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**“At a Time  
of Increased  
Competition,  
People Telecom  
Continues  
to Grow”**

Through continued focus on the Small-Medium Business (SMB) sector People Telecom grew its customer base again this year, delivering an 11% increase in revenue to \$111 million.

The top-line result was encouraging in light of the strong competitive pressures in the Australian telecoms marketplace. People Telecom achieved revenue growth of 15% in fixed voice services, 16% in mobile revenues, 10% in corporate data, and significantly increased the customer base for broadband services.

The group has achieved strong year-on-year growth every year since its inception, which is a tribute to the leadership of the former CEO, Mr Ryan O’Hare, who retired in August 2006, but remains a Director (Non-Executive) on the People Telecom Board.

In addition to delivering exceptional telecommunications services to the SMB market, People Telecom supplemented its business product line-up this year by launching two of the most advanced telecoms offerings available in the market today.

The first was the early launch of Broadband2, a much higher speed broadband service that is capable of delivering internet speeds of up to 24,000kbps and helping empower our customers to drive greater efficiency and capability in their own businesses.

We also launched People Direct – an advanced business service using Voice-Over-Internet-Protocol (VoIP) technology to give businesses a fully integrated voice and data service. Using People Direct, all outbound voice calls can be sent over a broadband line, reducing call costs and enabling the complete disconnection of the standard PSTN line to generate further savings.

Not only that; changes to our customers’ services can now be made on-line – imagine enabling your own call diversions, barring, voicemail etc from your desktop 24/7!

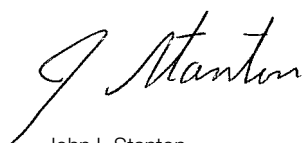
In 2006 we increased our cash balance to \$2.5 million and grew our gross margin to \$25.4 million.

People Telecom has successfully grown through the \$100 million revenue mark in just six years of operation. We will continue to grow, but we will also focus on driving new efficiencies in our business. The enhanced operational efficiency will help to ‘future proof’ our business for the long term and enable us to drive stronger bottom-line performance.

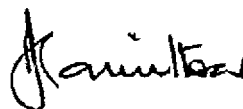
In 2006 / 2007, we are driving for profitable growth as People Telecom builds a robust platform for the next phase of its development into one of Australia’s best-performing telecommunications service providers.

Continuous improvement programs are in place around key elements of our business execution, including customer activation and service provisioning, customer care, product development, performance management and other internal processes. We are confident that the results of this ongoing program will feed through to our operating results during the course of this year.

We will continue to focus on awards in 2007 to show our intent to be the best after winning the 2006 Deloitte Technology Fast 50 Award in Australia and coming 11th out of 500 in Asia in 2006.



John L Stanton,  
Chief Executive Officer



Barry J Hamilton,  
Chairman

**People Telecom continues to be one of Australia's fastest growing Communications groups**

Revenue grew 11% to \$110.8 million

- Mobile revenue grew 16%
- Fixed voice revenue grew 15%
- Business grade data revenue grew 10%
- Gross margin grew 2% to \$25.4 million
- Net operating cash flow increased to \$2.5 million

**November 2005**

Winner 2006 Deloitte Technology Fast 50 Award in Australia and placed 11th out of 500 in Asia

**January 2006**

Entered into agreement with NEC Nextep to provide Broadband2 Services

**February 2006**

Announced major supply agreement to provide AT&T with co-location and domestic voice services

**March 2006**

Launched Broadband2

**May 2006**

Launched People Direct Voice over Internet

**June 2006**

Re-signed major supply agreement with Telstra for Fixed Wire Services and Broadband

Announced expansion into New Zealand via an alliance with CallPlus Services Limited, New Zealand's third largest carrier

**July 2006**

Appointment of New Chief Executive John Stanton



Your directors present their report on the consolidated entity for the financial year ended 30 June 2006.

