia Pty Ltd (FA) and Freshwater Technology Investments Pty Limited (FTI) as trustee of the Freshwater Technology Investments Unit Trust (FTIUT) entered into a joint venture agreement pursuant to which FTI agreed to provide FA with an interest free loan facility of \$500,000 to assist in funding of the development of an IP phone. In return for the loan, FA agreed to pay FTIUT US\$1.00 per IP phone sold worldwide. FTIUT provided as consideration for the loan facility, \$312,500 in cash and 187,500 of \$1.00 FTIUT Units. The loan facility is interest free and will be forgiven on 10 September 2009. FA may elect to repay the loan of \$500,000 prior to 10 September 2009 provided FTIUT has received a total amount of not less than US\$1,500,000 arising from IP phone sales. All ownership and proprietary rights (including any IP rights) in the IP phone remain with FA. As at 30 June 2005 associated companies of Mr. David Elbourn and Mr. Michael Carew owned units in FTIUT as disclosed in Note 25.

NOTE 19. CONTRIBUTED EQUITY

88,848,501 fully paid ordinary shares	15,677	15,677
93,900,000 performance shares	<u>600</u>	<u>600</u>
	16,277	16,277
Ordinary shares		
At the beginning of the reporting period	-	-
Shares issued during the year		
- 1 on 20 October 2004	-	-
- 4,500,000 on 27 October 2004	91	91
- 13,248,500 on 30 November 2004	2,120	2,120
- 71,100,000 on 20 April 2005	14,220	14,220
- 93,900,000 performance shares	600	600
Transaction costs relating to share issue	<u>(754)</u>	<u>(754)</u>
At Reporting Date	<u><u>16,277</u></u>	<u><u>16,277</u></u>

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	Economic entity Period Ended 30 June 2005 \$'000	Parent Entity Period Ended 30 June 2005 \$'000
NOTE 19. CONTRIBUTED EQUITY (cont)		
<i>(a) Ordinary Shares</i>		
At the beginning of the reporting period	No. -	No. -
Shares issued during the year		
- 20 October 2004	1	1
- 27 October 2004	4,500,000	4,500,000
- 30 November 2004	13,248,500	13,248,500
- 20 April 2005	71,100,000	71,100,000
	<u>88,848,501</u>	<u>88,848,501</u>
At reporting date	<u>88,848,501</u>	<u>88,848,501</u>
Ordinary shares participate in dividends and the proceeds on winding up of the parent entity in proportion to the number of shares held. At shareholders meetings each ordinary share is entitled to one vote when a poll is called, otherwise each shareholder has one vote on a show of hands.		
<i>(b) Performance Shares</i>		
At the beginning of the reporting period	No. -	No. -
Shares issued during the year		
20 April 2005 "A" Class	33,900,000	33,900,000
20 April 2005 "B" Class	30,000,000	30,000,000
20 April 2005 "C" Class	<u>30,000,000</u>	<u>30,000,000</u>
At Reporting Date	<u>93,900,000</u>	<u>93,900,000</u>
<i>(c) Options</i>		
At the beginning of the reporting period	No. -	No. -
Issue during the year		
Issued on 27 October 2004 with an exercise price of 20 cents and an expiry date of 31 December 2008	565,000	565,000
Issued on 27 October 2004 with an exercise price of 20 cents and an expiry date of 31 December 2008	<u>4,500,000</u>	<u>4,500,000</u>
At Reporting Date	<u>5,065,000</u>	<u>5,065,000</u>
NOTE 20. RETAINED PROFITS (ACCUMULATED LOSSES)		
Retained profits at the beginning of the financial year	-	-
Accumulated losses attributable to the members of the parent entity	(859)	(16)
Accumulated losses at the end of the financial year	<u>(859)</u>	<u>(16)</u>

FRESHTEL HOLDINGS LIMITED AND CONTROLLED ENTITIES
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	Economic entity Period Ended 30 June 2005 \$'000	Parent Entity Period Ended 30 June 2005 \$'000
NOTE 21. CAPITAL AND LEASING COMMITMENTS		
<i>(a) Finance lease commitments</i>		
Payable:		
- not later than 1 year	7	-
- later than 1 year but not later than 5 years	18	-
- later than 5 years	-	-
Minimum lease payments	25	-
Less future finance charges	(7)	-
Total lease liability	18	-
- current liability	4	-
- non-current liability	14	-
	18	-

(b) Operating lease commitments

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

Payable:		
- not later than 1 year	51	-
- later than 1 year but not later than 5 years	45	-
- later than 5 years	-	-
	96	-

Property leases are non-cancellable leases with rent payable monthly in advance. Contingent rental provisions within the lease agreements require the minimum lease payments shall be increased by the lower of CPI or 4% per annum. An option exists to renew the lease at the end of the lease term. The leases allow for subletting of all lease areas.

