

**PEOPLE TELECOM LIMITED**  
**ACN 009 273 152**

**ANNUAL FINANCIAL REPORT**

**FOR THE YEAR ENDED 30 JUNE 2005**

# COMPANY DIRECTORY

## DIRECTORS

Barry John Hamilton (Non Executive Chairman)  
Ryan Michael O'Hare (Chief Executive Officer & Executive Director)  
Brendan William Fleiter (Non-Executive)  
Colin Joseph Marland (Non-Executive)  
Martin Edward Wylie (Non-Executive)

## COMPANY SECRETARY

Wayne Robert Wanders

## REGISTERED AND HEAD OFFICE

Level 9, People Telecom Centre  
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North Sydney NSW 2060  
Telephone: (02) 9458 5888  
Facsimile (02) 9458 5800  
Email: [company.secretary@peopletelecom.com.au](mailto:company.secretary@peopletelecom.com.au)  
Website: [www.peopletelecom.com.au](http://www.peopletelecom.com.au)

## AUDITORS

Pitcher Partners

## SOLICITORS

Sommerville & Co  
Clayton Utz

## BANKERS

St George Bank

## SHARE REGISTRY

Computershare Investor Services  
Level 2, Bank Building, 45 St Georges Terrace  
Perth WA 6000  
Telephone: (08) 9323 2000  
Facsimile: (08) 9323 2033

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**People Telecom Limited**  
**Directors' Report**

Your directors present their report on the consolidated entity for the financial year ended 30 June 2005.

**Principal Activities**

The principal activity of the consolidated entity during the course of the financial year was the provision of telecommunications services to the Australian corporate and public markets.

**Results**

The loss from ordinary activities after income tax of the consolidated entity was \$42,690 for the financial year ended 30 June 2005 (2004: loss of \$4,772,812).

The results for the financial year ended 30 June 2005 include the results of People Telecommunications Pty Limited and its subsidiaries (PTCPL). PTCPL was acquired on 29 June 2004 and accordingly PTCPL's financial results were not included in the results of the consolidated entity for the financial year ended 30 June 2004.

To understand both the impact of the acquisition of PTCPL and the underlying growth of the consolidated entity, set out below are two tables.

Table 1 sets out in summarized form the results of the consolidated entity as reported for the financial years ended 30 June 2004 and 30 June 2005. As noted above, the results of PTCPL are only included in the financial year ended 30 June 2005. This is termed the "reported performance".

Table 2 sets out in summarized form the results of the consolidated entity for the financial years ended 30 June 2004 and 30 June 2005 as if PTCPL was acquired prior to 1 July 2003. This is termed the "underlying performance".

**People Telecom Limited**  
**Directors' Report**

Table 1: Reported Performance

	Reported Performance			
	Year ended 30 June 2004	Year ended 30 June 2005	Growth year on year	% Growth year on year
Income from rendering Telecommunications services	\$16,188,274	\$100,041,117	\$83,852,843	518%
Cost of sales	(\$12,600,200)	(\$75,085,920)	(\$62,485,720)	496%
Gross margin	<u>\$3,588,074</u> 22.16%	<u>\$24,955,197</u> 24.94%	<u>\$21,367,123</u> 2.78%	596%
Operating costs net of other income	(\$6,152,980) 38.01%	(\$22,317,418) 22.31%	(\$16,164,438) 15.70%	263%
EBITDA	<u>(\$2,564,906)</u> -15.84%	<u>\$2,637,779</u> 2.64%	<u>\$5,202,685</u> 18.48%	203%
Depreciation / Interest	(\$2,207,906)	(\$773,036)	\$1,434,870	65%
Profit / (Loss) before amortisation of goodwill	<u>(\$4,772,812)</u>	<u>\$1,864,743</u>	<u>\$6,637,555</u>	139%
Amortisation of goodwill	\$0	(\$1,907,433)	(\$1,907,433)	100%
(Loss) from ordinary activities before income tax expense	<u>(\$4,772,812)</u>	<u>(\$42,690)</u>	<u>\$4,730,122</u>	99%
Segment Revenue				
Fixed Wire	\$0	\$55,975,126	\$55,975,126	100%
Mobile	\$0	\$17,522,940	\$17,522,940	100%
Data	\$16,188,274	\$25,213,031	\$9,024,757	56%
CPE and other	\$0	\$1,330,020	\$1,330,020	100%
	<u>\$16,188,274</u>	<u>\$100,041,117</u>	<u>\$83,852,843</u>	518%

**People Telecom Limited**  
**Directors' Report**

Table 2: Underlying Performance

	Underlying Performance			
	Year ended 30 June 2004	Year ended 30 June 2005	Growth year on year	% Growth year on year
Income from rendering Telecommunications services	\$72,543,768	\$100,041,117	\$27,497,349	38%
Cost of sales	(\$54,403,217)	(\$75,085,920)	(\$20,682,703)	38%
Gross margin	<u>\$18,140,551</u>	<u>\$24,955,197</u>	<u>\$6,814,646</u>	<u>38%</u>
	25.01%	24.94%	-0.06%	
Operating costs net of other income	(\$19,178,978)	(\$22,317,418)	(\$3,138,440)	16%
	26.44%	22.31%	4.13%	
EBITDA	<u>(\$1,038,427)</u>	<u>\$2,637,779</u>	<u>\$3,676,206</u>	<u>354%</u>
	-1.43%	2.64%	4.07%	
Depreciation / Interest	(\$2,262,474)	(\$773,036)	\$1,489,438	66%
Profit / (Loss) before amortisation of goodwill	<u>(\$3,300,901)</u>	<u>\$1,864,743</u>	<u>\$5,165,644</u>	<u>156%</u>
Amortisation of goodwill	(\$1,907,434)	(\$1,907,433)	\$1	0%
(Loss) from ordinary activities before income tax expense	<u>(\$5,208,335)</u>	<u>(\$42,690)</u>	<u>\$5,165,645</u>	<u>99%</u>
Segment Revenue				
Fixed Wire	\$44,720,572	\$55,975,126	\$11,254,554	25%
Mobile	\$9,167,114	\$17,522,940	\$8,355,825	91%
Data	\$17,659,908	\$25,213,031	\$7,553,123	43%
CPE and other	\$996,174	\$1,330,020	\$333,846	34%
	<u>\$72,543,768</u>	<u>\$100,041,117</u>	<u>\$27,497,348</u>	<u>38%</u>

## Review of Operations

### Overview

The underlying performance for the financial year ended 30 June 2005 discloses:

- Revenue grew 38% to \$100 million (2004 underlying: \$72.5 million)
- EBITDA turned positive to \$2.6 million (2004 underlying: negative \$1.0 million).
- Reduction in operating costs from 26.4% to 22.3% as a percentage of revenue during the financial year.
- Net profit before amortisation of goodwill turned positive to \$1.9 million (2004 underlying: negative \$3.3 million).

**People Telecom Limited**  
**Directors' Report**

*Segment Review*

Data revenue grew by 43% to \$25.2 million due to strong demand in Broadband and on-net (our network) fibre services and a significant expansion of the company's national data centre. The rollout of multi-site virtual networking services across the country has resulted in a significant upward trend in customers acquiring bundled services.

Mobile revenue grew 91% to \$17.5 million with monthly average revenue per user of \$102. Mobile sales continue to climb as the market responds to our sophisticated on-line peopleNET fleet management tools. The expansion of the product range to include CDMA has seen connections increase over the year. Mobile data services are also delivering to the revenue line driven by new products such as Blackberry.

Fixed Voice revenue grew 25% to \$56.0 million over the period.

*Business Strategy*

The consolidated entity's mission is to be preferred provider of communication solutions to small to medium organisations and the home office market.

The consolidated entity's strategy to achieve this includes:

- Ensuring the culture and actions of the consolidated entity reflect a "service first, always" attitude;
- Focusing new sales activity of the consolidated entity on its target market; and,
- Continuing to cross sell other products and services to the consolidated entity's existing customer base.

*Prospects*

The outlook for the 2006 financial year continues to show significant organic growth driving revenue in excess of \$125 million with corresponding strong growth in EBITDA and net profit.

**People Telecom Limited  
Directors' Report**

**Directors**

The directors in office at any time during or since the end of the year are:

**Name, Qualifications and Special Responsibilities**

Barry John Hamilton  
B Com., FCA  
Non-Executive Chairman

**Experience**

Mr Hamilton was one of the co-founders of People Telecommunications Pty Limited and served as a Director since its inception in 2000. Mr Hamilton is an experienced public company director with significant experience in capital and financial raisings and project management. Mr Hamilton spent 12 years with Hudson Conway Limited where he was a member of the Board and the Director of Finance and Administration from 1990 to 1999. Mr Hamilton was a Non-Executive Director of Crown Limited from its establishment in 1993 until the merger of Crown Limited and Publishing and Broadcasting Limited in June 1999.

Mr Hamilton is Chairman of Directors of the Crazy John's group of companies and director of several unlisted public companies.  
Appointed 29 June 2004

Ryan Michael O'Hare  
Chief Executive Officer and  
Executive Director

Mr O'Hare was one of the co-founders of People Telecommunications Pty Limited and served as a Director and its Chief Executive Officer since its inception in 2000. Mr O'Hare was also one of the two co-founders of the corpTEL group of companies, and served as its Chairman and Chief Executive Officer from its inception in January 1994 through to its sale to AAPT Limited in 1998. In 1998, prior to its sale to AAPT, corpTEL was one of Australia's largest and most successful privately owned telecom service providers with revenues exceeding \$AUS100m. Prior to this, Mr O'Hare managed Australia's leading energy and telecommunications cost management company, Professional Energy Services Pty Ltd, serving as its General Manager in Sydney and Los Angeles.  
Appointed 29 June 2004

Brendan William Fleiter LLB,  
BJuris  
Non-Executive Director

Mr Fleiter is Managing Director of the Crazy John's group of companies and brings substantial experience in the distribution of telecommunications products and services in Australia. He is also a qualified lawyer.  
Appointed 29 June 2004

**People Telecom Limited  
Directors' Report**

Colin Joseph Marland  
Non-Executive Director

Mr Marland has more than 20 years experience in the telecommunications industry and specialises in the conception and start-up phase of telecommunications companies and has successfully listed several companies on ASX. Mr Marland was a co-founder of People Telecommunications Pty Limited and the corpTEL Group prior to its sale in 1998 to AAPT Limited. He has served on the Board of the Telecommunications Ombudsman and several listed telecommunications companies and is also the CEO of the Chifley Group.

Appointed 12 September 2003

Martin Edward Wylie LLB  
Non-Executive Director

Mr Wylie is the Chief Executive Officer of Callplus Limited, which is New Zealand's third-largest fixed line carrier. Mr Wylie is an experienced senior executive and company director. He has extensive experience in a wide range of businesses including telecommunications and internet service provision. Mr Wylie spent nine years as company secretary and general counsel of Telecom Corporation of New Zealand. He was the Chief Executive Officer of Trans-Tasman ISP iHug, which merged with Inct.

