

COMTEL CORPORATION LIMITED
ABN 30 000 386 685

Appendix 4D
for the half-year ended 31 December 2008

Current Period: 31 December 2008

Previous Corresponding Period (PCP): 31 December 2007

1. Results for announcement to the market

	31-Dec-08 \$	31-Dec-07 \$	Change \$	Change %
Revenue from ordinary activities	16,767,523	19,787,890	(3,020,367)	(15)%
Earnings before interest, tax, depreciation, amortisation and impairment (EBITDA)	2,665,710	4,009,033	(1,343,323)	(34)%
Net (loss) / profit from ordinary activities after tax attributable to members	(1,409,341)	2,632,832	(4,042,173)	(154)%
Net (loss) / profit for the period attributable to members	(1,409,341)	2,632,832	(4,042,173)	(154)%

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	(2.1) cent	(16.6) 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 2008 and the annual financial report for the year ended 30 June 2008. It is also recommended that the Appendix 4D be considered together with any public announcements by the Company during the half-year ended 31 December 2008.

5. Acquisitions

During the half-year ended 31 December 2008, the Company made no acquisitions.

ASX Release

25 February 2009

Underlying EBITDA Consistent with PCP and Forecast

	1H09	1H08	Change VS PCP	
	\$	\$	\$	%
Mobile segment	2,762,968	4,139,691	(1,376,723)	(33.3)
Media segment	1,443,219	459,350	983,869	214.2
Corporate costs	(1,161,254)	(1,617,447)	456,193	(28.2)
Underlying EBITDA	3,044,933	2,981,594	63,339	2.1
Once off items:				
Compensation income	-	1,027,439	(1,027,439)	
Restructuring expense	(379,223)	-	(379,223)	
Reported EBITDA	2,665,710	4,009,033	(1,343,323)	(33.5)

ComTel Corporation Limited (ASX: CMO) announced today the Company's EBITDA of \$2.66 million for the six months ending 31 December 2008. EBITDA before non recurring restructuring costs of \$0.38 million was \$3.04 million. This underlying result is in line with the underlying EBITDA for the previous corresponding period of \$2.98 million (reported EBITDA of \$4.01 million which included once off compensation income of \$1.03 million relating to a dispute over the purchase of a post paid mobile customer base).

ComTel remains on track to deliver an EBITDA before restructuring costs for the full year as per the announcement of 30 September 2008.

The managed decline in mobile earnings during the first half of FY09 versus last year was offset by an increase in the Empowered media segment earnings and a reduction in corporate overheads. This is consistent with the Company's strategy of becoming one of Australia's leading on-line and mobile advertising specialists.

Movement in NPAT

	1H09	1H08	Change VS PCP	
	\$	\$	\$	%
Reported EBITDA	2,665,710	4,009,033	(1,343,323)	(33.5)
Depreciation & amortisation	(3,479,309)	(2,570,240)	(909,069)	(35.4)
Impairment	(718,150)	400,000	(1,118,150)	(279.5)
EBIT	(1,531,749)	1,838,793	(3,370,542)	(183.3)
Net finance costs	(1,212,945)	(921,122)	(291,823)	(31.7)
Income tax benefit	1,335,353	1,715,161	(379,808)	(22.1)
Net (loss) / profit after tax	(1,409,341)	2,632,832	(4,042,173)	(153.5)

Of the \$4.04 million decrease in the net profit after tax over the previous corresponding period (PCP), \$2.4 million is attributable to the following non cash items:

- increase in depreciation and amortisation of \$909k;
- movement in impairments of \$1,118k; and
- decrease in income tax benefit of \$380k.

Balance Sheet

ComTel's net assets as at 31 December 2008 increased by \$8.4 million over its net assets as at 30 June 2008 largely as a result of the rights issue which was completed in December 2008.

During the first 6 months of FY09, ComTel repaid \$1.6 million of debt from the operating cash flows of the business. As of today, the Company's loan obligations total \$8.5 million of which \$2.2 million is payable in the next 12 months. In addition, final consideration for the acquisition of Empowered is payable on 31 July 2009. These obligations are all able to be settled from the operating cash flows of the Company.

About ComTel Corporation Limited

ComTel Corporation Limited (www.comtelcorporation.com.au) is an Australian ASX listed (CMO) mobile and e-marketing company, formerly known as CommoTel. Its competitive mobile offerings incorporate permission-based advertising and internet functionalities to generate value of personal relevance to users and real-time customer reach for advertisers. ComTel has a long-term Network Capacity Agreement with Vodafone Australia, which also enables it to service wholesale customers operating their own mobile and ISP brands.