### 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 \$21,609,667 for the financial year ended 30 June 2006 (2005: loss of \$596,412). This was due principally to a write-down of \$21.2 million in the value of goodwill, in compliance with new accounting rules.

The write-down, or asset impairment loss, is in the value of the goodwill generated upon the merger of the People Telecommunications Pty Limited group of companies and the Swiftel group of companies in 2004.

Excluding this, the EBITDA for the year was \$523,492, and the operating loss was \$368,434.

### Review of Operations

During the year the group continued to grow its revenue base – recording an 11% rise in total revenue to \$110.8 million. Mobile revenue exhibited the fastest growth, rising by 16% to \$20.2 million, while fixed voice also performed robustly, with a 15% growth rate bringing revenue to \$65.8 million.

Other features for the year ended 30 June 2006 include:

- Net operating cash flow increased to \$2.5 million, compared to \$0.1 million in 2005.
- Gross margin grew 2% to \$25.4 million (2005: \$25.0 million), although gross margin percentage fell from 24.9% in 2005 to 22.9% in 2006, largely as a result of the impact of acquisition subsidies in mobile and ADSL.
- Business grade data revenue grew by 10% due to strong demand for business grade IP Virtual Private Networks, and growth in sales of co-location services. However data revenue overall fell by 2% to \$24.8 million, also largely as a result of acquisition subsidies.
- Operating costs grew 9% to \$24.9 million, which included a number of non-recurring items including a theft/loss of \$381,165, the costs of the establishment and subsequent closure of an advertising department of \$220,000 and tenancy termination costs (\$174,000).



	<b>Revenue for the year 2006</b>	<b>2005</b>	<b>Growth</b>	<b>% Growth</b>
			<b>year on year</b>	<b>year on year</b>
	\$	\$	\$	
Fixed Voice	65,759,249	57,305,146	8,454,103	15%
Mobile	20,243,246	17,522,940	2,720,306	16%
Data	24,779,096	25,213,031	(433,935)	(2%)
<b>Total</b>	<b>110,781,591</b>	<b>100,041,117</b>	<b>10,740,474</b>	<b>11%</b>

#### **Gross Margin for the year**

Fixed Voice	13,629,908	12,212,567	1,417,341	12%
Mobile	4,474,244	4,582,070	(107,826)	(2%)
Data	7,284,985	8,160,560	(875,575)	(11%)
<b>Total</b>	<b>25,389,137</b>	<b>24,955,197</b>	<b>433,940</b>	<b>2%</b>

#### **Business Strategy**

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

The consolidated entity's strategy to achieve this, while also generating profitable growth includes:

- Ensuring the culture and actions of the consolidated entity reflect a "service first, always" imperative;
- Providing leading-edge products and solutions that maximize value for customers;
- Focusing new sales activity of the consolidated entity on its target market.

#### **Prospects**

The consolidated entity is undertaking a wide-ranging program to improve operational efficiencies and internal processes. This is designed to further improve customer service, maximise customer retention, generate profitable growth and put the consolidated entity on a stronger competitive footing.

While the commercial environment in Australia will continue to pose challenges for all telecommunications players, the benefits of enhanced operating efficiency at the consolidated entity are expected to flow through to the consolidated entity's financial performance during the current financial year.

Further information as to likely developments in the operations of the consolidated entity and the expected results of those operations in subsequent years have not been included in this report because, in the opinion of the Directors, it would prejudice the interests of the consolidated entity.

**Directors**

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

**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.

Directorships of other listed companies in last three years – Director, Innovonics Ltd (2001 – 2004)

Appointed 29 June 2004

**John Leslie Stanton MBA.  
Chief Executive Officer and Executive Director**

*Experience*

Prior to his appointment as Chief Executive Officer of People Telecom Ltd, Mr Stanton spent 6 years at Intelsat Ltd – one of the world's largest satellite communications operators - where he was the President of Intelsat Global Sales & Marketing and President of Intelsat's Data, Carrier & Internet Business Unit. Mr Stanton was also Chairman of numerous subsidiaries within the Intelsat group and is a former Chairman of the Intelsat Board of Governors. Prior to his departure to Intelsat in 1999 Mr Stanton held senior management positions at OTC Limited and subsequently, Telstra Corporation where he was responsible for corporate relations, international carrier relations and satellite and cable investments. He was Managing Director of Telstra Payphones & Card Services.