(c) Capital expenditure commitments

Capital expenditure commitment contracted for:

- Plant and equipment purchases	150	-
- Purchase of inventory	63	-
	213	-

FRESHTEL HOLDINGS LIMITED AND CONTROLLED ENTITIES
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	Economic entity Period Ended 30 June 2005 \$'000	Parent Entity Period Ended 30 June 2005 \$'000
NOTE 22. CASH FLOW INFORMATION		
<i>(a) Reconciliation of cash flow from operations with profit from ordinary activities after income tax</i>		
Profit from ordinary activities after Income Tax	(859)	(50)
Non-cash items in profit from ordinary activities		
Depreciation	8	-
Amortisation	162	-
Changes to provisions	(26)	-
Changes in assets and liabilities net of the effects of purchase and disposal of controlled entity		
Increase in trade receivables	(170)	-
Increase in inventory	38	-
Increase in trade and other creditors	142	47
Increase in prepayments	(125)	(62)
Cash flow from operations	(830)	(65)
<i>(b) On 30 April 2005 the parent entity completed the acquisition of Freshtel Australia Pty Ltd.</i>		
The fair values of the net assets of Freshtel Australia Pty Ltd acquired were:		
Cash	3,261	
Receivables	360	
Inventories	284	
Plant and equipment	123	
Investments	187	
Research and development	710	
Payables	(430)	
Other liabilities	(4,877)	
Deferred tax balance	(153)	
Employee provision	(9)	
Fair value of net liabilities acquired	(544)	
56,100,000 ordinary shares and 93,900,000 performance shares were issued as consideration;		
Issue of ordinary shares	11,220	
Issue of performance shares	600	
Total consideration	11,820	
The goodwill arising (total consideration less net assets acquired) as a result was:	12,364	

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NOTES TO THE FINANCIAL STATEMENTS
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Economic entity	Parent Entity
Period Ended 30 June 2005 \$'000	Period Ended 30 June 2005 \$'000

NOTE 22. CASH FLOW INFORMATION (cont)

The net cash outflow in acquiring consolidated entities and businesses was:

Cash acquired	(3,261)	-
	(3,261)	-

(c) Credit standby agreements with banks

Credit card facilities of \$160,000 are arranged with Westpac secured by an Interest Bearing Term Deposit. Interest rates are variable and subject to adjustment. The amount utilised at balance date is \$12,686.

NOTE 23. SUPERANNUATION COMMITMENTS

Employees contributed to the plans at various percentages of their wages and salaries. Contributions by the economic entity of at least 9% of employees' wages and salaries are made.

NOTE 24. EMPLOYEE BENEFITS

The closing share price of an ordinary share of Freshtel Holdings Limited on the Australian Stock Exchange at 30 June 2005 was \$0.22.

Movement in the number of share options held by employees are as follows	No.	Weighted average exercise price	Fair Value \$'000
Opening balance	-		
Granted during the year	1,800,000	1,18 cents	21
Exercised during the year	-		
Lapsed during the year	-		
Closing balance	1,800,000	1,18 cents	21

No share options were exercised or lapsed in the financial period.

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	Economic entity	Parent Entity
	Period Ended	Period Ended
	30 June 2005	30 June 2005
	\$'000	\$'000

NOTE 25. RELATED PARTY TRANSACTIONS

All transactions between related parties are on normal commercial terms and conditions no more favourable than those available to other parties unless otherwise stated.

(a) Share transactions of directors

Directors and director-related entities hold directly, indirectly or beneficially as at the reporting date the following equity interests in members of the economic entity:

Freshtel Holdings Limited

- ordinary shares	39,645,571	39,645,571
- performance shares	64,433,763	64,433,763

(b) Directors' transactions in shares and options

Freshtel Australia Pty Ltd

On 3 December 2004, the Company entered into a share purchase agreement to acquire 100% of the fully paid ordinary shares in the capital of Freshtel Australia Pty Ltd in consideration for allotting and issuing 56,100,000 Shares and 93,900,000 Performance Shares to the Freshtel Australia Pty Ltd shareholders. The directors held shares in Freshtel Australia Pty Ltd, prior to its acquisition. The current director' holdings have been provided at note 5.

(c) Other transactions between the economic entity and directors and their related parties

Directors remuneration is disclosed in the full financial statements in the directors report.

Mr Tony Crimmins

Winning Corporation Pty Ltd, a company associated with Mr Crimmins provided was engaged on commercial terms consulting services in relation to the capital raising and the listing process. The total paid or payable, (as indicated in the directors' remuneration note) during the year ended 30 June 2005 was \$15,000 plus GST.

Mr David Roche

Topcat Pty Ltd, a company associated with Mr Roche provided was engaged on commercial terms consulting services in relation to the capital raising and the listing process. The total paid or payable, (as indicated in the directors' remuneration note) during the year ended 30 June 2005 was \$12,000 plus GST.

Mr George Sim

Winning Corporation Pty Ltd, a company associated with Mr Sim provided was engaged on commercial terms consulting services in relation to the capital raising and the listing process. The total paid or payable, (as indicated in the executives' remuneration note) during the year ended 30 June 2005 was \$80,000 plus GST.