ABN 30 000 386 685



**Half-Yearly Report
for the period ended on
31 December 2008**

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 2008

The Directors submit their report for the half-year ended 31 December 2008.

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.

Kevin Weldon	Non Executive Director	Resigned 30 January 2009
David Sweet	Executive Director	
Roger Steinepreis	Non Executive Director	
Victoria Gillespie	Non Executive Director	
Phillip Pryke	Non Executive Director	Appointed 5 January 2009

PRINCIPAL ACTIVITIES

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

OPERATING AND FINANCIAL REVIEW

Operating results for the year

The consolidated entity earnings before interest, tax, depreciation, amortisation and impairment (EBITDA) for the six months to 31 December 2008 was \$2,665,710 (2007: \$4,009,033). The consolidated entity net loss after income tax for the six months to 31 December 2008 was \$(1,409,341) (2007: net profit of \$2,632,832).

SIGNIFICANT CHANGES IN THE STATE OF AFFAIRS

On 3 November 2008, the Company drew down \$5.0 million under its senior secured loan facility with Co-Investor Capital Partners Pty Ltd (Co-Investor) and \$1.75 million under the Co-Investor bridging loan facility. The funds drawn under these facilities were used to pay out the Company's bank debt of \$6.6 million with the ANZ bank.

On 4 November 2008, the Company made a share placement to Co-Investor of 19,888,091 ordinary shares at 4.5 cents per share. The proceeds raised of \$0.9 million were used to repay part of the Co-Investor \$1.75 million bridging loan facility.

On 4 November 2008, the Company issued 25,000,000 unlisted options to Co-Investor at an exercise price of 6 cents per ordinary share, exercisable until 4 November 2011. The issue was consideration for providing the \$5.0 million 3 year senior secured loan facility and the \$1.75 million bridging loan facility and was approved at the Company's annual general meeting on 31 October 2008.

On 12 December 2008, the Company successfully completed a pro rata renounceable entitlement issue which raised net proceeds of \$9.1 million. Under the prospectus issued on 3 November 2008, shareholders were entitled to apply for two new ordinary shares for every one share held on the record date of 13 November 2009 at an exercise price of 3 cents per share. The offer closed on 4 December 2008 and was fully underwritten by Co-Investor. Co-Investor's shareholding in the Company increased to 68.8% pursuant to their rights issue allotment.

On 16 December 2008, the Company paid \$7.9 million due under the Empowered Communications acquisition agreements and repaid the \$0.9 million balance of the \$1.75 million Co-Investor bridging loan from the net proceeds of the \$9.1 million rights issue.

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**Directors' Report (continued)
for the half-year ended 31 December 2008**

EVENTS SUBSEQUENT TO BALANCE DATE

On 5 January 2009, Phillip Pryke was appointed to the Board of the Company as a non-executive Director.

On 16 January 2009, Empowered Communications advised its Communitel members that the Communitel web site would be closed down on 6 April 2009. This decision resulted in an impairment of the software intangible asset of \$718,150.

On 30 January 2009, Kevin Weldon resigned as a non-executive Director and Chairman of the Board. Phillip Pryke was appointed as Chairman of the Board and Roger Steinepreis was appointed as Chairman of the Audit and Remuneration committees.

On 30 January 2009, the Company repaid \$210,000 to two convertible loan and note holders. As at the date of this report, the balance of the convertible loan and note was \$1,050,000 (30 June 2008: \$1,500,000).

AUDITOR'S INDEPENDENCE STATEMENT

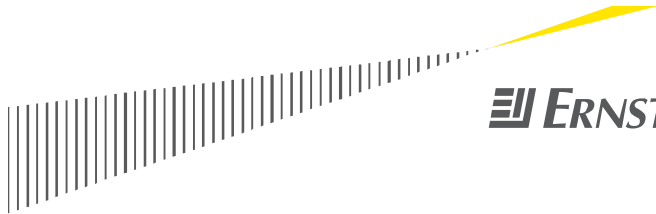
The auditor's independence declaration is included immediately following this Directors' Report, and forms part of the Directors' Report.

Signed in accordance with a resolution of the directors.

A handwritten signature in blue ink, appearing to read 'David Sweet', with a stylized flourish at the end.

DAVID SWEET
Director

Sydney
25 February 2009



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 2008, 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.