Appointed 1 September 2004

Malcolm Dick  
Non-Executive Director

Mr Dick has extensive experience in the telecommunication industry including roles as the CEO of Netway Telecommunications, a joint venture between Telecom NZ and Freightways Group. Mr Dick has subsequently established Call Australia Pty Ltd, a switchless carrier that was sold to RSLCOM. Mr Dick is currently a part owner of CallPlus Limited, which is New Zealand's third-largest fixed line carrier and Slingshot, a dial-up Internet Service Provider. He is also a director and shareholder of Argent Networks Limited.

Appointed 12 September 2003

Resigned 1 September 2004

David Vilensky BA LLB  
Non-Executive Director

Mr Vilensky is a practising solicitor and managing partner of Perth law firm Bowen Buchbinder Vilensky. He has more than 20 years of experience in the field of corporate and business law and in commercial and corporate management. Mr Vilensky has acted for a number of listed and public companies.

Appointed 28 August 2001

Resigned 23 November 2004

**People Telecom Limited**  
**Directors' Report**

**Company Secretary**

**Name, Qualifications and Special Responsibilities**

Wayne Robert Wanders  
B Com., CA

**Experience**

Mr Wanders is also the Chief Financial Officer of the consolidated entity and has significant finance experience including more than 10 years in the telecommunication industry.  
Appointed 29 June 2004

**Meetings of directors**

The number of Directors' meetings held (including meetings of committees of Directors) and number of meetings attended by each of the Directors of the Company during the financial year were:

Director	Board Meetings		Audit Committee		Remuneration Committee		Corporate Governance Committee		Management Committee	
	A	B	A	B	A	B	A	B	A	B
B. Hamilton	11	11	4	4	3	3	-	-	13	13
R. O'Hare	11	11	-	-	-	-	-	-	13	13
B. Fleiter	11	11	-	-	3	3	2	2	13	13
C. Marland	11	11	4	4	-	-	2	2	13	13
D. Vilensky	5	5	-	-	-	-	-	-	-	-
M. Wylie	9	9	-	-	-	-	-	-	-	-
M. Dick	0	2	-	-	-	-	-	-	-	-

A- Number of meetings attended

B- Number of meetings held during the time the director held office during the financial year.

**Committee Membership**

At the date of this report, the consolidated entity had an Audit Committee, a Remuneration Committee, Corporate Governance Committee and a Management Committee.

Members acting on the committees of the Board were:

Audit	Remuneration	Corporate Governance	Management
B. Hamilton (c)	B. Fleiter (c)	C. Marland (c)	B. Hamilton (c)
C. Marland	B. Hamilton	B. Fleiter	R. O'Hare
			B. Fleiter
			C. Marland

Notes: (c) Designates the Current Chairman of the Committee

**People Telecom Limited  
Directors' Report**

**Directors' Security Holdings**

As at the date of this report the directors' share and option holdings and relevant interests therein were:

	<b>Fully Paid Ordinary Shares</b>	<b>Unlisted Options</b>
B. Hamilton	33,725,758	-
R. O'Hare	49,166,090	-
B. Fleiter	67,351,515	-
C. Marland	47,260,635	-
M. Wylie	500,000	-

**Dividends**

No dividends have been paid or declared since the start of the financial year.

**Employees**

The consolidated entity employed 135 people at 30 June 2005 (30 June 2004: 115).

**Significant Changes in State of Affairs**

As stated above, the consolidated entity acquired People Telecommunications Pty Limited and its subsidiaries (PTCPL) on 29 June 2004. The operations of PTCPL were not included in the Statements of Financial Performance and Cash Flows for the financial year ended 30 June 2004, but are included in both for the financial year ended 30 June 2005.

**After Balance Date Events**

There have not been any significant events occurring after 30 June 2005 up to date of this report.

**Environmental Issues**

The consolidated entity's operations are not regulated by any significant environmental regulation under a law of the Commonwealth or of a State or Territory.

**Share Options**

As at the date of this report, there were 3,500,000 unissued ordinary shares under option (3,500,000 at reporting date). Refer to Note 20(e) of the Financial Statements for further details of the options outstanding.

Option holders do not have any right, by virtue of the option, to participate in any share issue of the company or any related body corporate or in the issue of any other registered scheme.

During the financial year, employees have exercised the option to acquire 75,000 fully paid ordinary shares in the company at a weighted average exercise price of 10 cents. Since the end of the financial year no further options have been exercised.

**People Telecom Limited**  
**Directors' Report**

**Indemnification and Insurance of Directors and Officers**

During the financial year the company has given an indemnity or entered an agreement to indemnify, or paid or agreed to pay insurance premiums as follows:

The company has entered into a directors' & officers' insurance contract on 15 February 2005 for the purpose of insuring against any liability that may arise from the directors carrying out their duties and responsibilities in their capacity as officers of the company. The amount of the premium was \$60,135.

**Auditors' Independence Declaration**

A copy of the Auditors' Independence Declaration in relation to the audit for the financial year is attached and forms part of this report.

**Non-Audit Services**

Non-audit services are approved by a resolution of the audit committee and approval is provided in writing to the Board of Directors. Non-audit services provided by the auditors of the consolidated entity (Pitcher Partners) are in respect of taxation services (2005: \$18,000, 2004: \$nil). The directors are satisfied that the provision of non-audit services during the year by the auditor is compatible with the general standard of independence for auditors imposed by the Corporations Act 2001.

**Remuneration Report**

*Remuneration policies*

The Remuneration Committee of the Board of Directors is responsible for determining and recommending to the Board of Directors remuneration arrangements for the directors, the chief executive officer and the executive team. The Remuneration Committee assesses the appropriateness of the nature and amount of the remuneration of such officers on a periodic basis by reference to relevant employment market conditions with the overall objective of ensuring maximum stakeholder benefit from the retention of a high quality board and executive team.

Non-executive directors receive fees and do not receive bonus payments or participate in the CEO Share Incentive Plan or Executive Share Incentive Plan. The company determines the maximum amount for remuneration for directors by resolution. The names of each person who held the position of a director at any time during the financial year are provided above. The components of the directors' remuneration are provided below.

Remuneration granted to the chief executive officer and the executive team has regard to the company's financial and operational performance. Bonuses are based on the attainment of certain key performance indicators as measured against the Board approved budget for the appropriate financial year. These measures may be undertaken on a monthly, quarterly or annual basis as appropriate. These key performance indicators include:

- Achievement of the budgeted revenue for the consolidated entity;
- Achievement of the budgeted new business for the appropriate channel within the consolidated entity;
- Achievement of the budgeted customer churn for the consolidated entity;
- Achievement of operating cost targets for each channel / business unit and / or the consolidated entity;
- Achievement of the budgeted net profit after tax for the consolidated entity; and
- Achievement of the budgeted cash collections for the consolidated entity.

These performance conditions were selected as an incentive for the chief executive officer and the executive team to improve the consolidated entity's performance, to improve shareholder returns, and to help to align the financial interests of participants with the interest of shareholders.

The chief executive officer and the executive team are given the opportunity to receive their base remuneration in a variety of forms including cash and fringe benefits such as motor vehicles and expense payment plans. It is intended that the manner of payment chosen will be optimal for the recipient without creating undue cost for the company.

**People Telecom Limited**  
**Directors' Report**

The chief executive officer qualifies for participation in the CEO Share Incentive Plan and the executive team have the opportunity to qualify for participation in the Executive Share Incentive Plan. These plans were approved at a General Meeting on 14 June 2004. These plans currently have three components, which are:

- Retention component with no performance conditions attached;
- Individual incentive component with performance conditions attached consistent with those associated with the bonuses referred to above; and,
- Over achievement component with performance conditions. The performance conditions are for significant over achievement of the budgeted revenue for the consolidated entity and for significant over achievement of the budgeted net profit after tax for the consolidated entity.

These performance conditions were selected as an incentive for the chief executive officer and the executive team to improve the consolidated entity's performance, to improve shareholder returns, and to help to align the financial interests of the chief executive officer and the executive team with the interest of shareholders.

All share incentives granted as remuneration are subject to continuing service with the consolidated entity and are offered under the Plan Rules and the terms and conditions to the specific grants to participants in the Plans.

**People Telecom Limited**  
**Directors' Report**

*Remuneration of Directors*

The following table sets out the remuneration received by the directors of the company during the financial years ending 30 June 2005 and 30 June 2004.

2005	Primary			Post Employment	Equity Based (1)	Total
	Salary & Fees \$	Cash Bonus \$	Non Monetary Benefits \$	Superannuation \$	\$	\$
B. Hamilton	90,000	-	-	8,100	-	98,100
R. O'Hare	295,000	115,000	8,085	36,900	25,675	480,660
M. Dick	-	-	-	-	-	-
B. Fleiter	50,000	-	-	4,500	-	54,500
C. Marland	50,000	-	-	4,500	-	54,500
D. Vilensky	11,916	-	-	-	-	11,916
M. Wylie	25,000	-	-	-	-	25,000
<b>Total</b>	<b>521,916</b>	<b>115,000</b>	<b>8,085</b>	<b>54,000</b>	<b>25,675</b>	<b>724,676</b>

(1) This represents the value of performance rights that will be issued to Mr O'Hare under the CEO Share Incentive Plan. The value of these performance rights has been determined in accordance with the Australian equivalent of International Financial Reporting Standards (AIFRS) standard AASB 2 Share-based Payment.

2004	Primary			Post Employment	Total
	Salary & Fees \$	Cash Bonus \$	Non Monetary Benefits \$	Superannuation \$	\$
M. Dick	13,333	-	-	-	13,333
C. Gale	220,500	-	-	8,416	228,916
C. Marland	13,500	-	-	-	13,500
A. Paul	16,000	-	-	-	16,000
S. Sassine	24,000	-	-	-	24,000
D. Vilensky	20,066	-	-	-	20,066
<b>Total</b>	<b>307,399</b>	<b>-</b>	<b>-</b>	<b>8,416</b>	<b>315,815</b>

**People Telecom Limited  
Directors' Report**

*Details of Specified Executives*

The names and positions of each executive in the consolidated entity who received the highest remuneration and having the greatest authority within the consolidated entity, along with the components of their remuneration is provided below.

<b>Executive</b>	<b>Position</b>
C. Gale	General Manager - Data Sales
M. Manion	General Manager - Channel Sales
K. Reza	Chief Operations Officer
G. Roache	General Manager Sales – Northern Region
W. Wanders	Chief Financial Officer / Company Secretary

The following table sets out the remuneration received by the specified executives of the company during the financial year ended 30 June 2005.

	<b>Primary</b>			<b>Post Employment</b>	<b>Equity Based</b>	<b>Total</b>
	<b>Salary &amp; Fees</b>	<b>Cash Bonus</b>	<b>Non Monetary Benefits</b>	<b>Superannuation</b>	<b>(1)</b>	
C. Gale	231,000	-	-	-	-	231,000
M. Manion	143,500	44,312	6,528	12,915	18,623	225,878
K. Reza	186,458	17,166	8,571	16,781	23,173	252,149
G. Roache	132,154	44,086	6,528	11,894	21,044	215,706
W. Wanders	170,417	12,948	-	11,288	13,650	208,303
	<b>863,529</b>	<b>118,512</b>	<b>21,627</b>	<b>52,878</b>	<b>76,490</b>	<b>1,133,036</b>

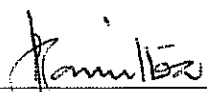
(1) This represents the value of shares that will be issued to the named executives under the Executive Share Incentive Plan. The value of these shares has been determined in accordance with the Australian equivalent of International Financial Reporting Standards (AIFRS) standard AASB 2 Share-based Payment.

