

COMTEL CORPORATION LIMITED
ABN 30 000 386 685

Appendix 4D
for the half-year ended 31 December 2009

Current Period: 31 December 2009

Previous Corresponding Period (PCP): 31 December 2008

1. Results for announcement to the market

	31-Dec-09 \$000	31-Dec-08* \$000	Change \$000	Change %
Revenue from ordinary activities	13,966	16,577	(2,611)	(16%)
Earnings before interest, tax, depreciation, amortisation and impairment (EBITDA)	1,923	2,475	(552)	(22%)
Net loss from ordinary activities after tax attributable to members	(1,302)	(1,567)	265	17%
Net loss for the period attributable to members	(1,302)	(1,567)	265	17%

2. Dividends

Dividends (distributions)	Amount per security	Franked amount per security
Interim dividend	-	-
Previous corresponding period	-	-

3. Net Tangible Assets per Security

	Current period	Previous corresponding period*
Net Tangible Assets per Ordinary Share	(1.6) cents	(2.3) cents

4. Compliance Statement

The Appendix 4D is to be read in conjunction with the attached half yearly report for the period ended 31 December 2009 and the annual financial report for the year ended 30 June 2009. It is also recommended that the Appendix 4D be considered together with any public announcements by the Company during and after the half-year ended 31 December 2009.

5. Acquisitions

During the half-year ended 31 December 2009, the Company made no acquisitions.

* Restated. Refer note 10 in the attached half yearly report.

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ASX Release

24 February 2010

ComTel Announces First Half Year Results

\$ 000's	1H10	1H09	Change VS PCP	
	\$	\$	\$	%
Mobile segment	1,896	2,581	(685)	(26.5)
Media segment	1,651	1,434	217	15.1
Corporate costs	(1,344)	(1,161)	(183)	(15.8)
Underlying EBITDA	2,203	2,854	(651)	(22.8)
Restructuring expense	(280)	(379)	99	26.1
Reported EBITDA	1,923	2,475	(552)	(22.3)

ComTel Corporation Limited (ASX: CMO) announced today the Company's EBITDA of \$1.9 million for the six months ending 31 December 2009. EBITDA before non recurring restructuring costs of \$0.28 million was \$2.20 million.

Media Segment

Empowered Communications continued to build on its position as the leading supplier of performance email direct marketing to media buyers, improving revenue by 10.4% to \$3.70 million (PCP: \$3.35 million) with EBITDA before restructuring costs increasing by 15.1% to \$1.65 million (PCP: \$1.4 million).

Empowered continues to benefit from the shift in advertising spend from traditional to online media, and will explore new opportunities (both organic and by acquisition) with the objective of shaping ComTel into a key digital media player.

Full year revenue growth for the Empowered business is forecast to be 15% up on last years FY09 result, subject to the continued recovery in the advertising market.

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Mobile Segment

The decrease in mobile EBITDA to \$1.9 million reflects the Company's managed decline in its post paid mobile bases. The Company has made a strategic decision to focus on the growth of the Empowered business, and as a result has minimised expenditure on acquisition of new customers for the mobile business. This business unit continues to be strongly cash generative and ComTel is focused on retention of existing customers and delivering cost savings to maximise cash earnings.

The first half result includes several large expense items that ComTel considers unlikely to recur in the second half. In combination with improvements being achieved in operations across all mobile customer bases, the Company expects improved mobile EBITDA for the second half.

Outlook

ComTel reiterates that FY10 EBITDA before restructuring costs will be approximately 5% lower than the FY09 result of \$6.2 million.

About ComTel Corporation Limited

ComTel Corporation Limited (www.comtelcorporation.com.au) is an Australian ASX listed (CMO) online and mobile communication company. Its online publishing business (Empowered Communications) has 6 websites and a database of 500,000 plus members, who are sent targeted email advertising offers and research questionnaires based on the individual member's demographic profile and consumer preferences.

ComTel has a long-term Network Capacity Agreement with Vodafone Australia, selling postpaid and prepaid mobile phone offers online and via a dealer network under its Reward Mobile and Just Mobile brands.