Ernst & Young

Garry Wayling
Partner
Sydney
25 February 2009

COMTEL CORPORATION LIMITED

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Income Statement for the half-year ended 31 December 2008

		Consolidated	
	Notes	2008 \$	2007 \$
Income			
Rendering of services		16,761,702	18,554,510
Other income	3(a)	5,821	1,233,380
Expenses			
Cost of sales		(7,332,689)	(9,381,941)
Employee benefits expense	3(d)	(2,759,699)	(2,924,510)
Other expenses	3(e)	(3,630,202)	(3,472,406)
Restructuring costs	3(g)	(379,223)	-
Earnings before interest, tax, depreciation, amortisation and impairment (EBITDA)		2,665,710	4,009,033
Depreciation and amortisation expense	3(b)	(3,479,309)	(2,570,240)
Impairment (loss) / recovery	3(c)	(718,150)	400,000
Earnings before interest and income tax (EBIT)		(1,531,749)	1,838,793
Net finance costs	3(f)	(1,212,945)	(921,122)
(Loss) / profit before income tax		(2,744,694)	917,671
Income tax benefit		1,335,353	1,715,161
Net (loss) / profit after income tax (NPAT)		(1,409,341)	2,632,832
Net (loss) / profit attributable to members of the parent		(1,409,341)	2,632,832
Basic and diluted (loss) / earnings per share (cents) attributable to ordinary equity holders of the parent.			
From continuing operations:			
- basic		(0.9)	2.4
- diluted		(0.9)	2.4

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

COMTEL CORPORATION LIMITED

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Balance Sheet as at 31 December 2008

		Consolidated	
		31 December	30 June
		2008	2008
		\$	\$
ASSETS	Notes		
Current Assets			
Cash and cash equivalents		2,338,839	3,113,545
Trade and other receivables		3,770,881	4,639,424
Other financial assets		95,768	294,044
Other		90,271	138,310
Inventories		86,559	164,174
Total Current Assets		6,382,318	8,349,497
Non-Current Assets			
Other financial assets		1,207,783	1,201,133
Plant and equipment		1,156,012	987,139
Intangible assets		12,142,803	16,100,703
Goodwill		16,022,608	16,066,539
Total Non-Current Assets		30,529,206	34,355,514
Total Assets		36,911,524	42,705,011
LIABILITIES			
Current Liabilities			
Trade and other payables	6	7,855,735	14,209,102
Provisions		456,956	388,432
Interest-bearing loans and borrowings	7	1,917,189	7,254,690
Income tax payable		-	255,902
Deferred income		878,754	871,647
Total Current Liabilities		11,108,634	22,979,773
Non-Current Liabilities			
Interest-bearing loans and borrowings	7	6,469,056	6,310,241
Trade and other payables	6	164,428	1,573,424
Deferred tax liabilities		560,982	1,606,598
Provisions		126,928	120,020
Total Non-Current Liabilities		7,321,394	9,610,283
Total Liabilities		18,430,028	32,590,056
Net Assets		18,481,496	10,114,955
Equity			
Contributed equity	4	102,831,953	93,450,938
Other reserves		3,524,286	3,129,419
Accumulated losses		(87,874,743)	(86,465,402)
Total Equity attributable to equity holders of the parent		18,481,496	10,114,955

The balance sheet is to be read in conjunction with the notes to the financial statements.

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**Statement of Changes in Equity
for the half-year ended 31 December 2008**

	Contributed equity \$	Accumulated losses \$	Other reserves \$	Total \$
CONSOLIDATED				
At 1 July 2008	93,450,938	(86,465,402)	3,129,419	10,114,955
Total income and expense for the Period recognised directly in equity	-	-	-	-
Net loss for the half-year	-	(1,409,341)	-	(1,409,341)
	<hr/>	<hr/>	<hr/>	<hr/>
Total income and expense for the Period	-	(1,409,341)	-	(1,409,341)
	<hr/>	<hr/>	<hr/>	<hr/>
Equity transactions:				
Issue of ordinary shares	10,043,486	-	-	10,043,486
Share issue costs	(662,471)	-	-	(662,471)
Cost of share-based payments	-	-	394,867	394,867
	<hr/>	<hr/>	<hr/>	<hr/>
At 31 December 2008	<u>102,831,953</u>	<u>(87,874,743)</u>	<u>3,524,286</u>	<u>18,481,496</u>
At 1 July 2007	51,646,925	(57,638,138)	2,760,550	(3,230,663)
Total income and expense for the Period recognised directly in equity	-	-	-	-
Net profit after tax for the half-year	-	2,632,832	-	2,632,832
	<hr/>	<hr/>	<hr/>	<hr/>
Total income and expense for the Period	-	2,632,832	-	2,632,832
	<hr/>	<hr/>	<hr/>	<hr/>
Equity transactions:				
Issue of ordinary shares	42,123,556	-	-	42,123,556
Share issue costs	(310,677)	-	-	(310,677)
Cost of share-based payments	-	-	221,628	221,628
	<hr/>	<hr/>	<hr/>	<hr/>
At 31 December 2007	<u>93,459,804</u>	<u>(55,005,306)</u>	<u>2,982,178</u>	<u>41,436,676</u>