During the financial year ended 30 June 2004, Mr Gale was the only executive officer of the company. Details of his remuneration are noted in the table under "Remuneration of Directors" above.

**Corporate Governance**

In recognising the need for the highest standard of corporate behaviour and accountability, the directors' support and have adhered to the principles of Corporate Governance. The Company's Corporate Governance Statement is contained in the following section of this annual report.

Signed in accordance with a resolution of the Board of Directors:

  
\_\_\_\_\_  
Barry Hamilton  
Chairman

Dated this 27<sup>th</sup> day of September 2005

## People Telecom Limited Corporate Governance Statement

The Board of Directors of People Telecom Limited (the “Board”) is responsible for the Corporate Governance of the consolidated entity. The Directors aspire to the standards of corporate governance that could be deemed appropriate for a company of People Telecom Limited’s nature, size and activities.

Set out below are the key components of the Corporate Governance principles adopted by the Board. These components are set out consistent with the “Principles of Good Corporate Governance and Best Practice Recommendations” as released by the ASX Corporate Governance Council.

### *Lay solid foundations for management and oversight*

The Board is responsible for setting the strategic direction and establishing the policies of People Telecom Limited, for overseeing the financial position, and for monitoring the business and affairs on behalf of the shareholders, by whom they are elected and to whom they are accountable.

Responsibilities of management are delineated by formal authority delegations.

### *Structure the Board to add value*

Due to the fact that:

- Each of the four substantial shareholders (who in aggregate control over 64% of the issued capital of the Company), has a representative on the Board of Directors;
- Each of these four representatives has valuable and necessary skills, experience and expertise that the Board wishes to utilize,

then it is not considered appropriate that a majority of the Board should be independent directors and that the Chairman should be independent. The only independent director is Mr Wylie.

The qualifications, skills and experience of all members of the Board are set out in the Directors’ Report.

Also given the small size of the Board, it is not considered appropriate that a separate Nomination Committee be set up. In respect of selecting new directors, the Board will assess the skills, experience and expertise of each of the prospective candidates in line with those skills, experience and expertise deemed necessary by the Board.

Directors may engage separate legal or other representation. The consolidated entity will reimburse the director for such costs incurred only to the extent that they are:

- Incurred to allow them to participate in a claim or proceeding against the director arising out of being an officer;
- Incurred before the consolidated entity assumes conduct of the claim or proceeding; and,
- Incurred with the consolidated entity’s prior written authority.

## People Telecom Limited Corporate Governance Statement

### *Promote ethical and responsible decision making*

The Board actively promotes ethical and responsible codes of conduct by its entire staff and requires all staff to adhere to the consolidated entity's Code of Ethics and Conduct Policy.

In addition to the legal restrictions of trading securities whilst in possession of unpublished price sensitive information concerning the consolidated entity, the Board has determined that all directors and senior executives of the consolidated entity will be under an obligation to not trade in the Company's securities during the following periods.

1. Between 1 January of each year until such time as the half year financial results of the Company are released to the ASX; and,
2. Between 1 July of each year until such time as the full year financial results of the Company are released to the ASX.

### *Safeguard integrity in financial reporting*

The Board obtains an annual declaration from the chief executive officer and the chief financial officer that the consolidated entity's financial reports present a true and fair view, in all material respects, of the consolidated entity's financial condition and operational results and are in accordance with relevant accounting standards.

Whilst the consolidated entity has established an audit committee, this committee is currently chaired by Mr Hamilton who is the Chairman of the Board of Directors and is also not considered to be independent. In light of the size of the Board and the financial experience and qualifications of the Directors, Mr B. Hamilton was considered to be the most appropriate person to chair this committee.

The responsibilities of the Audit Committee are to oversee:

- the group's accounting policies and practices;
- the integrity of the financial statements and reports;
- the scope, quality and independence of the external audit arrangements;
- the effectiveness of risk management; and,
- the adequacy of insurance programs.

### *Make timely and balanced disclosure*

The consolidated entity has in place processes to ensure that company announcements are factual, made in a timely manner and do not omit material information.

### *Respect the rights of shareholders*

The Board respects the rights of shareholders and supports the effective exercise of those rights by:

- providing investor information on the consolidated entity's website including annual reports and company announcements made to the ASX / NZX;
- direct communication with shareholders at the annual general meeting.

In addition the consolidated entity's auditor, Pitcher Partners are requested to attend the Annual General Meeting and be available to answer shareholder questions about the conduct of the audit and the preparation and content of the auditor's report and independence declaration.

**People Telecom Limited**  
**Corporate Governance Statement**

*Recognise and manage risk*

The risk profile of the Company will be monitored by the Audit Committee which assesses key risks at least annually (generally in line with the renewal of the consolidated entity's insurance programme).

The Board obtains an annual declaration from the chief executive officer and the chief financial officer stating that:

- the integrity of the financial statements is founded on a sound system of risk management and internal compliance and control which implements policies adopted by the Board; and
- the consolidated entity's risk management and internal compliance and control system is operating efficiently and effectively in all material respects.

*Encourage enhanced performance*

As the majority of the Board have been directors for less than fifteen months, no formal performance evaluation of any Board member was conducted during the current financial year. The first performance review in respect of the non-executive members of the Board is planned to be undertaken during the 2006 financial year.

The performance of the chief executive officer and senior executives is regularly reviewed against both measurable and qualitative indicators, (including the performance conditions referred to in the Remuneration Report component of the Directors' Report).

*Remunerate fairly and responsibly*

The remuneration policy of the consolidated entity is set out in the Directors' Report. The consolidated entity does have a Remuneration Committee (the membership of which is detailed in the Directors' Report). Consistent with the Board's views in respect of a majority of independent directors mentioned above, it is not considered appropriate that the Remuneration Committee be chaired by, or consist of, a majority of independent directors.

*Recognise the legitimate interests of stakeholders*

As stated previously, the Board actively promotes ethical and responsible codes of conduct by its entire staff.

**People Telecom Limited**  
**Statements of Financial Performance**  
**For the year ended 30 June 2005**

	Note	Consolidated		The Company	
		2005	2004	2005	2004
Revenue from ordinary activities	2	100,228,391	16,266,228	36,017	56,448
Cost of Sales		(75,085,920)	(12,600,200)	-	-
Wages and related expenses		(11,623,637)	(2,195,197)	(354,322)	(186,277)
Advertising and promotion expenses		(633,844)	(226,919)	-	(75,689)
Billing and Collection costs		(1,216,684)	(369,194)	-	(6,080)
Borrowing Costs	3	(103,444)	(137,509)	(883)	(11,937)
Dealer Charges		(2,853,984)	(346,878)	-	-
Depreciation and amortisation	3	(2,607,971)	(862,333)	-	(163,468)
Insurance		(224,868)	(142,766)	(59,066)	(49,054)
Professional Fees		(629,728)	(409,710)	(102,724)	(278,555)
Rental expenditure		(1,408,896)	(1,178,519)	-	(14,382)
Recoverable amount written off		(156,328)	(1,270,005)	-	(211,137)
Other expenses from ordinary activities	3	(3,725,777)	(1,299,810)	(358,520)	(218,430)
(Loss) from ordinary activities before income tax		(42,690)	(4,772,812)	(839,498)	(1,158,561)
Income tax expense relating to ordinary activities	4	-	-	-	-
(Loss) attributable to members of People Telecom Limited		(42,690)	(4,772,812)	(839,498)	(1,158,561)
Total changes in equity other than those resulting from transactions with owners as owners		(42,690)	(4,772,812)	(839,498)	(1,158,561)
Basic earnings/(loss) per share (cents per share)	5	(0.01)	(6.3)		
Diluted earnings/(loss) per share (cents per share)	5	(0.01)	(6.3)		

The accompanying notes form an integral part of these financial statements.

**People Telecom Limited**  
**Statements of Financial Position**  
**For the year ended 30 June 2005**

	Note	Consolidated		The Company	
		2005	2004	2005	2004
		\$	\$	\$	\$
<b>Current Assets</b>					
Cash assets	6	2,671,522	3,557,048	335,873	2,055,948
Receivables	7	16,476,313	11,941,189	-	78,476
Other	8	3,418,381	1,971,025	-	90,444
<b>Total Current Assets</b>		<b>22,566,216</b>	<b>17,469,262</b>	<b>335,873</b>	<b>2,224,868</b>
<b>Non Current Assets</b>					
Receivables	9	-	-	3,942,400	3,508,185
Other financial assets	10	1,557,403	1,737,410	39,681,514	39,682,656
Property, plant and equipment	11	2,983,579	3,145,965	-	-
Other	12	489,222	297,619	-	-
Intangible assets	13	36,241,233	38,148,666	-	-
<b>Total Non Current Assets</b>		<b>41,271,437</b>	<b>43,329,660</b>	<b>43,623,914</b>	<b>43,190,841</b>
<b>Total Assets</b>		<b>63,837,653</b>	<b>60,798,922</b>	<b>43,959,787</b>	<b>45,415,709</b>
<b>Current Liabilities</b>					
Payables	14	17,489,472	14,477,451	-	529,926
Interest bearing liabilities	15	390,453	570,823	5,206	61,359
Provisions	16	441,087	355,326	-	153,248
Other	17	3,619,548	3,194,591	-	-
<b>Total Current Liabilities</b>		<b>21,940,560</b>	<b>18,598,191</b>	<b>5,206</b>	<b>744,533</b>
<b>Non-Current Liabilities</b>					
Interest bearing liabilities	18	178,238	466,596	-	5,206
Other	19	620,209	582,692	227,930	89,714
<b>Total Non-Current Liabilities</b>		<b>798,447</b>	<b>1,049,288</b>	<b>227,930</b>	<b>94,920</b>
<b>Total Liabilities</b>		<b>22,739,007</b>	<b>19,647,479</b>	<b>233,136</b>	<b>839,453</b>
<b>Net Assets</b>		<b>41,098,646</b>	<b>41,151,443</b>	<b>43,726,651</b>	<b>44,576,256</b>
<b>Equity</b>					
Contributed equity	20	62,103,292	62,113,399	62,103,292	62,113,399
Accumulated Losses	22	(21,004,646)	(20,961,956)	(18,376,641)	(17,537,143)
<b>Total Equity</b>		<b>41,098,646</b>	<b>41,151,443</b>	<b>43,726,651</b>	<b>44,576,256</b>

The accompanying notes form an integral part of these financial statements.