For further information

Chris Meehan, Managing Director
0407 149 544

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**Half-Year financial report
for the period ended
31 December 2009**

COMTEL CORPORATION LIMITED
ABN 30 000 386 685

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COMTEL CORPORATION LIMITED
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Directors' report
for the half-year ended 31 December 2009

The Directors submit their report for the half-year ended 31 December 2009.

DIRECTORS

The names of the Company's Directors in office during the half-year and until the date of this report are as follows. Directors were in office for this entire period unless otherwise stated.

Phillip Pryke	Non Executive Chairman	
Chris Meehan	Managing Director and Chief Executive Office	Appointed 1 September 2009
Roger Steinepreis	Non Executive Director	
Victoria Gillespie	Non Executive Director	
David Sweet	Executive Director	Resigned 1 September 2009
	Non Executive Director	Appointed 1 September 2009
Christin Burns	Alternate Director for Phillip Pryke	Appointed 3 December 2009

PRINCIPAL ACTIVITIES

The principal activities of the consolidated entity during the half-year were the provision of permission based online and mobile advertising services through an opt in member base (media segment) and mobile telecommunications services (mobile segment).

REVIEW AND RESULTS OF OPERATIONS

Operating results for the period

The consolidated entity earnings before interest, tax, depreciation, amortisation and impairment (EBITDA) for the six months to 31 December 2009 was \$1,923,000 (2008: \$2,475,000). The consolidated entity net loss after income tax for the six months to 31 December 2009 was \$1,302,000 (2008: net loss of \$1,567,000).

SIGNIFICANT CHANGES IN THE STATE OF AFFAIRS

On 1 September 2009, Chris Meehan was appointed as Managing Director and CEO. Mr Meehan replaced David Sweet who transitioned into the role of non-executive Director.

AUDITOR'S INDEPENDENCE STATEMENT

The auditor's independence declaration is included immediately following the Directors' Report, and forms part of the Directors' Report.

COMTEL CORPORATION LIMITED
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Directors' report (continued)
for the half-year ended 31 December 2009

ROUNDING OF AMOUNTS

The amounts contained in this report and in the financial report have been rounded to the nearest \$1,000 (where rounding is applicable) under the option available to the Company under ASIC CO 98/0100. The Company is an entity to which the Class Order applies.

Signed in accordance with a resolution of the directors.



CHRIS MEEHAN
Director

Sydney, 24 February 2010

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Auditor's Independence Declaration to the Directors of ComTel Corporation Limited

In relation to our review of the financial report of ComTel Corporation Limited for the half-year ended 31 December 2009, to the best of my knowledge and belief, there have been no contraventions of the auditor independence requirements of the Corporations Act 2001 or any applicable code of professional conduct.

A handwritten signature in black ink that reads 'Ernst & Young'.

Ernst & Young

A handwritten signature in black ink that reads 'Garry Wayling'.

Garry Wayling
Partner
Sydney
Date: 24 February 2010

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COMTEL CORPORATION LIMITED
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Statement of comprehensive income
for the half-year ended 31 December 2009

		Consolidated	
	Notes	2009	2008
		\$000	\$000
Income			
Rendering of services		13,966	16,571
Other income		-	6
Expenses			
Cost of sales*		(6,226)	(7,496)
Employee benefits expense	3(a)	(2,394)	(2,760)
Other expenses	3(b)	(3,143)	(3,467)
Restructuring costs	3(c)	(280)	(379)
		<hr/>	<hr/>
Earnings before interest, tax, depreciation, amortisation and impairment (EBITDA)		1,923	2,475
Depreciation and amortisation expense	3(d)	(2,886)	(3,479)
Impairment loss	3(e)	-	(718)
		<hr/>	<hr/>
Earnings before interest and income tax (EBIT)		(963)	(1,722)
Net finance costs	3(f)	(524)	(1,248)
Loss before income tax		(1,487)	(2,970)
Income tax benefit		185	1,403
		<hr/>	<hr/>
Net loss after income tax		(1,302)	(1,567)
Other comprehensive income for the period, net of tax		-	-
		<hr/>	<hr/>
Total comprehensive loss for the period		(1,302)	(1,567)
Total comprehensive loss for the period attributable to owners of the parent		(1,302)	(1,567)
		<hr/> <hr/>	<hr/> <hr/>
Basic and diluted (loss) / earnings per share (cents) attributable to the ordinary equity holders of the parent.			
From continuing operations:			
- basic earnings per share		(0.3)	(1.0)
- diluted earnings per share		(0.3)	(1.0)
		<hr/> <hr/>	<hr/> <hr/>

* Disclosed in 30 June 2009 annual report as "Airtime charges and associated costs".