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

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**Cash Flow Statement
for the half-year ended 31 December 2008**

	Consolidated 2008 \$	2007 \$
Cash flows from operating activities		
Receipts from customers	18,922,991	18,014,857
Payments to suppliers and employees	(16,489,304)	(14,979,775)
Payments for restructuring	(285,998)	-
Interest received	61,399	119,552
Interest paid	(1,091,627)	(342,150)
Income tax paid	(2,039)	(227,739)
Net cash provided by operating activities	<u>1,115,422</u>	<u>2,584,745</u>
Cash flows from investing activities		
Payments for property, plant and equipment	(73,529)	(364,090)
Payment for intangible assets	(47,370)	(5,676,351)
Payment for shares in subsidiary net of cash acquired	(5,883,482)	(11,480,120)
Costs incurred on acquisition of subsidiary	-	(488,244)
Loan given	-	(100,000)
Proceeds from repayment of loan	-	500,000
Net cash used in investing activities	<u>(6,004,381)</u>	<u>(17,608,805)</u>
Cash flows from financing activities		
Proceeds from issues of shares	10,043,485	7,556,456
Rights issue capital raising costs	(662,471)	(310,677)
Proceeds from borrowings	6,750,000	15,300,000
Repayment of borrowings:		
- Repayment of bank loan	(7,125,000)	(925,000)
- Repayment of convertible notes	(240,000)	(3,000,000)
- Repayment of related party loans	(2,000,000)	-
- Repayment of loan from external parties	(321,774)	(477,144)
- Repayment of bridging loan	(1,750,000)	-
Repayment of finance lease liabilities	(68,085)	(30,056)
Payment of finance fees	(511,902)	(287,267)
Net cash provided by financing activities	<u>4,114,253</u>	<u>17,826,312</u>
Net (decrease) / increase in cash and cash equivalents held	(774,706)	2,802,252
Cash and cash equivalents at beginning of period	3,113,545	699,946
Cash and cash equivalents at end of period	<u>2,338,839</u>	<u>3,502,198</u>

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 Statement for the half-year ended 31 December 2008

1. CORPORATE INFORMATION

The financial report of ComTel Corporation Limited (the Company) for the half-year ended 31 December 2008 was authorised for issue in accordance with a resolution of the directors on 25 February 2009. 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 2008 has been prepared in accordance with AASB 134 Interim Financial Reporting and the Corporations Act 2001.

The condensed 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 2008 and considered together with any public announcements made by the Company during the half-year ended 31 December 2008 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 2008 the group has an excess of current liabilities over current assets of \$4.7 million (30 June 2008: \$14.6 million). This excess is due in part to the difference between the payment terms of some trade creditors and the trade receivable payment terms. Included in current liabilities as at 31 December 2008 are trade creditors totalling \$4.4 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.

Included in current liabilities as at 31 December 2008 is an Other Payables amount of \$1.3 million, being the final agreed deferred acquisition consideration payable to the Empowered vendors on 31 July 2009. Also included in current liabilities as at 31 December 2008 is Deferred Income of \$0.9 million. When this revenue received in advance is recognised as revenue in the income statement it will contribute to that period's earnings. The gross margin incorporated in deferred income on the balance sheet as at 31 December 2008 is estimated to be \$0.5 million (30 June 2008: \$0.5 million).

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

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**Notes to the Financial Statement (continued)
for the half-year ended 31 December 2008**

2. BASIS OF PREPARATION AND ACCOUNTING POLICIES (Continued)

(b) Significant accounting policies

The accounting policies and methods of computation are the same as those adopted in the most recent annual financial report. The Company has not elected to early adopt any new standards or amendments.

Certain Australian Accounting Standards and Interpretations have been recently issued or amended but are not yet effective. These standards have not yet been adopted by ComTel Corporation Limited in the 31 December 2008 half year financial report. The Directors are in the process of finalising their assessment of the impact of these standards and interpretations to the extent relevant to the Company.