**People Telecom Limited**  
**Statements of Cash Flows**  
**For the year ended 30 June 2005**

	Note	Consolidated		The Company	
		2005	2004	2005	2004
		\$	\$	\$	\$
<b>Cash Flow From Operating Activities</b>					
Receipts from customers		100,840,430	15,724,244	-	-
Payments to suppliers & employees		(100,816,477)	(16,864,455)	(1,684,885)	(2,772,205)
Interest received		187,273	61,941	36,017	56,448
Interest and borrowing costs paid		(103,444)	(137,509)	(883)	(11,937)
Net cash generated by / (used in) operating activities	23(a)	107,782	(1,215,779)	(1,649,751)	(2,727,694)
<b>Cash Flow From Investing Activities</b>					
Payment for property, plant & equipment		(694,480)	(1,593,876)	-	(5,311)
Proceeds from returned deposits		180,007	-	1,142	-
Cash balances of acquired subsidiary, net of payment for acquisition of subsidiary	23(b)	-	1,197,452	-	(254,196)
Net cash (used in) / generated by investing activities		(514,473)	(396,424)	1,142	(259,507)
<b>Cash Flow From Financing Activities</b>					
Proceeds from share issues		7,500	5,147,500	7,500	5,147,500
Payment of share issue costs		(17,607)	(343,201)	(17,607)	(343,201)
Proceeds from loans		206,763	169,821	-	169,821
Payment of loans		(157,802)	(180,045)	(53,047)	(180,045)
Proceeds from borrowings – other		-	567,775	-	-
Repayment of finance lease principal		(517,689)	(533,786)	(8,312)	(15,797)
Net cash (used in) / generated by financing activities		(478,835)	4,828,064	(71,466)	4,778,278
Net (decrease) / increase in cash held		(885,526)	3,215,861	(1,720,075)	1,791,077
Cash at beginning of the financial year		3,557,048	341,187	2,055,948	264,871
Cash at the end of the financial year	6	2,671,522	3,557,048	335,873	2,055,948

The accompanying notes form an integral part of these financial statements.

**People Telecom Limited**  
**Notes to the Financial Statements**  
**For the year ended 30 June 2005**

**Note 1: Statement of Significant Accounting Policies**

The financial report is a general-purpose financial report, which has been prepared in accordance with Accounting Standards, Urgent Issues Group Consensus Views, other authoritative pronouncements of the Australian Accounting Standards Board and the Corporations Act 2001.

It has been prepared on an accrual basis and is based on historical costs and except where stated does not take into account changing money values or current valuations of non-current assets.

These accounting policies have been consistently applied by each entity in the consolidated entity and are consistent with those of the previous year.

The following is a summary of the material accounting policies adopted by the company in the preparation of the financial reports.

**a) Going concern**

The company and the consolidated entity have made a loss from ordinary activities of \$839,498 and \$42,690 respectively for the year ended 30 June 2005 (2004: \$1,158,561 and \$4,772,812 respectively).

Notwithstanding this, the directors have prepared the financial statements of the company and the consolidated entity on a going concern basis. In arriving at this position the directors have had regard to the following pertinent matters:

- a) The result for the consolidated entity after excluding amortisation of goodwill was a profit of \$1,864,743.
- b) The consolidated entity generated a net cash inflow from operations for the year ended 30 June 2005.
- c) Total cash and debtors as at 30 June 2005 exceed creditors at the same date.
- d) The continued growth in the operations of the consolidated entity is expected to result in increased revenues and cash flows.

The financial report does not include any adjustments relating to the recoverability or classification of recorded asset amounts, or to the amounts or classification of liabilities, which might be necessary should the company and the consolidated entity not be able to continue as a going concern.

**People Telecom Limited**  
**Notes to the Financial Statements**  
**For the year ended 30 June 2005**

**Note 1: Statement of Significant Accounting Policies (cont'd)**

**b) Principles of consolidation**

The consolidated financial statements are those of the consolidated entity, comprising People Telecom Limited (the parent entity) and all entities that People Telecom Limited controlled from time to time during the year and at balance date.

Information from the financial statements of subsidiaries is included from the date the parent entity obtains control until such time as control ceases. Where there is a loss of control of a subsidiary, the consolidated financial statements include the results for the part of the reporting period during which the parent entity has control.

Subsidiary acquisitions are accounted for using the purchase method of accounting.

The financial statements of subsidiaries are prepared for the same reporting period as the parent entity using consistent accounting policies.

All intercompany balances and transactions, including unrealised profits arising from intra-group transactions, have been eliminated in full. Unrealised losses are eliminated unless costs cannot be recovered.

**c) Cash**

For the purpose of the Statement of Cash Flows, cash includes:

- (i) cash on hand and at call deposits with banks or financial institutions, net of bank overdrafts; and
- (ii) investments in money market instruments with less than 90 days to maturity.

**d) Receivables**

Trade receivables are recognised and carried at original invoice amount less an allowance for doubtful debtors. An estimate for doubtful debtors is made when collection of the full amount is no longer probable. Bad debts are written off as incurred.

Receivables from related parties are recognised and carried at the nominal amount due. Interest when charged is taken up as income on an accrual basis.

**People Telecom Limited**  
**Notes to the Financial Statements**  
**For the year ended 30 June 2005**

**Note 1: Statement of Significant Accounting Policies (cont'd)**

**e) Acquisition of Assets**

All assets acquired including plant and equipment are initially recorded at their cost of acquisition at the date of acquisition, being the fair value of the consideration provided plus incidental costs directly attributable to the acquisition.

Expenditure is only recognised as an asset when the consolidated entity controls future economic benefits as a result of the costs incurred, it is probable that those future economic benefits will eventuate, and the costs can be measured reliably.

Costs incurred on assets subsequent to initial acquisition are capitalised when it is probable that future economic benefits in excess of the originally assessed performance of the asset will flow to the consolidated entity in future years.

Costs that do not meet the criteria for capitalisation are expensed as incurred.

**f) 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 the consolidated entity are classified as finance leases. Finance leases are capitalised, 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 consolidated 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.

**g) Goodwill**

Goodwill is initially recorded at the amount by which the purchase price for a business exceeds the fair value attributed to its net assets at date of acquisition. Purchased goodwill is 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.

**People Telecom Limited**  
**Notes to the Financial Statements**  
**For the year ended 30 June 2005**

**Note 1: Statement of Significant Accounting Policies (cont'd)**

**h) Other assets and liabilities**

Expenditure is only recognised as an asset when the consolidated entity controls future economic benefits as a result of the costs incurred, it is probable that those future economic benefits will eventuate, and the costs can be reliably measured. Otherwise, expenditure is expensed as incurred.

*Mobile hardware / Handset costs*

The cost of mobile handsets purchased for or on behalf of a client are deferred and expensed in the Statements of Financial Performance over an 18-month period. Generally, the handset is aligned to a 24-month contract of continuance service on the consolidated entity's network. Due to the possibility of a small percentage of customers breaking the contract or generating a bad debt, the company policy is to expense the handset over the average period over which benefits are expected to accrue.

*VOIP Handset costs*

The cost of VOIP (Voice over Internet Protocol) handsets purchased for or on behalf of a client are deferred and expensed in the Statements of Financial Performance over a 12-month period as the handset is generally aligned to a 12-month contract of continuance service on the consolidated entity's network.

*Dealer upfront commission payments – fixed wire customers*

Payments made to dealers for the acquisition of fixed wire customers are deferred and expensed in the Statements of Financial Performance over a six-month period. The basis for this policy is that:

- the consolidated entity has the legal right to reclaim the payment from the dealers should the customer cancel their contract within three months of signing up with the consolidated entity; and,
- due to the possibility of a small percentage of customers breaking the contract or generating a bad debt, the company policy is to expense the dealer upfront commission payments for fixed wire customers over the shortest period over which benefits are expected to accrue.

*Dealer upfront commission payments – mobile customers*

Payments made to dealers for the acquisition of mobile customers are deferred and expensed in the Statements of Financial Performance over an 18-month period. Generally, the payment is aligned to a 24-month contract of continuance service on the consolidated entity's network. Due to the possibility of a small percentage of customers breaking the contract or generating a bad debt, the company policy is to expense the dealer upfront commission payments for mobile customers over the average period over which benefits are expected to accrue.

*Corporate Data customer set up costs*

Third party costs incurred in the set up of data customers are expensed in the Statements of Financial Performance when the set up or installation is complete. Any revenue for such set up is also recognised when the set up or installation is complete.

**People Telecom Limited**  
**Notes to the Financial Statements**  
**For the year ended 30 June 2005**

**Note 1: Statement of Significant Accounting Policies (cont'd)**

**h) Other assets and liabilities (con't)**

*Miscellaneous pre-paid expenses*

All expenses that are pre-paid are expensed over the period that they relate.

*Carrier commission / subsidies*

A commission / subsidy is generated from certain carriers on the signing of a contract and/or the delivery of a new mobile number on the carriers network. This commission / subsidy is taken to revenue and booked to the Statements of Financial Performance over 24 months, the period over which commission is repayable to carrier, if the contract is broken.

**i) Recoverable amount**

The carrying amount of non-current assets valued on the cost basis, are reviewed to determine whether they are in excess of their recoverable amount at balance date. If the carrying amount of a non-current asset exceeds its recoverable amount, the asset is written down to the lower amount. The write-down is expensed in the reporting period in which it occurs.

In determining recoverable amount, the expected net cash flows have been discounted to their present value using a market denominated risk-adjusted discount rate.

**j) Depreciation and amortisation**

*Plant and equipment*

The depreciable amount of all fixed assets and capitalised leased assets is depreciated on a straight line basis over their useful lives to the consolidated entity commencing from the time the asset is held ready for use.

The depreciation rates used for each class of depreciable assets are:

<i>Class of Asset</i>	<i>Depreciation Rate</i>
Telecommunications infrastructure	5% - 10%
Office plant & equipment	20% - 33%
Leased plant and equipment	20% - 33%
Computer equipment, software and website development	45%
Leasehold improvements	term of lease

*Regular review of depreciation and amortisation rates*

Depreciation and amortisation rates and methods are reviewed at least annually and will be adjusted to reflect the most recent assessments of the useful life of the respective assets.

*Changes to depreciation rates and methods*

When depreciation rates or methods are changed, the change is accounted for as a charge in the Statements of Financial Performance. The effect is recognised in the financial year of the change as well as future periods. Depreciation recognised in previous financial periods is not changed or adjusted via the statement of financial performance or accumulated losses.

**People Telecom Limited**  
**Notes to the Financial Statements**  
**For the year ended 30 June 2005**

**Note 1: Statement of Significant Accounting Policies (cont'd)**

**k) Payables**

Liabilities for trade creditors and other amounts are carried at cost which is the fair value of the consideration to be paid in the future for goods and services received, whether or not billed to the consolidated entity. Payables to related parties are carried at the principal amount. Interest when charged by the lender is recognised as an expense on an accrual basis.

**l) Interest-bearing liabilities**

All loans are measured at the principal amount. Interest is charged as an expense as it accrues. Finance lease liability is determined in accordance with the requirements of AASB 1008 "Leases".

**m) Provisions**

Provisions are recognised when the consolidated entity has a legal, equitable or constructive obligation to make a future sacrifice of economic benefits to other entities as a result of past transactions or other past events, it is probable that a future sacrifice of economic benefits will be required and a reliable estimate can be made of the amount of obligation.