The statement of comprehensive income is to be read in conjunction with the notes to the financial statements.

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COMTEL CORPORATION LIMITED
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Statement of financial position
as at 31 December 2009

		Consolidated	
		31 December	30 June
		2009	2009
		\$000	\$000
ASSETS	Notes		
Current Assets			
Cash and cash equivalents		1,205	2,331
Trade and other receivables		3,940	3,269
Other financial assets		23	38
Other		202	187
Inventories		92	144
		<hr/>	<hr/>
Total Current Assets		5,462	5,969
Non-Current Assets			
Other financial assets		203	212
Plant and equipment		897	1,012
Intangible assets		6,730	9,283
Goodwill		16,023	16,023
		<hr/>	<hr/>
Total Non-Current Assets		23,853	26,530
		<hr/>	<hr/>
Total Assets		29,315	32,499
LIABILITIES			
Current Liabilities			
Trade and other payables	6	5,873	7,609
Provisions		612	560
Interest-bearing loans and borrowings	7	3,435	1,245
Deferred income		736	728
		<hr/>	<hr/>
Total Current Liabilities		10,656	10,142
Non-Current Liabilities			
Interest-bearing loans and borrowings	7	2,337	4,506
Trade and other payables	6	435	585
Deferred tax liabilities		258	397
Provisions		121	134
		<hr/>	<hr/>
Total Non-Current Liabilities		3,151	5,622
		<hr/>	<hr/>
Total Liabilities		13,807	15,764
		<hr/>	<hr/>
Net Assets		15,508	16,735
Equity			
Contributed equity	4	103,014	103,059
Other reserves		3,644	3,524
Accumulated losses		(91,150)	(89,848)
		<hr/>	<hr/>
Total Equity attributable to equity holders of the parent		15,508	16,735
		<hr/> <hr/>	<hr/> <hr/>

The statement of financial position is to be read in conjunction with the notes to the financial statements.

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COMTEL CORPORATION LIMITED
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Statement of changes in equity
for the half-year ended 31 December 2009

	Ordinary shares \$000	Accumulated losses \$000	Other reserves \$000	Total \$000
CONSOLIDATED				
At 1 July 2009	103,059	(89,848)	3,524	16,735
Net loss for the half-year	-	(1,302)	-	(1,302)
Total comprehensive loss for the period	-	(1,302)	-	(1,302)
Transactions with owners in their capacity as owners:				
Share issue costs	(45)	-	-	(45)
Share-based payments	-	-	120	120
At 31 December 2009	<u>103,014</u>	<u>(91,150)</u>	<u>3,644</u>	<u>15,508</u>
At 1 July 2008 as reported in the 2008 half year report	93,451	(86,465)	3,129	10,115
Correction of error (note 10)	-	(829)	-	(829)
Restated balance at 1 July 2008	93,451	(87,294)	3,129	9,286
Net loss for the half-year	-	(1,567)	-	(1,567)
Total comprehensive loss for the Period	-	(1,567)	-	(1,567)
Transactions with owners in their capacity as owners :				
Issue of ordinary shares	10,043	-	-	10,043
Share issue costs	(662)	-	-	(662)
Share-based payments	-	-	395	395
At 31 December 2008	<u>102,832</u>	<u>(88,861)</u>	<u>3,524</u>	<u>17,495</u>

The statement of changes in equity is to be read in conjunction with the notes to the financial statements.