Directorships of other listed companies in last three years - None

Appointed 7 August 2006

**Brendan William Fleiter LLB, BJuris**  
**Non-Executive Director**

*Experience*

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.

Directorships of other listed companies in last three years - None

Appointed 29 June 2004

**Colin Joseph Marland**  
**Non-Executive Director**

*Experience*

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.

Directorships of other listed companies in last three years - None

Appointed 12 September 2003



**Ryan Michael O'Hare**  
**Non-Executive Director**

*Experience*

Mr O'Hare was the Chief Executive Officer of People Telecom Ltd from 29 June 2004 till his retirement in August 2006. 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 until it was acquired by People Telecom Ltd in 2004. 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 since its inception in January 1994 through to its sale to AAPT Limited in 1998. 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.

Directorships of other listed companies in last three years - None

Appointed 29 June 2004

**Stephe Peter Wilks**  
**BSc., LL.M.**  
**Alternate Director to Colin Joseph Marland**

*Experience*

Mr Wilks is the alternate director for Mr Marland. Mr Wilks is a well-known figure in the telecommunications industry with extensive corporate finance, senior management and operational experience. While Chief Operating Officer of Personal Broadband Australia, Mr Wilks was instrumental in the ultimate acquisition of the company by Commander Communications. Prior to that role, Mr Wilks was a consulting director to NM Rothschild & Sons, and chief operating officer of Nextgen Networks. Mr Wilks was also founder and Managing Director of XYZed, where he developed and managed Australia's first competitive broadband wholesaler for parent company Optus.

Directorships of other listed companies in last three years – Director, Longreach Group Ltd (2004 - )

Total Communications Infrastructure Ltd (2005 - )

Appointed 15 February 2006



**Martin Edward Wylie LLB.,  
Non-Executive Director**

*Experience*

Mr Wylie is the Chief Executive Officer of Callplus Limited, which is New Zealand's third-largest fixed line carrier. Mr Wylie is a very 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 Ilnet.

Directorships of other listed companies in last three years - None

Appointed 1 September 2004

**Company Secretary  
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 15 years in the telecommunications 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		Management Committee	
	A	B	A	B	A	A	A	B	A	B
B. Hamilton	12	12	2	2	1	1	-	-	10	10
B. Fleiter	10	12	-	-	1	1	1	1	9	10
C. Marland	10	12	2	2	-	-	1	1	9	10
R. O'Hare	12	12	-	-	-	-	-	-	10	10
S. Wilks	2	2	-	-	-	-	-	-	-	-
M. Wylie	12	12	-	-	-	-	-	-	-	-

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, a Corporate Governance Committee and a Management Committee.

Members acting on the committees of the Board were:

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

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

### 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	-
J. Stanton (1)	-	-
B. Fleiter	67,351,515	-
C. Marland	47,760,635	-
R. O'Hare	49,166,090	-
S. Wilks	-	-
M. Wylie	500,000	-

(1) Subject to approval of shareholders at a general meeting to be held on 28 September 2006, Mr Stanton will be granted 13,000,000 Executive Options. The terms of these options are set out in the Remuneration Report below.

### **Dividends**

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

### **Employees**

The consolidated entity employed 127 full time equivalent people at 30 June 2006 (30 June 2005: 135).

### **Significant Changes in State of Affairs**

Other than the asset impairment loss as detailed in Note 12 to the Financial Statements, there have not been any significant changes in the state of affairs of the consolidated entity during the year ended 30 June 2006, nor have there been any after 30 June 2006 up to date of this report.