**n) Employment Entitlements**

*Wages, salaries and annual leave*

Liabilities for employee entitlements, to wages, salaries and annual leave represent present obligations resulting from employees' services provided up to the reporting date, calculated at undiscounted amounts based on wage and salary rates including related on-costs expected to apply at settlement.

The value of the equity based compensation scheme is not being recognised as an employee benefits expense.

*Long service leave*

The provision for employee entitlements to long service leave represents the present value of the estimated future cash outflows to be made resulting from employees' services provided to reporting date.

The provision is calculated using estimated future increases in wage and salary rates including related on-costs and expected settlement dates based on turnover history and is discounted using the rates attaching to national government securities at balance date which most closely match the terms of maturity of the related liabilities.

*Superannuation plan*

The consolidated entity contributes to several defined contribution superannuation plans. Contributions to employee superannuation funds are charged against income as they are paid or become payable.

**People Telecom Limited**  
**Notes to the Financial Statements**  
**For the year ended 30 June 2005**

**Note 1: Statement of Significant Accounting Policies (cont'd)**

**o) Contributed equity**

Issued and paid up capital is recognised at the fair value of the consideration received by the company. Any transaction costs arising on the issue of ordinary shares and listed options are recognised directly in equity as a reduction of the proceeds received.

**p) Revenue**

Revenues are recognised at fair value of the consideration received net of the amount of goods and services tax (GST) payable to the taxation authority.

*Rendering of Telecommunication Services*

Revenue from the provision of telecommunication services is recognised (net of discounts) when the customer utilises the service.

Revenue from the set up or installation of telecommunication services is recognised when the set up or installation is complete.

*Interest revenue*

Interest revenue is recognised as it accrues.

**q) Borrowing costs**

Borrowing costs are expensed as incurred except where they relate to the financing of projects under construction where they are capitalised up to the date of commissioning or sale.

**r) Income tax**

The consolidated entity adopts the liability method of tax-effect accounting whereby the income tax expense is based on the result from ordinary activities adjusted for any permanent differences.

Timing differences which arise due to the different accounting periods in which items of revenue and expense are included in the determination of the accounting result and taxable income are brought to account as either a deferred tax liability or as a deferred tax asset at the rate of income tax applicable to the period in which the benefit will be received or the liability will become payable.

Deferred tax assets are not brought to account unless realisation of the asset is assured beyond 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 taxation legislation and the anticipation that the company will derive sufficient future assessable income to enable the benefit to be realised and comply with the conditions of deductibility imposed by the law.

**People Telecom Limited**  
**Notes to the Financial Statements**  
**For the year ended 30 June 2005**

**Note 1: Statement of Significant Accounting Policies (cont'd)**

**s) Goods and services tax**

Revenues, expenses and assets are recognised net of the amount of GST except:

- where the GST incurred on a purchase of goods and services is not recoverable from the taxation authority, in which case the GST is recognised as part of the cost of acquisition of the asset or as part of the expense item as applicable; and,
- receivables and payables are stated with the amount of GST included.

The net amount of GST recoverable from, or payable to, the taxation authority is included as part of receivables or payables in the Statements of Financial Position. Cash flows are included in the Statements of Cash Flows on a gross basis and the GST component of cash flows arising from investing and financing activities, which is recoverable from, or payable to, the taxation authority, are classified as operating cash flows.

**t) Earnings per share**

Basic Earnings Per Share (EPS) is calculated as net profit / (loss) attributable to members, adjusted to exclude costs of servicing equity (other than dividends) and preference share dividends, divided by the weighted average number of ordinary shares, adjusted for any bonus element.

Diluted EPS is calculated as net profit / (loss) attributable to members, adjusted for:

- costs of servicing equity (other than dividends) and preference share dividends;
- the after tax effect of dividends and interest associated with the dilutive potential ordinary shares that have been recognised as expenses; and,
- other non discretionary changes in revenues and expenses during the period that would result from the dilution of potential ordinary shares;

divided by the weighted average number of ordinary shares and dilutive potential ordinary shares, adjusted for any bonus element.

**People Telecom Limited**  
**Notes to the Financial Statements**  
**For the year ended 30 June 2005**

	Consolidated		The Company	
	2005	2004	2005	2004
	\$	\$	\$	\$
<b>Note 2: Revenue from ordinary activities</b>				
Revenue from rendering telecommunications services	100,041,117	16,188,274	-	-
Other revenue				
Interest income	187,274	61,941	36,017	56,448
Sundry income	-	16,013	-	-
	187,274	77,954	36,017	56,448
<b>Total Revenue from ordinary activities</b>	<b>100,228,391</b>	<b>16,266,228</b>	<b>36,017</b>	<b>56,448</b>

**Note 3: (Loss) from ordinary activities**

*a) Expenses from ordinary activities include the following:*

Borrowing costs expensed				
Interest expense				
- Finance lease	95,385	117,915	883	8,432
- Other	-	2,976	-	2,561
Other borrowing costs	8,059	16,618	-	944
<b>Total borrowing costs</b>	<b>103,444</b>	<b>137,509</b>	<b>883</b>	<b>11,937</b>
Depreciation - plant and equipment	700,538	862,333	-	163,468
Amortisation of goodwill	1,907,433	-	-	-
<b>Total depreciation and amortisation</b>	<b>2,607,971</b>	<b>862,333</b>	<b>-</b>	<b>163,468</b>
Movement in allowance for doubtful debtors	(176,090)	100,000	-	-
Bad debts written off	1,098,657	-	-	-
Movement in provision for employee entitlements	140,351	36,659	-	36,659
Auditors' Remuneration:				
Auditing or reviewing the financial report				
Pitcher Partners	118,694	35,000	16,203	33,000
Ernst & Young	-	27,200	-	2,822
Other Services				
Pitcher Partners	18,000	-	18,000	-

**People Telecom Limited**  
**Notes to the Financial Statements**  
**For the year ended 30 June 2005**

	Consolidated		The Company	
	2005	2004	2005	2004
	\$	\$	\$	\$
<b>Note 4: Income Tax Expense</b>				
The prima facie tax benefit on operating loss from ordinary activities before income tax is reconciled to the income tax expense as follows:				
Prima facie tax benefit on loss from ordinary activities before income tax at 30% (2004: 30%)	12,807	1,431,850	251,850	347,568
Less tax effect of permanent differences:				
Amortisation of goodwill	(572,230)	-	-	-
Non-deductible costs	(67,644)	(7,836)	(285)	(5,880)
Plus:				
Income tax credit from future income tax benefits not brought to account	627,067	-	-	-
Less:				
Future income tax benefits not brought to account	-	(1,424,014)	(251,565)	(341,688)
<b>Income tax expense</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>

Estimated unconfirmed income tax losses at the end of the financial year are \$20,434,734 (2004: \$20,292,323) for the consolidated entity. The estimated and unconfirmed tax benefit at 30% on these tax losses is \$6,130,420 (2004: \$6,087,697) for the consolidated entity.

The potential future income tax benefits arising from tax losses has not been recognised as an asset and will only be obtained if:

- i) Assessable income is derived of a nature and of an amount sufficient to enable such benefits to be realised;
- ii) Conditions for deductibility imposed by the relevant law are complied with; and,
- iii) No changes in the tax legislation adversely affect the realisation of the benefit from the deduction.

**People Telecom Limited**  
**Notes to the Financial Statements**  
**For the year ended 30 June 2005**

**Note 4: Income Tax Expense (con't)**

*Tax consolidation*

Legislation to allow groups, comprising a parent entity and its Australian resident wholly owned entities, to elect to consolidate and be treated as a single entity for income tax purposes was substantively enacted on 21 October 2002. This legislation, which includes both mandatory and elective elements, is applicable to the consolidated entity.

The directors have not elected at the date of signing the financial statements for those entities within the consolidated entity that are wholly owned Australian resident entities to be taxed as a single entity.

	<b>Consolidated</b>	
	<b>2005</b>	<b>2004</b>
	\$	\$
<b>Note 5: Earnings per share</b>		
Basic earnings/(loss) per share (cents per share) <sup>(1)</sup>	(0.01)	(6.3)
Diluted earnings/(loss) per share (cents per share) <sup>(1)</sup>	(0.01)	(6.3)
Net Loss used in the calculation of basic and diluted EPS	42,690	4,772,812
	<b>Number</b>	<b>Number</b>
Weighted average number of ordinary shares outstanding during the year used in the calculation of basic and diluted EPS <sup>(1)</sup>	305,616,209	75,948,160

Options on issue are considered to be potential ordinary shares. In accordance with AASB 1027, none of the options on issue were considered to be potentially dilutive as the exercise price exceeded the average market share price during the year ended 30 June 2005.

(1) The average number of ordinary shares outstanding during 2004 has been adjusted as if the consolidation of every two fully paid ordinary shares into one fully paid ordinary share that occurred on 29 June 2004 was effective 1 July 2003.

**People Telecom Limited**  
**Notes to the Financial Statements**  
**For the year ended 30 June 2005**

	Consolidated		The Company	
	2005	2004	2005	2004
	\$	\$		\$
<b>Note 6: Cash assets</b>				
Cash at bank	2,668,391	3,555,667	335,873	2,055,944
Cash on hand	3,131	1,381	-	4
	<u>2,671,522</u>	<u>3,557,048</u>	<u>335,873</u>	<u>2,055,948</u>

<b>Note 7: Receivables (current)</b>				
Trade debtors	16,616,681	12,455,329	-	-
Allowance for doubtful debtors	(594,316)	(770,406)	-	-
	<u>16,022,365</u>	<u>11,684,923</u>	<u>-</u>	<u>-</u>
Other	453,948	256,266	-	78,476
	<u>16,476,313</u>	<u>11,941,189</u>	<u>-</u>	<u>78,476</u>

*Terms and conditions relating to the above financial instruments:*

- (i) Trade debtors are non-interest bearing and generally on 14 to 30 day terms
- (ii) Other debtors are non-interest bearing and generally on 30 day terms

<b>Note 8: Other assets (current)</b>				
Prepayments	579,006	517,426	-	90,444
Deferred upfront commission costs – mobile customers	1,862,634	994,616	-	-
Deferred handset costs	485,534	313,928	-	-
Deferred upfront commission costs – fixed wire customers	161,859	52,914	-	-
Deferred VOIP handset costs	150,684	92,141	-	-
Other deferred costs	178,664	-	-	-
	<u>3,418,381</u>	<u>1,971,025</u>	<u>-</u>	<u>90,444</u>

<b>Note 9: Receivables (non-current)</b>				
Wholly owned controlled entities	-	-	3,942,400	3,508,185

<b>Note 10: Other financial assets (non-current)</b>				
Deposits <sup>(1)</sup>	1,557,403	1,737,410	146,304	147,446
Unlisted controlled entities at cost (Note 26)	-	-	39,535,210	39,535,210
	<u>1,557,403</u>	<u>1,737,410</u>	<u>39,681,514</u>	<u>39,682,656</u>

(1) These financial assets are provided as security for bank guarantees given to third parties.