COMTEL CORPORATION LIMITED
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Statement of cash flows
for the half-year ended 31 December 2009

	Consolidated	
	2009	2008
	\$000	\$000
Cash flows from operating activities		
Receipts from customers	14,608	18,923
Payments to suppliers and employees	(13,338)	(16,489)
Payments for restructuring	(295)	(286)
Interest received	9	61
Interest paid	(556)	(1,092)
Income tax paid	-	(2)
	<hr/>	<hr/>
Net cash flows from operating activities	428	1,115
	<hr/>	<hr/>
Cash flows from investing activities		
Payments for property, plant and equipment	(69)	(74)
Payment for intangible assets	(115)	(47)
Payment for shares in subsidiary net of cash acquired	(1,300)	(5,883)
	<hr/>	<hr/>
Net cash flows used in investing activities	(1,484)	(6,004)
	<hr/>	<hr/>
Cash flows from financing activities		
Proceeds from issues of shares	-	10,043
Rights issue capital raising costs	-	(662)
Proceeds from borrowings	-	6,750
Repayment of borrowings:		
- Repayment of bank loan	-	(7,125)
- Repayment of convertible notes	-	(240)
- Repayment of related party loans	-	(2,000)
- Repayment of loan from external parties	-	(322)
- Repayment of bridging loan	-	(1,750)
Repayment of finance lease liabilities	(68)	(68)
Payment of finance fees	(2)	(512)
	<hr/>	<hr/>
Net cash flows from / (used in) financing activities	(70)	4,114
	<hr/>	<hr/>
Net decrease in cash and cash equivalents held	(1,126)	(775)
Cash and cash equivalents at beginning of period	2,331	3,114
	<hr/>	<hr/>
Cash and cash equivalents at end of period	1,205	2,339
	<hr/>	<hr/>

The cash flow statement is to be read in conjunction with the notes to the financial statements.

COMTEL CORPORATION LIMITED
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Notes to the financial statements
for the half-year ended 31 December 2009

1. CORPORATE INFORMATION

The financial report of ComTel Corporation Limited (the Company) for the half-year ended 31 December 2009 was authorised for issue in accordance with a resolution of the directors on 24 February 2010. ComTel Corporation Limited is a company incorporated in Australia and limited by shares, which are publicly traded on the Australian Securities Exchange (ASX).

The nature of the operations and principal activities of the Group are described in The Directors Report.

2. BASIS OF PREPARATION AND ACCOUNTING POLICIES

(a) Basis of preparation

This general purpose financial report for the half-year ended 31 December 2009 has been prepared in accordance with AASB 134 Interim Financial Reporting and the Corporations Act 2001.

The half-year financial report does not include all notes of the type normally included within the annual financial report and therefore cannot be expected to provide as full an understanding of the financial performance, financial position and financing and investing activities of the consolidated entity as the full financial report.

It is recommended that the half-year financial report be read in conjunction with the annual report for the year ended 30 June 2009 and considered together with any public announcements made by the Company during the half-year ended 31 December 2009 in accordance with the continuous disclosure obligations of the ASX listing rules.

The half-year financial report has been prepared on a historical cost basis and is presented in Australian dollars. For the purposes of preparing the half-year report, the half-year has been treated as a discrete reporting period.

The Directors believe that the Company and the consolidated entity will be able to continue as going concerns and, as a consequence, the half-year financial report has been prepared on a going concern basis which contemplates continuity of normal business activities and the realisation of assets and settlement of liabilities in the normal course of business. The Directors are aware however that as at 31 December 2009 the group has an excess of current liabilities over current assets of \$5.2 million (30 June 2009: \$4.2 million). This excess is due in part to the convertible note of \$1 million which matures within twelve months on 9 July 2010, the \$2.3 million loan payable to a related party and the difference between the payment terms of some trade creditors and the trade receivable payment terms. Included in current liabilities as at 31 December 2009 are trade creditors totalling \$3.2 million whose payment terms are 90 days. The Company's customer payment terms are 14 days in the Mobile segment and 30 days in the Media segment.

Also included in current liabilities as at 31 December 2009 is Deferred Income of \$0.7 million which will not require any cash outflows. When this revenue received in advance is recognised as revenue it will contribute to that period's earnings. The gross margin incorporated in deferred income on the statement of financial position as at 31 December 2009 is estimated to be \$0.4 million (30 June 2009: \$0.4 million).