COMTEL CORPORATION LIMITED

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**Notes to the Financial Statement (continued)
for the half-year ended 31 December 2008**

3. REVENUE AND EXPENSES

	Consolidated	
	2008	2007
	\$	\$
(a) Other income		
Customer base purchase settlement income (1)	-	1,027,439
Sundry income	5,821	205,941
	<u>5,821</u>	<u>1,233,380</u>
(b) Depreciation and amortisation		
Depreciation:		
Plant and equipment	192,189	126,618
Amortisation of intangible assets:		
Mobile customer base	1,643,365	1,622,194
Media member base	200,000	100,000
Software	1,443,755	721,428
	<u>3,479,309</u>	<u>2,570,240</u>
(c) Impairment		
Impairment of intangible software assets	718,150	-
Recovery of loan previously impaired	-	(400,000)
	<u>718,150</u>	<u>(400,000)</u>
(d) Employee benefits expense		
Salaries and wages	2,343,728	2,393,310
Share based payments	-	193,625
Superannuation	201,584	151,684
Leave	28,758	(43,993)
Payroll tax	108,304	94,303
Training and recruitment	61,611	127,001
Other	15,714	8,580
	<u>2,759,699</u>	<u>2,924,510</u>
(e) Other expenses		
Billing expenses	374,776	555,344
Communication expenses	219,379	183,782
Director fees	379,794	437,474
Rent & office supplies	419,840	435,794
Marketing and retention expenses	204,125	376,525
Merchant fees	223,710	187,505
Bad debts	266,648	271,300
Professional fees	279,909	219,368
Other	1,262,021	805,314
	<u>3,630,202</u>	<u>3,472,406</u>

(1) This income resulted from the settlement of a dispute over the migration of post paid customers.

COMTEL CORPORATION LIMITED
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Notes to the Financial Statement (continued)
for the half-year ended 31 December 2008

3. REVENUE AND EXPENSES (continued)

	Consolidated	
	2008	2007
	\$	\$
(f) Net Finance costs		
Interest income	(61,399)	(119,549)
Interest expense	1,204,173	604,065
Fair value adjustment to borrowings	(62,065)	(95,903)
Accretion expense/ (income) – convertible note	54,248	(70,826)
Finance fees	243,757	198,266
Fair value adjustment of the convertible note option financial instrument	(165,769)	405,069
	<u>1,212,945</u>	<u>921,122</u>
(g) Restructuring costs		
Redundancy costs	282,307	-
Inventory write off	96,916	-
	<u>379,223</u>	<u>-</u>

4. CONTRIBUTED EQUITY

Issued and paid-up capital

	Consolidated 31 December 2008		Consolidated 30 June 2008	
	Number	\$	Number	\$
Fully paid ordinary shares	<u>457,426,101</u>	<u>102,831,953</u>	<u>132,587,276</u>	<u>93,450,938</u>
Movements in shares on issue				
Beginning of the financial period	132,587,276	93,450,938	802,723,890	51,646,925
Issued in relation to rights issue	304,950,734	9,148,522	214,228,900	4,284,833
Issued in relation to placement	19,888,091	894,964	1,121,000,107	31,217,100
Issued in relation to conversion of options to ordinary shares	-	-	513,675,207	6,621,623
Share issue expenses	-	(662,471)	-	(319,822)
End of financial period	<u>457,426,101</u>	<u>102,831,953</u>	<u>2,651,628,104</u>	<u>93,450,659</u>
Share consolidation: 20 to 1 on 22 January 2008 (a)	-	-	132,581,405	-
Issued in relation to conversion of options to ordinary shares	-	-	5,871	279
End of the financial period	<u>457,426,101</u>	<u>102,831,953</u>	<u>132,587,276</u>	<u>93,450,938</u>

(a) On the 22 January 2008 the Company completed a twenty to one share consolidation.

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Notes to the Financial Statement (continued) for the half-year ended 31 December 2008

5. SEGMENT INFORMATION

The Group's primary segment reporting format is business segments as the Group's risks and returns are affected predominantly by differences in the products and services produced.

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.

Business Segments

The following tables present revenue and profit / (loss) information regarding business segments for the half-year ending 31 December 2008 and 31 December 2007.