**People Telecom Limited**  
**Notes to the Financial Statements**  
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	Consolidated		The Company	
	2005	2004	2005	2004
	\$	\$	\$	\$
<b>Note 11: Property, plant and equipment</b>				
<i>(a) Carrying values</i>				
Telecommunications Infrastructure -at cost	2,476,018	2,495,458	-	-
Less accumulated depreciation	(563,446)	(451,856)	-	-
	1,912,572	2,043,602	-	-
Office plant and equipment - at cost	760,570	465,576	-	-
Less accumulated depreciation	(319,641)	(75,921)	-	-
	440,929	389,655	-	-
Leased plant and equipment - at cost	629,355	647,631	-	-
Less accumulated depreciation	(327,546)	(138,391)	-	-
	301,809	509,240	-	-
Leasehold improvements – at cost	250,734	69,062	-	-
Less accumulated depreciation	(47,204)	-	-	-
	203,530	69,062	-	-
Computer equipment, software and website development - at cost	228,922	134,406	-	-
Less accumulated depreciation	(104,183)	-	-	-
	124,739	134,406	-	-
<b>Total property, plant and equipment</b>	<b>2,983,579</b>	<b>3,145,965</b>	<b>-</b>	<b>-</b>

*Assets pledged as security:*

Assets under lease are pledged as security for the associated lease liabilities.

*(b) Reconciliations*

Telecommunications Infrastructure				
Carrying amount at the beginning of the year	2,043,602	2,493,888	-	-
Additions	20,170	57,482	-	-
Transfers	(39,610)	-	-	-
Depreciation	(111,590)	(209,068)	-	-
Recoverable amount write down	-	(298,700)	-	-
Carrying amount at year end	1,912,572	2,043,602	-	-

**People Telecom Limited**  
**Notes to the Financial Statements**  
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	Consolidated		The Company	
	2005	2004	2005	2004
	\$	\$	\$	\$
<b>Note 11: Property, plant and equipment</b>				
<i>(b) Reconciliations con't</i>				
Office plant and equipment				
Carrying amount at the beginning of the year				
	389,655	338,331	-	331,585
Additions	244,486	835,841	-	255
Acquisition of People Telecommunications Pty Limited	-	104,220	-	-
Transfers	(6,263)	-	-	-
Depreciation	(186,949)	(290,265)	-	(142,275)
Recoverable amount write down	-	(598,472)	-	(189,565)
Carrying amount at year end	440,929	389,655	-	-
Leased plant and equipment				
Carrying amount at the beginning of the year				
	509,240	544,520	-	37,708
Additions	-	700,550	-	5,055
Depreciation	(207,431)	(362,999)	-	(21,193)
Recoverable amount write down	-	(372,831)	-	(21,570)
Carrying amount at year end	301,809	509,240	-	-
Leasehold Improvements				
Carrying amount at the beginning of the year				
	69,062	-	-	-
Additions	179,722	-	-	-
Acquisition of People Telecommunications Pty Limited	-	69,062	-	-
Transfers	69,228	-	-	-
Depreciation	(114,482)	-	-	-
Carrying amount at year end	203,530	69,062	-	-
Computer equipment, software and website development				
Carrying amount at the beginning of the year				
	134,406	-	-	-
Additions	250,101	-	-	-
Acquisition of People Telecommunications Pty Limited	-	134,406	-	-
Transfers	(23,355)	-	-	-
Depreciation	(80,085)	-	-	-
Recoverable amount write down	(156,328)	-	-	-
Carrying amount at year end	124,739	134,406	-	-

**People Telecom Limited**  
**Notes to the Financial Statements**  
**For the year ended 30 June 2005**

	Consolidated		The Company	
	2005	2004	2005	2004
	\$	\$	\$	\$
<b>Note 12: Other assets (non-current)</b>				
Deferred upfront commission costs – mobile customers	413,098	235,975	-	-
Deferred handset costs	53,596	61,644	-	-
Other deferred costs	22,528	-	-	-
	489,222	297,619	-	-
<b>Note 13: Intangible Assets</b>				
Goodwill at cost	38,148,666	38,148,666	-	-
Less accumulated amortisation	(1,907,433)	-	-	-
	36,241,233	38,148,666	-	-
<b>Note 14: Payables</b>				
Trade creditors	10,889,902	8,525,661	-	130,745
Accrued expenses	6,599,570	5,951,790	-	399,181
	17,489,472	14,477,451	-	529,926
<i>Terms and conditions relating to the above financial instruments:</i>				
(i) Trade creditors are non-interest bearing and normally settled on 30 to 45 day terms.				
<b>Note 15: Interest bearing liabilities (current)</b>				
Lease Liabilities (Note 24)	288,444	517,776	5,206	8,312
Borrowings	102,009	53,047	-	53,047
	390,453	570,823	5,206	61,359
<b>Note 16: Provisions (current)</b>				
Forfeited shares account	-	54,590	-	54,590
Employee entitlements	441,087	300,736	-	98,658
	441,087	355,326	-	153,248
Number of employees at the end of the financial year	135	115	1	1
<b>Note 17: Other liabilities (current)</b>				
Unearned Income - Carrier Commissions / Subsidies	1,931,414	1,648,325	-	-
Unearned income – other	1,688,134	1,546,266	-	-
	3,619,548	3,194,591	-	-
<b>Note 18: Interest bearing liabilities (non current)</b>				
Lease Liabilities (Note 24)	178,238	466,596	-	5,206

**People Telecom Limited**  
**Notes to the Financial Statements**  
**For the year ended 30 June 2005**

	<b>Consolidated</b>		<b>The Company</b>	
	2005	2004	2005	2004
	\$	\$	\$	\$
<b>Note 19: Other liabilities (non current)</b>				
Loans from controlled entities	-	-	227,930	89,714
Unearned Income - Carrier Commissions / Subsidies	620,209	582,692	-	-
	620,209	582,692	227,930	89,714

**Note 20: Contributed equity**

**(a) Issued and paid up capital**

305,653,709 fully paid ordinary shares  
(2004: 305,578,709)

62,103,292	62,113,399	62,103,292	62,113,399
------------	------------	------------	------------

	2005	2005	2004	2004
	Number	\$	Number	\$
<b>(b) Movements in fully paid ordinary shares</b>				
At the beginning of the financial year	305,578,709	62,113,399	127,975,262	17,343,683
Issue of Shares at \$0.06 each	-	-	14,000,000	840,000
Issue of Shares at \$0.115 each	-	-	20,000,000	2,300,000
Issue of Shares at \$0.10 each	75,000	7,500	-	-
Share options exercised	-	-	-	-
Exercise of employee options at \$0.05 each	-	-	150,000	7,500
Cancellation of two options for the issue of one share	-	-	37,522,883	-
Transfer from option premium reserve on cancellation of two options for the issue of one share	-	-	-	814,508
	305,653,709	62,120,899	199,648,145	21,305,691
Consolidation of two shares into one share	-	-	(99,823,981)	-
Allotment and issue of shares at \$0.20 as consideration for the acquisition of People Telecommunications Pty Limited	-	-	195,754,545	39,150,909
Issue of shares at \$0.20 each	-	-	10,000,000	2,000,000
Share issue costs	-	(17,607)	-	(343,201)
	305,653,709	62,103,292	305,578,709	62,113,399

**(c) Terms and conditions of Contributed Equity**

Ordinary shares have the right to receive dividends as declared and, in the event of winding up the company, to participate in the proceeds from the sale of surplus assets in proportion to the number of, and amounts paid up, on shares held.

Ordinary shares entitle their holder to one vote, either in person or by proxy, at a meeting of the company.

People Telecom Limited  
Notes to the Financial Statements  
For the year ended 30 June 2005

	2005 Number	2005 Average Exercise Price Cents
<b>Note 20: Contributed equity (con't)</b>		
<b>(d) Movements in share options</b>		
At the beginning of the financial year	5,388,049	34.54
Listed Options lapsed	(1,153,132)	20.00
Unlisted Options lapsed	(659,917)	24.55
Employee options exercised	(75,000)	10.00
	3,500,000	34.54

**(e) Options outstanding at balance date**

Grant Date	No of Options (1)	Exercise Price Cents (1)	Expiry Date	Details
5 April 2002	1,500,000	30	30 September 2006	Other
5 April 2002	1,500,000	40	30 September 2006	Other
October 2000	500,000	80	3 October 2005	Employee Options
	3,500,000	41.42		

There have been no options issued or exercised since balance date.

	Consolidated		The Company	
	2005	2004	2005	2004
	\$	\$	\$	\$
<b>Note 21: Reserves</b>				
<i>Option premium reserve</i>				
Opening balance	-	814,508	-	814,508
Less transfer to contributed equity on cancellation of two options for the issue of one share	-	(814,508)	-	(814,508)
Total Reserves	-	-	-	-

**Note 22: Accumulated losses**

Accumulated losses at the beginning of the year	20,961,956	16,189,144	17,537,143	16,378,582
Net loss from ordinary activities after income tax	42,690	4,772,812	839,498	1,158,561
Accumulated losses at the end of the financial year	21,004,646	20,961,956	18,376,641	17,537,143

**People Telecom Limited**  
**Notes to the Financial Statements**  
**For the year ended 30 June 2005**

	Consolidated		The Company	
	2005	2004	2005	2004
	\$	\$	\$	\$
<b>Note 23: Cash Flow Information</b>				
<i>(a) Reconciliation of Cash Flow from Operations with Loss from Ordinary Activities after Income Tax</i>				
Loss from ordinary activities after income tax	(42,690)	(4,772,812)	(839,498)	(1,158,561)
Add non-cash items:				
Allowance for doubtful debtors	943,089	100,000	-	-
Amounts set aside to provisions	85,761	36,659	-	36,659
Deferred income on sale	-	(16,013)	-	-
Depreciation and amortisation	700,538	862,333	-	163,468
Goodwill written off	1,907,433	-	-	-
Recoverable amount written off	156,328	1,270,005	-	211,137
<b>Net cash generated by / (used in) operating activities before change in assets and liabilities</b>	<b>3,750,459</b>	<b>(2,519,828)</b>	<b>(839,498)</b>	<b>(747,297)</b>
Changes in assets and liabilities:				
(Increase)/Decrease in trade debtors	(5,280,529)	(1,707,535)	-	(25,047)
(Increase) / Decrease in other receivables	(197,601)	47,531	78,476	-
(Increase) in other financial assets	-	(234,981)	-	(147,446)
(Increase) in loans to controlled entities	-	-	(449,247)	(846,512)
(Increase) in current prepayments	(1,447,358)	(76,886)	-	-
(Increase)/Decrease in other assets	(191,683)	-	90,444	(29,511)
Increase/(Decrease) in trade creditors and accruals	3,012,020	2,032,415	(529,926)	(931,881)
Increase in unearned income	462,474	1,243,505	-	-
<b>Cash Flows from Operating Activities</b>	<b>107,782</b>	<b>(1,215,779)</b>	<b>(1,649,751)</b>	<b>(2,727,694)</b>

People Telecom Limited  
Notes to the Financial Statements  
For the year ended 30 June 2005