The Directors expect that the excess of current liabilities over current assets will reduce as the Company continues to generate positive cash flows from operations to meet all its obligations as and when they fall due.

Notes to the financial statements (continued)
for the half-year ended 31 December 2009

2. BASIS OF PREPARATION AND ACCOUNTING POLICIES (Continued)

(b) Significant accounting policies

Apart from the changes in the accounting policy noted below, the accounting policies and methods of computation are the same as those adopted in the most recent annual financial report.

Changes in accounting policy

AASB 8 adoption

AASB requires the consolidated entity to define reportable operating segments based on information used regularly by the chief operating decision maker. An operating segment is a distinguishable component of the consolidated entity that is engaged in providing products or services that are subject to differing risk and rewards to other segments.

AASB 101 adoption

In accordance with AASB 101 (revised) the consolidated entity has made various revisions to the format of its primary statements, including the introduction of the consolidated statement of comprehensive income.

The consolidated entity has not elected to early adopt any new standards or amendments that are issued but not yet effective.

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COMTEL CORPORATION LIMITED
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Notes to the financial statements (continued)
for the half-year ended 31 December 2009

3. REVENUE AND EXPENSES

	Consolidated	
	2009	2008
	\$000	\$000
(a) Employee benefits expense		
Salaries and wages	1,981	2,343
Share based payments	120	-
Superannuation	203	202
Leave	(60)	29
Payroll tax	122	108
Training and recruitment	13	62
Other	15	16
	2,394	2,760
(b) Other expenses		
Billing expenses	301	375
Communication expenses	249	219
Director fees	309	380
Rent & office supplies	403	419
Marketing and retention expenses	243	204
Merchant fees	153	224
Bad debts	477	267
Professional fees	401	280
Other	607	1,099
	3,143	3,467
(c) Restructuring costs		
Redundancy costs	280	282
Inventory write off	-	97
	280	379
(d) Depreciation and amortisation		
Depreciation:		
Plant and equipment	184	192
Amortisation of intangible assets:		
Mobile customer base	1,513	1,643
Media member base	102	200
Software	1,087	1,444
	2,886	3,479
Total depreciation and amortisation	2,886	3,479

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Notes to the financial statements (continued)
for the half-year ended 31 December 2009

3. REVENUE AND EXPENSES (continued)

	Consolidated	
	2009 \$000	2008 \$000
(e) Impairment loss		
Impairment of intangible software assets	-	718
	-	718
	-	718
(f) Net Finance costs		
Interest income	(9)	(61)
Interest expense	404	1,239
Fair value adjustment to borrowings	-	(62)
Accretion expense/ (income) – convertible note	-	54
Finance fees	129	244
Fair value adjustment of the convertible note option financial instrument	-	(166)
	524	1,248
	524	1,248

4. CONTRIBUTED EQUITY

Issued and paid-up capital

	Consolidated 31 December 2009		Consolidated 30 June 2009	
	Number	\$000	Number	\$000
Fully paid ordinary shares	457,426,101	103,014	457,426,101	103,059
	457,426,101	103,014	457,426,101	103,059
	457,426,101	103,014	457,426,101	103,059
Movements in shares on issue				
Beginning of the financial period	457,426,101	103,059	132,587,276	93,451
Issued in relation to rights issue	-	-	304,950,734	9,148
Issued in relation to placement	-	-	19,888,091	895
Share issue expenses	-	(45)	-	(435)
	-	(45)	-	(435)
End of financial period	457,426,101	103,014	457,426,101	103,059
	457,426,101	103,014	457,426,101	103,059

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Notes to the financial statements (continued)
for the half-year ended 31 December 2009

5. OPERATING SEGMENTS

Identification of reportable segments

The Group has identified its operating segments based on the internal reports that are reviewed and used by the Board of Directors and executive management team (the chief operating decision makers) in assessing performance and in determining the allocation of resources.

The operating businesses are organised and managed separately according to the nature of the products and services provided, with each segment representing a strategic business unit that offers different products and serves different markets. Discrete financial information about each of these operating businesses is reported to the Board of Directors and executive management team on a monthly basis.