	Mobile	Media	Total
	\$	\$	\$
31 December 2008			
Revenue			
Sales to external customers	13,331,841	3,429,861	16,761,702
Other revenue	5,821	-	5,821
Inter-segment sales	-	80,920	80,920
Total segment revenue	13,337,662	3,510,781	16,848,443
Inter-segment elimination			(80,920)
Total consolidated revenue			16,767,523
Result			
Restructuring costs	(314,950)	(64,273)	(379,223)
EBITDA before unallocated expenses	2,448,018	1,378,946	3,826,964
Unallocated expenses			(1,161,254)
EBITDA			2,665,710
EBITDA before unallocated expenses	2,448,018	1,378,946	3,826,964
Depreciation and amortisation	(1,813,884)	(1,665,425)	(3,479,309)
Impairment loss	-	(718,150)	(718,150)
EBIT before unallocated expenses	634,134	(1,004,629)	(370,495)
Unallocated expenses			(1,161,254)
Loss before interest and income tax (EBIT)			(1,531,749)
Net finance costs			(1,212,945)
Loss before income tax			(2,744,694)
Income tax benefit			1,335,353
Net loss for the period			(1,409,341)

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Notes to the Financial Statement (continued) for the half-year ended 31 December 2008

5. SEGMENT INFORMATION (continued)

	Mobile	Media	Total
31 December 2007	\$	\$	\$
Revenue			
Sales to external customers	17,548,736	1,005,774	18,554,510
Other revenue	1,233,380	-	1,233,380
Inter-segment sales	-	39,777	39,777
Total segment revenue	18,782,116	1,045,551	19,827,667
Inter-segment elimination			(39,777)
Total consolidated revenue			19,787,890
Result			
EBITDA before unallocated expenses	5,167,130	459,350	5,626,480
Unallocated expenses			(1,617,447)
EBITDA			4,009,033
EBITDA before unallocated expenses	5,167,130	459,350	5,626,480
Depreciation and amortisation	(1,748,811)	(821,429)	(2,570,240)
Impairment recovery	400,000	-	400,000
EBIT before unallocated expenses	3,818,319	(362,079)	3,456,240
Unallocated expenses			(1,617,447)
Profit before interest and income tax (EBIT)			1,838,793
Net finance costs			(921,122)
Profit before income tax			917,671
Income tax benefit			1,715,161
Net profit for the period			2,632,832

6. TRADE AND OTHER PAYABLES

	Consolidated	
	31 Dec 2008	30 June 2008
	\$	\$
Current		
Trade payables and accruals (a)	6,555,735	8,398,256
Deferred consideration for acquisition of subsidiary (b)	1,300,000	5,810,846
	<u>7,855,735</u>	<u>14,209,102</u>
Non-current		
Operating lease incentive accrual	164,428	156,857
Deferred consideration for acquisition of subsidiary (b)	-	1,416,567
	<u>164,428</u>	<u>1,573,424</u>

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

(b) The 31 December 2008 balance of \$1.3 million represents the Empowered fixed and final deferred consideration, due on 31 July 2009.

COMTEL CORPORATION LIMITED

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Notes to the Financial Statement (continued) for the half-year ended 31 December 2008

7. INTEREST-BEARING LOANS AND BORROWINGS

	Consolidated	
	31 Dec 2008	30 June 2008
	\$	\$
Current		
Secured bank loan (a)	-	4,500,000
Secured loan from external party (b)	766,714	722,279
Secured loan from related parties (c)	981,638	-
Unsecured loan from related parties (d)	-	1,957,688
Obligations under finance lease contracts (f)	168,837	74,723
	<u>1,917,189</u>	<u>7,254,690</u>
Non-current		
Secured bank loan (a)	-	2,625,000
Secured loans from external party (b)	1,681,139	2,047,348
Secured loan from related parties (c)	3,347,456	-
Convertible notes (e)	1,260,000	1,445,752
Financial instrument (e)	12,000	177,769
Obligations under finance lease contracts (f)	168,461	14,372
	<u>6,469,056</u>	<u>6,310,241</u>

(a) Secured bank loan

This loan was entered into on 15 November 2007 and was used to fund \$8,000,000 of the initial \$10,000,000 Empowered Communications cash acquisition consideration. This loan was settled on 3 November 2008.

(b) Secured loan from external party

This Vodafone loan was entered into on 18 November 2004 for the novation of post paid customer contracts. The loan is secured by fixed and floating charges over the assets and undertakings of the Mobile segment subsidiaries. In the event of a default, Vodafone may in its discretion notify the Company that the breach constitutes an event for which the Company must assign or novate the customers back to Vodafone.

The face value of the monthly loan repayments are \$80,000 with a final balloon repayment of \$1,438,815 due in May 2010 when the term of the loan ends. No interest is payable on the loan. The loan balance has been stated in the balance sheet at its fair value. The total face value of the loan as at 31 December 2008 was \$2,718,815 (total carrying value of \$2,447,853).

(c) 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 June 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.

d) Unsecured loan from related parties

This fixed rate loan was entered into on 15 November 2007 with the vendors of Empowered Communications Pty Ltd and was used to fund \$2,000,000 of the initial \$10,000,000 Empowered Communications cash acquisition consideration. The interest rate was 12% p.a. This loan was settled on 16 December 2008.