Mr Sebastian Filzek

Teragen International Pty Ltd (Teragen), a company associated with Mr Filzek provided subcontract research and development services on commercial terms and under a three year contract the essential terms of which were outlined in the prospectus lodged with ASIC on 4 March 2005. During the year Teragen had up to 13 full time employees engaged in specialist research and development activities on behalf Freshtel Holdings Limited. The total amount paid /payable to Teragen was \$909,835 plus GST.

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NOTE 25. RELATED PARTY TRANSACTIONS (cont)

Mr David Elbourn

Dillon & Elbourn Chartered Accountants (Dillon & Elbourn), an entity which Mr Elbourn is a partner was engaged on commercial terms to prepare financial accounts and assist with Income Tax and GST compliance issues. Dillon and Elbourn were also engaged to assist compilation of information and reports for the prospectus lodged with ASIC on 4 March 2005 and ongoing consulting services. The total paid or payable (including disbursements) during the year ended 30 June 2005 was \$246,623 plus GST. In addition, Mr Elbourn received \$25,000 in Directors fees. Mantroz Pty Ltd, a company associated with Mr Elbourn also has held, since March 2003, 50,000 units in the Freshwater Technology Investments Unit Trust (a related entity).

Mr Peter Warner

Consorteo Pty Ltd (Consorteo), a company associated with Mr Warner prior to his appointment to Freshtel Holdings Limited provided consultancy services in relation to capital raising and product commercialisation services on commercial terms. During the year Consorteo was paid (including disbursements) a total of \$ 50,534 plus GST. In addition Consorteo Pty Ltd received 1,402,350 ordinary shares and 2,347,250 performance shares for its services connected with capital raising and corporate advisory services.

Mr Michael Carew

M and M Carew Holdings Pty Ltd, a company associated with Mr Carew has held 25,000 units in the Freshwater Technology Investment Unit Trust (a related entity) since 18 December 2002. Additionally, MD & MA Pty Ltd, a company associated with Mr Carew purchased an additional 25,000 units from an existing unit holder for an amount of \$30,000. Freshwater Australia Pty Ltd, a company associated with Mr Carew was reimbursed during the year \$22,483 for expenses incurred on behalf of Freshtel Pty Ltd and Freshtel Australia Pty Ltd.

NOTE 26. EVENTS SUBSEQUENT TO REPORTING DATE

On 4 August 2005 the Company announced it's intention to seek expressions of interest in relation to a private placement of up to 50 million ordinary shares. It is expected this capital raising will facilitate the commercialisation of significant opportunities that have emerged in international markets for Freshtel's products and services.

On 10 August 2005 Freshtel Holdings limited and Unwired Limited announced a partnership to provide access to an easy internet phone service (VoIP).

NOTE 27. FINANCIAL INSTRUMENTS

(a) Interest rate risk. The economic entity's exposure to interest rate risk, which is the risk that a financial instrument's value will fluctuate as a result of changes in market interest rates and the effective weighted average interest rates on classes of financial assets and financial liabilities, is as follows:

2005	Weighted average effective interest rate %	Floating interest rate \$'000	Within year \$'000	1 to 5 years \$'000	Over 5 years \$'000	Non- interest bearing \$'000	Total \$'000
Financial assets:							
Cash	5.3%	2,321	-	-	-	-	2,321
Receivables – trade	-	-	-	-	-	44	44
Receivables – others	-	-	-	-	-	548	548
Other financial assets	-	-	-	-	-	187	187
Total financial assets		2,321	-	-	-	779	3,100
Financial liabilities							
Payables	-	-	-	-	-	572	572
Interest being liability	11.0%	-	4	14	-	-	18
Total financial liabilities		-	4	14	-	572	590

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NOTE 27. FINANCIAL INSTRUMENTS (cont)

(b) Credit risk. The maximum exposure to credit risk, excluding the value of any collateral or other security at balance date to recognised financial assets is the carrying amount, net of any provisions for doubtful debts of those assets, as disclosed in the statement of financial position and notes to the financial statements.

Except for the credit risks associated generally with trade debtors and the exposure to the accepting bank, the economic entity does not have any material credit risk exposure to any single debtor or group of debtors under financial instruments entered into by the economic entity.

(c) Net fair values. The carrying amount of financial assets and liabilities approximate their fair values. These monetary financial assets and liabilities are included in the assets and liabilities in the statement of financial position.

NOTE 28. COMPANY DETAILS

The registered office of the company is:

Freshtel Holdings Limited
Suite 5, 651 Canterbury Rd
Surrey Hills
Victoria 3127

The principal places of business are:

Suite 5, 651 Canterbury Rd
Surrey Hills
Victoria 3127

The Zenith Centre
Suite 9, Level 11, Tower B
821 Pacific Highway
Chatswood,
NSW 2067