Types of services

Media

The media segment provides permission based online and mobile advertising services through an opt-in member database.

Mobile

The mobile segment provides pre and post paid mobile telecommunication services to retail and wholesale customers.

Accounting policies and inter-segment transactions

The accounting policies used by the consolidated entity in reporting segments internally are the same as those contained in note 2 to the accounts and in the prior period. The following items are not allocated to operating segments as they are not considered part of the core operations of any segment:

- Finance costs
- Income tax expense

31 December 2009	Mobile	Media	Total
	\$000	\$000	\$000
Revenue			
Sales to external customers	10,273	3,693	13,966
Inter-segment sales	-	14	14
Total segment revenue	10,273	3,707	13,980
Inter-segment elimination			(14)
Total consolidated revenue			13,966
EBITDA before unallocated expenses / segment results	1,616	1,651	3,267
Unallocated expenses (a)			(1,344)
EBITDA			1,923
Reconciliation of segment results to net loss after tax			
EBITDA before unallocated expenses / segment results	1,616	1,651	3,267
Depreciation and amortisation			(2,886)
Unallocated expenses (a)			(1,344)
Net finance costs			(524)
Income tax benefit			185
Net loss for the period			(1,302)

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COMTEL CORPORATION LIMITED
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Notes to the financial statements (continued)
for the half-year ended 31 December 2009

5. OPERATING SEGMENTS (continued)

31 December 2008	Mobile \$000	Media \$000	Total \$000
Revenue			
Sales to external customers	13,223	3,348	16,571
Other revenue	6	-	6
Inter-segment sales	-	81	81
Total segment revenue	13,229	3,429	16,658
Inter-segment elimination			(81)
Total consolidated revenue			<u>16,577</u>
EBITDA before unallocated expenses / segment results	2,266	1,370	3,636
Unallocated expenses			(1,161)
EBITDA			<u>2,475</u>
Reconciliation of segment results to net loss after tax			
EBITDA before unallocated expenses / segment results	2,266	1,370	3,636
Depreciation and amortisation			(3,479)
Impairment loss			(718)
Unallocated expenses (a)			(1,161)
Net finance costs			(1,248)
Income tax benefit			1,403
Net loss for the period			<u>(1,567)</u>

(a) Unallocated expenses comprise the following:

- Directors fees
- CEO and CFO remuneration
- Audit, legal and other professional fees
- Other corporate overheads

Segment assets and liabilities are not reported as these numbers are not specifically reported to the Board of Directors and executive management team, being the chief operating decision makers.

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COMTEL CORPORATION LIMITED
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Notes to the financial statements (continued)
for the half-year ended 31 December 2009

6. TRADE AND OTHER PAYABLES

	Consolidated	
	31 Dec 2009 \$000	30 June 2009 \$000
Current		
Trade payables and accruals (a)	5,873	6,309
Deferred consideration for acquisition of subsidiary	-	1,300
	5,873	7,609
Non-current		
Operating lease incentive accrual	133	149
Other payables	302	436
	435	585

(a) Trade payables are non-interest bearing and are payable on 30 to 90 day terms.

7. INTEREST-BEARING LOANS AND BORROWINGS

	Consolidated	
	31 Dec 2009 \$000	30 June 2009 \$000
Current		
Secured loan from related party (a)	2,271	1,113
Convertible notes (b)	1,050	-
Obligations under finance lease contracts (c)	114	132
	3,435	1,245
Non-current		
Secured loans from external party (a)	2,271	3,340
Convertible notes (b)	-	1,050
Financial instrument (b)	12	12
Obligations under finance lease contracts (c)	54	104
	2,337	4,506

(a) Secured loan from related parties

On 3 November 2008 the Company drew down \$5.0 million under a senior secured loan facility from Co-Investor Capital Partners Pty Ltd. The loan is secured by a fixed and floating charge over the Company and the Empowered subsidiaries. The term of the loan is until December 2011. The interest rate is 15% per annum and the face value is \$5,000,000. Transaction costs of \$715,633 have been capitalised against the loan and will be amortised over its term.