COMTEL CORPORATION LIMITED
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Notes to the Financial Statement (continued)
for the half-year ended 31 December 2008

7. INTEREST-BEARING LOANS AND BORROWINGS (continued)

(e) Convertible notes and financial instruments

On 10 July 2007, four parties entered into loan and convertible 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.

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.

As at 30 June 2008, the face value of the convertibles notes was \$1,500,000. On 23 December 2008, one of the convertible notes was repaid with a face value of \$240,000. The remaining face value of convertible notes on issue as at 31 December 2008 was \$1,260,000. On 30 January 2009, the Company repaid \$210,000 to two convertible loan and note holders. 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 2008, 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 income statement. 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 balance sheet and an income or expense in the income statement.

The carrying value of the debt component as at 31 December 2008 is equal to the face value of \$1,260,000.

(f) Lease Liability

The lease liability consists of a finance lease for equipment and software licences. The weighted average effective interest rate on the leases is 9.7%.

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**Notes to the Financial Statement (continued)
for the half-year ended 31 December 2008****8. BUSINESS COMBINATIONS****Empowered Communications (Holdings) Pty Ltd**

On 1 October 2007 the Company acquired 100% of the shares in Empowered Communications (Holdings) Pty Limited, an unlisted private company based in Australia, specialising in permission based online advertising.

The total cost of the combination was \$23,778,601 and comprised an issue of equity instruments, the payment of cash, and costs directly attributable to the combination. The group issued 250,000,000 ordinary shares with a fair value of 2 cents each (prior to the 7 January 2008 twenty to one share consolidation).

The fair value of the consolidated identifiable assets and liabilities of Empowered Communications (Holdings) Pty Ltd and its subsidiaries as at the date of acquisition was:

	Recognised on acquisition	Carrying Value
	\$	\$
Cash and cash equivalents	1,340,216	1,340,216
Trade receivables	955,560	955,560
Other current assets	31,375	31,375
Plant and equipment	80,225	80,225
Intangible assets - member base	808,000	-
Intangible assets - software	7,214,290	-
Other non-current assets	2,402	2,402
Total assets	10,432,068	2,409,778
Trade payables	91,884	91,884
Other payables	523,752	523,752
Provisions	730,710	730,710
Total liabilities	1,346,346	1,346,346
Fair value of identifiable net assets	9,085,722	1,063,432
Goodwill arising on acquisition	14,692,879	
Cost of acquisition	23,778,601	
Cost of the acquisition comprises:		
Shares issued, at fair value	5,000,000	
Cash paid	17,389,936	
Payable in a future period (refer note 6b)	1,300,000	
Direct costs relating to the acquisition	88,665	
	23,778,601	
The cash outflow on acquisition is as follows:		
Net cash acquired with the subsidiary	1,340,216	
Cash paid in prior period	(11,506,454)	
Cash paid in current period	(5,883,482)	
Net cash consolidated cash outflow	(16,049,720)	

During the September 2008 quarter, the Directors finalised the initial accounting for the Empowered acquisition. Refer to note 11 for the effects of this change on prior periods.

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Notes to the Financial Statement (continued)
for the half-year ended 31 December 2008

8. BUSINESS COMBINATIONS (continued)

From the date of acquisition, Empowered has contributed \$3,257,230 in EBITDA and \$2,615,932 in net losses after tax to the consolidated group.

A key factor contributing towards the goodwill of \$14,692,879 relates to the synergies expected to be achieved as a result of combining the Empowered group of companies with the rest of the Group. The services provided by the mobile and media segments can be cross sold to the mobile customer base and the media member base giving the Company the capacity to generate organic revenue growth. Goodwill can also be attributed to the workforce of the acquired business.

9. COMMITMENTS AND CONTINGENCIES

(a) Operating lease commitments

	December 2008	June 2008
	\$	\$
Future operating lease rentals:		
Not later than one year	330,785	324,042
Later than one year	1,079,119	1,244,511
	<u>1,409,904</u>	<u>1,568,553</u>

(b) Finance lease commitments

	December 2008	June 2008
	\$	\$
Future finance lease payments:		
Not later than one year	192,348	88,028
Later than one year	180,910	7,336
Total minimum lease payments	<u>373,258</u>	<u>95,364</u>
Less amounts representing finance charges	<u>(35,960)</u>	<u>(6,269)</u>
Present value of minimum lease payments	<u>337,298</u>	<u>89,095</u>

(c) Capital Commitments

There were no capital commitments as at 31 December 2008.