Consolidated	
2005	2004
\$	\$

**Note 23: Cash Flow Information con't**

*(b) Business Acquired*

On 29 June 2004 People Telecom Limited acquired all the ordinary shares of People Telecommunications Pty Limited. Details of this acquisition are as follows:

Consideration	-	39,150,909
195,754,545 fully paid ordinary shares issued at \$0.20	-	254,196
Cash costs of the acquisition	-	<u>39,405,105</u>
Fair value of net assets of People Telecommunications Pty Limited	-	1,451,648
Cash assets	-	9,527,352
Receivables (current)	-	1,581,829
Other current assets	-	292,829
Receivables (non current)	-	1,502,429
Other financial assets	-	307,688
Plant and equipment	-	297,619
Other non current assets	-	(11,271,860)
Payables	-	(202,078)
Provisions	-	(1,648,325)
Other current liabilities	-	(582,692)
Other non current liabilities	-	<u>1,256,439</u>
Goodwill on acquisition	-	<u>38,148,666</u>
Inflow of cash in respect of the acquisition of People Telecommunications Pty Limited	-	(254,196)
Cash costs	-	1,451,648
Cash balances acquired	-	<u>1,197,452</u>
Inflow of cash	-	<u>1,197,452</u>

**People Telecom Limited**  
**Notes to the Financial Statements**  
**For the year ended 30 June 2005**

	Consolidated		The Company	
	2005	2004	2005	2004
	\$	\$	\$	\$
<b>Note 24: Capital and Leasing Commitments</b>				
<i>(a) Finance Lease Commitments</i>				
Payable				
- not later than one year	329,916	601,212	5,364	9,195
- later than one year but not later than 5 years	191,492	513,851	-	5,364
Minimum lease payments	521,408	1,115,063	5,364	14,559
Less future lease interest	(54,726)	(130,691)	(158)	(1,041)
	466,682	984,372	5,206	13,518
Current liability	288,444	517,776	5,206	8,312
Non-current liability	178,238	466,596	-	5,206
<b>Total lease Liability</b>	<b>466,682</b>	<b>984,372</b>	<b>5,206</b>	<b>13,518</b>

*(b) Operating Lease Commitments*

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

Payable				
- not later than one year	1,099,653	1,182,706	194,992	302,918
- later than one year but not later than 5 years	2,382,178	2,069,100	252,025	322,742
	3,481,831	3,251,806	447,017	625,660

*Terms and conditions relating to the above financial instruments:*

Finance leases are utilised to acquire plant and equipment and telecommunications infrastructure. They have an average lease term of three years with the option to purchase the asset at the completion of the lease term for the assets market value. The average discount rate implicit in the leases is 9.95% (2004: 9.92%). Lease liabilities are secured by a charge over the leased assets.

Operating lease commitments are principally in relation to the rental of premises.

**Note 25: Directors and Executives Disclosures**

**People Telecom Limited**  
**Notes to the Financial Statements**  
**For the year ended 30 June 2005**

*(a) Details and Remuneration of Directors*

The names of each person who held the position of a director at any time during the financial year and the components of the directors' remuneration are detailed in the Directors' Report.

*(b) Details and Remuneration of Specified Executives*

The names and positions of each executive in the consolidated entity that received the highest remuneration and having the greater authority within the consolidated entity, along with the components of their remuneration are detailed in the Directors' Report.

*(c) Remuneration Policies*

The remuneration policy of the consolidated entity is detailed in the Directors' Report.

*(d) Unlisted Options vested or granted during the financial year*

There were no options granted or vested with any directors or the executives named in the Directors' Report during, or since the end of, the financial year.

*(e) Movements in share holdings of directors and specified executives*

	Balance at Beginning of year	Granted as remuneration	On exercise of Options	Net Change Other	Balance at end of year
<b>Directors</b>					
B. Hamilton	33,725,758	-	-	-	33,725,758
R. O'Hare	49,166,090	-	-	-	49,166,090
M. Dick <sup>(2)</sup>	5,050,334	-	-	(5,050,334)	-
B. Fleiter	67,351,515	-	-	-	67,351,515
C. Marland	46,440,355	-	-	820,000	47,260,355
D. Vilensky <sup>(2)</sup>	537,500	-	-	(537,500)	-
M. Wylie <sup>(1)</sup>	-	-	-	500,000	500,000
<b>Specified Executives</b>					
C. Gale <sup>(2)</sup>	6,389,751	-	-	(6,389,751)	-
M. Manion	250,000	-	-	-	250,000
K. Reza	9,779,084	-	-	-	9,779,084
G. Roache	306,187	-	-	-	306,187
W. Wanders	100,000	-	-	30,000	130,000
	219,096,574	-	-	(10,627,585)	208,468,989

(1) This director was appointed post 30 June 2004

(2) These directors / executives resigned pre 30 June 2005 and reduction in holdings does not imply that these directors / executives had sold or otherwise disposed of their interest in the company.

**People Telecom Limited**  
**Notes to the Financial Statements**  
**For the year ended 30 June 2005**

**Note 25: Directors and Executives Disclosures con't**

All transactions with specified directors and specified executives other than those arising from the exercise of remuneration options have been entered into under terms and conditions no more favourable than those the entity would have adopted if dealing at arm's length.

*(e) Loans to directors and specified executives*

	Balance at Beginning of year \$	Interest Charged \$	Interest not charged \$	Write Off \$	Balance at end of year \$	Number in group
Directors						
2005	-	-	715	-	12,414	1
2004	-	-	-	-	-	-
Specified executives						
2005	-	-	1,531	-	25,000	1
2004	-	-	-	-	-	-
<b>Total Directors &amp; Specified executives</b>						
2005	-	-	2,246	-	37,414	2
2004	-	-	-	-	-	-

There was no individual with a loan that was above \$100,000 in the financial year.

*(f) Fixed Service agreements*

Mr O'Hare, Chief Executive Officer and Executive Director

- Term of agreement – 2 years commencing on 29 June 2004.
- Base salary for the year ended 30 June 2006, inclusive of superannuation \$451,000.
- Bonus payable if business plan is met, inclusive of superannuation \$125,350.
- Payment of termination benefit equal to the base salary and full bonus from the date of termination to 29 June 2006.

All other executives have non fixed service agreements made under normal employment terms and conditions.

*(g) Transactions with specified directors and specified executives*

*Purchases*

Fees amounting to \$9,209 (2004: \$72,553) for legal services were paid to the legal firm of Bowen Buchbinder Vilensky, of which Mr. D. Vilensky is a partner. The services were made under normal commercial terms and conditions. Fees amounting to \$20,000 (2004: \$25,000) in respect of consulting services were paid to Rivacre Investments Pty Limited, of which Mr C. Marland is a director. The services were made under normal commercial terms and conditions.

**People Telecom Limited**  
**Notes to the Financial Statements**  
**For the year ended 30 June 2005**

	Holding		Investment	
	2005	2004	2005	2004
	%	%	\$	\$
<b>Note 26: Controlled Entities</b>				
<i>Name Parent Entity</i>				
People Telecom Limited				
<i>Controlled entities – consolidated entity interest</i>				
Swiftel Communications Pty Ltd	100%	100%	130,104	130,104
Swift Broadband Pty Ltd	100%	100%	1	1
People Telecommunications Pty Limited	100%	100%	39,405,105	39,405,105
People Mobile Pty Ltd <sup>(1)</sup>	100%	100%	-	-
PTS Australia Pty Ltd <sup>(1)</sup>	100%	100%	-	-
			39,535,210	39,535,210

All companies within the consolidated group are domiciled in Australia

(1) wholly owned subsidiaries of People Telecommunications Pty Limited

During the financial year, People Telecom Limited on charged, at cost, certain operating costs including rental expenditure and staff costs to People Telecommunications Pty Ltd, People Mobile Pty Ltd, Swiftel Communications Pty Ltd and Swift Broadband Pty Ltd.

The loans between People Telecom Limited and its controlled entities, as disclosed in Notes 9 and 19 are on interest free terms.

**People Telecom Limited**  
**Notes to the Financial Statements**  
**For the year ended 30 June 2005**

**Note 27: Financial Instruments**

*(a) Interest Rate Risk*

The consolidated 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 those financial assets and financial liabilities, is as follows:

	Weighted Average Effective Interest Rate 2005 %	Floating Interest Rate 2005 \$	Fixed Interest Rate Maturing		Non –interest bearing 2005 \$	Total 2005 \$
			Within 1 Year 2005 \$	1 to 5 Years 2005 \$		
<b>Financial Assets</b>						
Cash at bank	4.26%	2,671,522	-	-	-	2,671,522
Current receivables	n/a	-	-	-	16,476,313	16,476,313
Other financial assets	5.33%	1,557,403	-	-	-	1,557,403
<b>Total Financial Assets</b>		<b>4,228,925</b>	<b>-</b>	<b>-</b>	<b>16,476,313</b>	<b>20,705,238</b>
<b>Financial Liabilities</b>						
Lease liabilities	9.95%	-	288,444	178,238	-	466,682
Borrowings	6.50%	-	102,099	-	-	102,099
Trade creditors and accruals	n/a	-	-	-	17,489,472	17,489,472
<b>Total Financial Liabilities</b>		<b>-</b>	<b>390,453</b>	<b>178,238</b>	<b>17,489,472</b>	<b>18,058,163</b>

**People Telecom Limited**  
**Notes to the Financial Statements**  
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**Note 27: Financial Instruments (con't)**

	Weighted Average Effective Interest Rate 2004 %	Floating Interest Rate 2004 \$	Fixed Interest Rate Maturing		Non –interest bearing 2004 \$	Total 2004 \$
			Within 1 Year 2004 \$	1 to 5 Years 2004 \$		
<b>Financial Assets</b>						
Cash at bank	4.87%	3,557,048	-	-	-	3,557,048
Current receivables	n/a	-	-	-	11,941,189	11,941,189
Other financial assets	4.92%	1,737,410	-	-	-	1,737,410
<b>Total Financial Assets</b>		<b>5,294,458</b>	<b>-</b>	<b>-</b>	<b>11,941,189</b>	<b>17,235,647</b>
<b>Financial Liabilities</b>						
Lease liabilities	9.92%	-	517,776	466,596	-	984,372
Borrowings	3.90%	-	53,047	-	-	53,047
Trade creditors and accruals	n/a	-	-	-	14,477,451	14,477,451
<b>Total Financial Liabilities</b>		<b>-</b>	<b>570,823</b>	<b>466,596</b>	<b>14,477,451</b>	<b>15,514,870</b>

**People Telecom Limited**  
**Notes to the Financial Statements**  
**For the year ended 30 June 2005**

**Note 27: Financial Instruments (con't)**

*(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 allowance for doubtful debts of those assets, as disclosed in the Statements of Financial Position and Notes to the Financial Statements. The consolidated entity does not have any material credit risk exposure to any single debtor or group of debtors.

*(c) Net Fair Values*

For all assets and other liabilities the net fair value approximates their carrying value. No financial assets and financial liabilities are readily traded on organised markets in standardised forms.