(b) Convertible notes and financial instruments

On 10 July 2007, four parties entered into loan and convertible note agreements with the Company to issue convertible notes with a face value totalling \$1,500,000. These funds raised were used to fund part of the cash component of the Sonnet Corporation acquisition consideration.

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Notes to the financial statements (continued)
for the half-year ended 31 December 2009

7. INTEREST-BEARING LOANS AND BORROWINGS (Continued)

(b) Convertible notes and financial instruments (Continued)

The terms and conditions of the convertible notes are as follows:

- The term is for 3 year with a maturity date of 9 July 2010. The Company must repay the total principal amount of \$1,500,000 if the notes have not been converted by this date.
- Interest is payable at 11% per annum, accrued daily and payable quarterly in arrears.
- The notes may be converted into ordinary shares at any time prior to the maturity date at an exercise price of 40 cents per share.
- For every one share issued on conversion, the company must issue the holder one share option.
- The share options are exercisable before 30 June 2011 and each option has an exercise price of 50 cents.

The following convertible notes have been repaid:

- \$210,000 on 23 December 2008;
- \$240,000 on 30 January 2009.

As at the date of this report, the balance of the convertible loan and note was \$1,050,000.

The notes have been classified into two components: a debt component (a contractual arrangement to deliver cash) and an embedded derivative financial instrument component (an option granting the holder the right, for a specified period of time, to convert it into a fixed number of ordinary shares of the Company).

The value of the financial instrument component has been determined using a Monte Carlo pricing model taking into account such factors as share price volatility, expected life, exercise price and the prevailing share price. As at 31 December 2009, the fair value of the embedded derivative option financial instrument was \$12,000.

Over the term of the notes, the financial instrument will be fair valued at each balance date and the movement in fair value recorded through the statement of comprehensive income. As the share price of the Company changes, the value of the option financial instrument will change, resulting in a change to the liability reported in the statement of financial position and an income or expense in the statement of comprehensive income.

The carrying value of the debt component as at 31 December 2009 is equal to the face value of \$1,050,000.

(c) Lease Liability

The lease liability consists of a finance lease for software licences. The weighted average effective interest rate on the leases is 9.3%.

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COMTEL CORPORATION LIMITED
ABN 30 000 386 685

Notes to the financial statements (continued)
for the half-year ended 31 December 2009

8. COMMITMENTS AND CONTINGENCIES

(a) Operating lease commitments

	December	June
	2009	2009
	\$000	\$000
Future operating lease rentals:		
Not later than one year	345	338
Later than one year	734	907
	1,079	1,245

(b) Finance lease commitments

Future finance lease payments:		
Not later than one year	125	149
Later than one year	56	110
Total minimum lease payments	181	259
Less amounts representing finance charges	(13)	(23)
Present value of minimum lease payments	168	236

(c) Capital Commitments

Software development costs:		
Not later than one year	101	262
Later than one year	-	-
	101	262

(d) Contingent assets and liabilities

There were no contingent assets or liabilities as at 31 December 2009.

9. SHARE BASED PAYMENTS

On 2 November 2009, 13,650,000 unlisted options were issued under the employee share option plan (11,700,000 have an exercise price of 4 cents and 1,950,000 have an exercise price of NIL). These options vest immediately and are exercisable until 2 November 2012. The options cannot be transferred and will not be quoted on the ASX. There are no voting rights attached to the options unless converted into ordinary shares.

The options have been valued at \$120,206. This amount has been included as an expense in the statement of comprehensive income.

The value of the options issued with an exercise price of 4 cents has been determined using the an American binominal option pricing model taking into account such factors as share price volatility, expected life, exercise price and the prevailing share price as follows:

Expected volatility:	110%
Risk free interest rate:	5.25%
Expected life of option:	3 years
Option exercise price:	4 cents
Share price at measurement date:	2.0 cents

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Notes to the financial statements (continued)
for the half-year ended 31 December 2009

10. RESTATEMENT OF PRIOR PERIOD

Correction of error in recording GST on pre paid phone card sales in prior periods.