(d) Contingent assets and liabilities

There were no contingent assets or liabilities as at 31 December 2008.

10. SHARE BASED PAYMENT

On 4 November 2008, 25,000,000 unlisted options were granted to Co-Investor at an exercise price of 6 cents per ordinary share. These options vest immediately and are exercisable until 4 November 2011. The options were granted as consideration for the Co-Investor loan of \$5m.

The options have been valued at \$394,867. This amount has been included as a loan transaction cost and will be amortised to the income statement over the period of the Co-Investor loan.

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**Notes to the Financial Statement (continued)
for the half-year ended 31 December 2008****10. SHARE BASED PAYMENT (continued)**

The value of the options issued 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:	4.27%
Expected life of option:	3 years
Option exercise price:	6 cents
Share price at measurement date:	2.9 cents

11. RESTATEMENT OF PRIOR PERIOD

During the September 2008 quarter, the Directors completed their review for any further intangible assets to be recognised separately as a result of the Empowered Communications acquisition. The annual report for the year ended 30 June 2008 reflected the initial recording of this acquisition on a provisional basis.

The Directors review identified the following two intangible assets which have been recognised separately for the first time in this half year report for the period ending 31 December 2008:

1. Member base at an initial fair value of \$808,000 to be amortised over its useful life of 2 years.
2. Software at an initial fair value of \$7,214,290 to be amortised over its useful life of 2.5 years

The finalisation of the accounting for the Empowered Communications acquisition resulted in a restatement of each of the affected financial statement line items for the prior year as described below.

Line item affected	Post restatement 31 Dec 2007 \$	Pre restatement 31 Dec 2007 \$	Increase / (decrease) \$
Income Statement			
Intangible assets amortisation expense	2,443,622	1,622,194	821,428
Income tax benefit	1,715,161	1,468,733	246,428

	Post restatement 30 June 2008 \$	Pre restatement 30 June 2008 \$	Increase / (decrease) \$
Balance sheet			
Net intangible assets	16,100,703	10,542,700	5,558,003
Goodwill	16,066,539	23,846,429	(7,779,890)
Deferred tax liability	1,606,598	2,103,484	(496,886)
Accumulated losses	86,465,403	84,740,402	1,725,001

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 0.5 cents per share.

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Notes to the Financial Statement (continued)
for the half-year ended 31 December 2008

11. EVENTS SUBSEQUENT TO BALANCE DATE

On 5 January 2009, Phillip Pryke was appointed to the Board of the Company as a non-executive Director.

On 16 January 2009, Empowered Communications advised its Communitel members that the web site would be closed down on 6 April 2009. This decision resulted in an impairment of the software intangible asset of \$718,150.

On 30 January 2009, Kevin Weldon resigned as a non-executive Director and Chairman of the Board. Phillip Pryke was appointed as Chairman of the Board and Roger Steinepreis was appointed as Chairman of the Audit and Remuneration committees.

On 30 January 2009, the Company repaid \$210,000 to two convertible loan and note holders. As at the date of this report, the balance of the convertible loan and note was \$1,050,000 (30 June 2008: \$1.5 million).

COMTEL CORPORATION LIMITED
ABN 30 000 386 685

Directors' Declaration

In the opinion of the Directors of ComTel Corporation Limited:

1. the financial statements and notes of the consolidated entity are in accordance with the Corporations Act 2001, including:
 - (a) giving a true and fair view of the financial position as at 31 December 2008 and the performance for the half-year ended on that date of the consolidated entity; and
 - (a) complying with Accounting Standard AASB 134 "Interim Financial Reporting" and the Corporations Regulations 2001; and
2. there are reasonable grounds to believe that the Company will be able to pay its debts as and when they become due and payable.

Dated this 25 day of February 2009.

Signed in accordance with a resolution of the Directors.

A handwritten signature in blue ink, appearing to read 'David Sweet', with a stylized flourish at the end.

DAVID SWEET
Director

Independent Review Report

To the members of ComTel Corporation Limited

Report on the Condensed Half-Year Financial Report

We have reviewed the accompanying half-year financial report of ComTel Corporation Limited, which comprises the balance sheet as at 31 December 2008, and the income statement, statement of changes in equity and cash flow statement 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 an Interim Financial Report 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 2008 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.

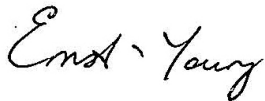
Independence

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 interim 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 2008 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 stylized, handwritten signature of 'Ernst & Young' in a cursive script.

Ernst & Young

A handwritten signature of 'Garry Wayling' in a cursive script.

Garry Wayling
Partner
Sydney
25 February 2009