**Note 28: Subsequent Events**

There have not been any significant subsequent events after 30 June 2005.

**Note 29: Segment reporting**

The consolidated entity operates in the one business segment, being the provision of telecommunications services to the Australian corporate and public markets.

Geographically, the consolidated entity operates in one segment, being the Australian market.

**People Telecom Limited**  
**Notes to the Financial Statements**  
**For the year ended 30 June 2005**

**Note 30: Employee Entitlements**

*(a) Employee Option Scheme*

An employee option scheme had been established where certain members of staff of the consolidated entity were issued with options over the ordinary shares of People Telecom Limited. The options, issued for nil consideration are issued in accordance with performance guidelines established by the directors of People Telecom Limited. The minimum period that an employee must work prior to being considered for employee options is 12 months. The options are issued in three tranches and have a three year life, they are exercisable at the commencement of the year in which the tranche has been issued. The options cannot be transferred and will not be quoted on the ASX.

Set out below is the details of the employee options currently outstanding. There are no plans for any further options to be granted under this plan.

	<b>2005 Number of Options</b>	<b>2005 Average Exercise Price Cents</b>
<i>Movements in share options</i>		
At the beginning of the financial year	984,917	53.95
Options lapsed	(409,917)	26.90
Employee options exercised	(75,000)	10.00
At the end of the financial year	500,000	80.00

*Options outstanding at balance date*

Grant Date	No of Options	Exercise Price	Expiry Date
October 2000	500,000	80.00	3 October 2005

There have been no options issued or exercised since balance date.

## People Telecom Limited

### *(b) Exempt Employee Share Plan*

An exempt employee share plan has been established where eligible employees of the consolidated entity will be able to salary sacrifice up to \$250 in a six month period to purchase fully paid ordinary shares in the Company. The consolidated entity will match any salary sacrifice on a dollar for dollar basis. If the employee participated fully in the Exempt Employee Share Plan for both periods in any financial year, they will acquire a maximum of \$1,000 in fully paid ordinary shares in the Company.

The Shares will be purchased on market at the relevant price at date of purchase. The shares will rank equally in all respects with the existing Shares of the Company.

### *(c) Executive Incentive Share Plan*

An executive incentive share plan has been established where eligible executives will be allocated fully paid ordinary shares in the Company pending the successful achievement of the required performance criteria.

The shares will be either issued by the Company or purchased on market at the relevant price at date of purchase. The shares will rank equally in all respects with the existing Shares of the Company.

### *(d) CEO Incentive Share Plan*

A CEO incentive share plan has been established where the CEO will be allocated performance rights pending the successful achievement of the required performance criteria. Upon the successful achievement of the required performance criteria, the performance rights will be converted into fully paid ordinary shares in the Company.

The shares will be either issued by the Company or purchased on market at the relevant price at date of purchase. The shares will rank equally in all respects with the existing Shares of the Company.

**People Telecom Limited**  
**Notes to the Financial Statements**  
**For the year ended 30 June 2005**

**Note 31: Impact of adopting Australian equivalent of International Financial Reporting Standards (AIFRS)**

The company is in the process of transitioning its accounting policies and financial reporting from current Australian Accounting Standards (AGAAP) to Australian equivalents of International Financial Reporting Standards (AIFRS) which will be applicable for the financial year commencing 1 July 2005, including the interim financial report for the half year ending 31 December 2005 and the annual financial report for the year ending 30 June 2006.

Set out below are the key areas where accounting policies are expected to change on adoption of AIFRS and our best estimate of the quantitative impact of the changes on total equity as at the date of transition and 30 June 2005 and on the operating loss for the year ended 30 June 2005.

(i) Share based payments

Under AASB 2 Share-based Payment, the company will be required to determine the fair value of equity settled transactions and recognise an expense in the Statements of Financial Performance. Share-based payments to directors and other employees will also be expensed under AIFRS.

(ii) Goodwill

Goodwill on consolidation will be recalculated to derecognise intangible assets acquired in business combinations that do not meet the identifiability criteria under AIFRS, and to recognise deferred tax liabilities at the acquisition date under the balance-sheet method.

Amortisation of goodwill will cease on first-time adoption of AIFRS. Therefore on adoption of AIFRS, reported results for the financial year to 30 June 2005 will be adjusted for amortisation charges from 1 July 2004. However, amortisation charges prior to 30 June 2004 may not be reversed under the first-time adoption provisions.

Under AIFRS, goodwill will be subject to annual impairment testing.

(iii) Impairment of Assets

The recoverable amount test under AGAAP will be replaced by impairment testing whereby the recoverable amount is determined as the higher of fair value less costs to sell and value in use. Value in use incorporates the use of discounted cash flows.

Other than disclosed in Note 24(b), the entity does not anticipate any additional write-downs for impairment of non-current assets in first-time adoption of AIFRS.

(iv) Income taxes

Under AIFRS a balance-sheet approach will be adopted under which temporary differences are identified for each asset and liability rather than accounting for the effect of timing and permanent differences between taxable and accounting profit. In addition, a future income tax benefit must be recognised for tax losses where their realisation is considered probable. Under AGAAP tax losses may only be recognised where realisation is considered to be virtually certain.

**People Telecom Limited**  
**Notes to the Financial Statements**  
**For the year ended 30 June 2005**

**Note 32: Reconciliation of Reported Amounts under Australian Accounting Standards to AIFRS**

The following tables represent management's best estimates of the quantitative impact of the changes under AIFRS. When the company prepares its first full AIFRS financial statements, the following disclosures may differ as a result of amended or additional standards or interpretations, which may be issued by the AASB and the IASB. No material impacts are expected to the cash flows presented under AGAAP on adoption of AIFRS.

*(a) Reconciliation of Total Equity at 1 July 2004*

Total equity at 1 July 2004 as reported under Australian Accounting Standards	\$41,151,443
Adjustments to total equity as at 1 July 2004	-

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Total equity at 1 July 2004 as restated under AIFRSs	\$41,151,443
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*(b) Reconciliation of Operating Profit after Tax for the year ended 30 June 2005:*

Operating loss after tax for the financial year to 30 June 2005 as reported under Australian Accounting Standards:	(\$42,690)
Share-based entitlements earned during the year	(\$228,000)
Goodwill on consolidation adjustments	
- reversal of amortisation for the year	\$1,907,433
- impairment loss arising from events during the current year	(\$1,907,433)

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Operating loss after tax as restated under AIFRS for the year ended 30 June 2005	(\$270,690)
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*(c) Reconciliation of Total Equity at 30 June 2005:*

Total equity at 30 June 2005 as reported under Australian Accounting Standards	\$41,098,646
Adjustments to operating loss for the year as described above	(\$228,000)

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Total equity at 30 June 2005 as restated under AIFRS	\$40,870,646
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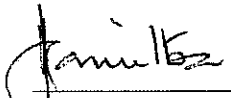
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**People Telecom Limited  
Directors' Declaration**

In accordance with a resolution of the directors of People Telecom Limited, I state that:

1. In the opinion of the directors:
  - (a) the financial statements and notes of the company and of the consolidated entity are in accordance with the Corporations Act 2001, including:
    - (i) complying with Accounting Standards, the Corporations Regulations and other mandatory professional reporting requirements;
    - (ii) giving a true and fair view of the company's and consolidated entity's financial position as at 30 June 2005 and of their performance for the year ended on that date; and
  - (b) That the directors have been given the declaration required under section 295A of the Corporations Act 2001; and,
  - (c) At the date of this declaration the company's ability to continue as a going concern and to pay its debts as and when they become due and payable is dependent upon the company successfully achieving the matters set out in Note 1(a) of the financial statements. The Directors believe that at the date of signing the financial report there are reasonable grounds to believe that the company will achieve these matters and thus will be able to pay its debts as and when they become due and payable.

On behalf of the Board

  
\_\_\_\_\_  
**Barry Hamilton**  
Chairman

Dated this 27<sup>th</sup> day of September 2005



# PITCHER PARTNERS

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D S MCGILL  
Y E PIETSCH  
R M SHANLEY  
D W STAPLES  
D G YOUNG

CONSULTANTS:  
J S YOUNG  
D G BARNSDALL  
P S ROWE

## INDEPENDENT AUDIT REPORT TO THE MEMBERS OF PEOPLE TELECOM LIMITED

### Scope

We have audited the financial report of People Telecom Limited ("the company") for the financial year ended 30 June 2005 comprising the Directors' Declaration, Statements of Financial Performance, Statements of Financial Position, Statements of Cash Flows and notes to the financial statements.

The financial report includes the consolidated financial statements of the consolidated entity comprising the company and the entities it controlled at the year's end or from time to time during the financial year.

The company's directors are responsible for the financial report. We have conducted an independent audit of this financial report in order to express an opinion on it to the members of the company.

The company's directors have disclosed information about the remuneration of directors and executives ("remuneration disclosures"), as required by Accounting Standard AASB 1046 Director and Executive Disclosures by Disclosing Entities, under the heading "Remuneration Report" of the Directors' Report, as permitted by the Corporations Regulations 2001.

Our audit has been conducted in accordance with Australian Auditing Standards to provide reasonable assurance whether the financial report is free of material misstatement. Our procedures included examination, on a test basis, of evidence supporting the amounts and other disclosures in the financial report, and the evaluation of accounting policies and significant accounting estimates. These procedures have been undertaken to form an opinion whether, in all material respects, the financial report is presented fairly in accordance with Accounting Standards and other mandatory professional reporting requirements in Australia and statutory requirements so as to present a view which is consistent with our understanding of the company's and the consolidated entity's financial position and performance as represented by the results of their operations and cash flows and whether the remuneration disclosures comply with Accounting Standard AASB 1046 Director and Executive Disclosures by Disclosing Entities and the Corporations Regulations 2001.

The audit opinion expressed in this report has been formed on the above basis.

### Audit Opinion

In our opinion, the financial report of People Telecom Limited is in accordance with:

- (a) the Corporations Act 2001, including:
  - (i) giving a true and fair view of the company's and consolidated entity's financial position as at 30 June 2005 and of their performance for the financial year ended on that date; and
  - (ii) complying with Accounting Standards in Australia and the Corporations Regulations 2001; and
- (b) other mandatory professional requirements in Australia; and
- (c) the remuneration disclosures that are contained in the Remuneration Report section of the Directors' Report comply with Accounting Standard AASB 1046 Director and Executive Disclosures by Disclosing Entities and the Corporations Regulations 2001.

  
Pitcher Partners

W.M. Wilson

Partner

Sydney

30 September 2005



# PITCHER PARTNERS

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## AUDITOR'S INDEPENDENCE DECLARATION UNDER SECTION 307C OF THE CORPORATIONS ACT 2001 TO THE DIRECTORS OF PEOPLE TELECOM LIMITED

In relation to the independent review for the financial year ended 30 June 2005, to the best of my knowledge and belief there have been:

- (i) No contraventions of the auditor independence requirements of the Corporations Act 2001.
- (ii) No contraventions of any applicable code of professional conduct.

**PITCHER PARTNERS**

W.M. Wilson  
Partner

Date: 30 September 2005

Place of signing: Sydney, NSW