During the year Management discovered that GST had not been remitted to the ATO upon the redemption of pre paid mobile phone card voucher sales. The error has been corrected by restating each of the affected financial statement line items for the prior period, as described below.

The effect of this correction on relevant line items and earnings per share is disclosed in the table below.

Line item affected	Pre restatement 31 Dec 2008 \$000	Post restatement 31 Dec 2008 \$000	Increase / (decrease) \$000
Statement of comprehensive income			
Income	16,768	16,577	(191)
EBITDA	2,666	2,475	(191)
Net finance costs	(1,213)	(1,248)	(35)
Income tax benefit	1,335	1,403	68
Net loss for the year	(1,409)	(1,567)	(158)
Statement of financial position			
Net deferred tax liability	561	395	(166)
Trade and other payables	7,856	9,008	1,152
Accumulated losses	(87,875)	(88,861)	986
Earnings per share	(0.9)	(1.0)	(0.1)

Basic and diluted earnings per share for the prior year have also been restated. The amount of the correction for both basic and diluted earnings per share was a reduction of 0.1 cents per share.

11. EVENTS SUBSEQUENT TO BALANCE DATE

No matters or circumstances have arisen since the end of the reporting period which have significantly affected or may significantly affect the operations of the company, the results of those operations, or the state of affairs of the company in subsequent periods.

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Directors' Declaration

In accordance with a resolution of the Directors of Comtel Corporation Limited, I state that:

- (1) In the opinion of the Directors:
- (a) the financial statements and notes of the consolidated entity are in accordance with the Corporations Act 2001, including:
 - (i) Giving a true and fair view of the financial position as at 31 December 2009 and the performance for the half-year ended on that date of the consolidated entity; and
 - (ii) Complying with Accounting Standard AASB 134 Interim Financial Reporting and the Corporations Regulations 2001; and
 - (b) There are reasonable grounds to believe that the company will be able to pay its debts as and when they become due and payable.

For and on behalf of the board



CHRIS MEEHAN
Director

Sydney, 24 February 2010

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To the members of ComTel Corporation Limited

Report on the Half-Year Financial Report

We have reviewed the accompanying half-year financial report of ComTel Corporation Limited, which comprises the statement of financial position as at 31 December 2009, and the statement of comprehensive income, statement of changes in equity and statement of cash flows for the half-year ended on that date, other selected explanatory notes and the directors' declaration of the consolidated entity comprising the company and the entities it controlled at the half-year end or from time to time during the half-year.

Directors' Responsibility for the Half-Year Financial Report

The directors of the company are responsible for the preparation and fair presentation of the half-year 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 half-year 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.

Auditor's Responsibility

Our responsibility is to express a conclusion on the half-year financial report based on our review. We conducted our review in accordance with Auditing Standard on Review Engagements ASRE 2410 *Review of Interim and Other Financial Reports Performed by the Independent Auditor of the Entity*, in order to state whether, on the basis of the procedures described, we have become aware of any matter that makes us believe that the financial report is not in accordance with the *Corporations Act 2001* including: giving a true and fair view of the consolidated entity's financial position as at 31 December 2009 and its performance for the half-year ended on that date; and complying with Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*. As the auditor of ComTel Corporation Limited and the entities it controlled during the half-year, ASRE 2410 requires that we comply with the ethical requirements relevant to the audit of the annual financial report.

A review of a half-year financial report consists of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Australian Auditing Standards and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.



Independence

In conducting our review, we have complied with the independence requirements of the *Corporations Act 2001*. We have given to the directors of the company a written Auditor's Independence Declaration, a copy of which is included in the Directors' Report.

Conclusion

Based on our review, which is not an audit, we have not become aware of any matter that makes us believe that the half-year financial report of ComTel Corporation Limited is not in accordance with the *Corporations Act 2001*, including:

- i) giving a true and fair view of the consolidated entity's financial position as at 31 December 2009 and of its performance for the half-year ended on that date; and
- ii) complying with Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*.

A handwritten signature in black ink that reads 'Ernst & Young'.

Ernst & Young

A handwritten signature in black ink that reads 'Garry Wayling'.

Garry Wayling
Partner
Sydney
Date: 24 February 2010