### **After Balance Date Events**

There have not been any significant events occurring after 30 June 2006 up to the 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 3,000,000 unissued ordinary shares under option (3,000,000 at reporting date). Refer to Note 19(e) of the Financial Statements for further details of the options outstanding.

Subject to approval of shareholders at a general meeting to be held on 28 September 2006, Mr Stanton will be granted 13,000,000 Executive Options. The terms of these options are set out in the Remuneration Report below.

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.

Since 30 June 2005 no options have been exercised.

### **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 4 January 2006 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 \$53,777.

### **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 (2006: \$43,500, 2005: \$18,000). 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 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.

Mr O'Hare as the retiring chief executive officer qualified for participation in the CEO Share Incentive Plan whilst he was the chief executive officer. The executive team has 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.

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.

Mr Stanton as the chief executive officer, subject to shareholder approval at a general meeting on 28 September 2006, will be granted 13,000,000 Executive Options. These options have three components, which are:

- Sign on component;
- Retention component with no performance conditions attached; and,
- Incentive component with earnings per share performance conditions attached ("EPS Hurdle"). The EPS Hurdle will be set by the Board within the first 3 months of each financial year.

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.



### Remuneration of Directors

The following tables set out the remuneration received by the directors of the company during the financial years ending 30 June 2006 and 30 June 2005.

2006	Primary		Post Employment		Equity Based	Total
	Salary & Fees	Cash Bonus	Non Monetary Benefits	Superannuation	(1)	
	\$	\$	\$	\$	\$	\$
B. Hamilton	90,000	-	-	8,100	-	98,100
J. Stanton	-	-	-	-	-	-
B. Fleiter	50,000	-	-	4,500	-	54,500
C. Marland	50,000	-	1,568	4,500	-	56,068
R. O'Hare	415,000	-	8,890	37,350	-	461,240
S. Wilks	-	-	-	-	-	-
M. Wylie	30,000	-	-	-	-	30,000
<b>Total</b>	635,000	-	10,458	54,450	-	699,908

2005	Primary		Post Employment		Equity Based	Total
	Salary & Fees	Cash Bonus	Non Monetary Benefits	Superannuation	(1)	
	\$	\$	\$	\$	\$	\$
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>	521,916	115,000	8,085	54,000	25,675	724,676

(1) This represents the value of performance rights that would have been issued to Mr O'Hare under the CEO Share Incentive Plan had the vesting requirements been met. The value of these performance rights has been determined in accordance with the Australian Equivalent of International Financial Reporting Standards (AIFRS) AASB 2 Share-based Payment.

### 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.

Executive	Position
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
G. White	General Manager Sales – Western Region

The following tables set out the remuneration received by the specified executives of the company during the financial year ended 30 June 2006 and 30 June 2005.

2006	Primary		Post	Equity	Total	
	Salary & Fees	Cash Bonus	Employment	Based (1)		
	\$	\$	Non Monetary Benefits	Superannuation	\$	
	\$	\$	\$	\$	\$	
M. Manion	143,500	49,431	6,620	12,915	12,452	224,918
K. Reza	187,500	55,906	8,379	16,875	14,995	283,655
G. Roache	140,000	52,522	6,620	12,600	12,061	223,803
W. Wanders	173,500	21,900	-	11,996	13,691	221,087
G. White	158,333	60,091	5,296	14,250	12,387	250,357
<b>Total</b>	802,833	239,850	26,915	68,636	65,586	1,203,820

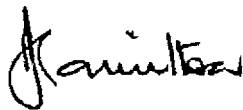
2005	Primary		Post	Equity	Total
	Salary & Fees	Cash Bonus	Employment	Based (1)	
	\$	\$	Non Monetary Benefits	Superannuation	\$
C. Gale	231,000	-	-	-	231,000
M. Manion	143,500	44,312	6,528	12,915	225,878
K. Reza	186,458	17,166	8,571	16,781	252,149
G. Roache	132,154	44,086	6,528	11,894	215,706
W. Wanders	170,417	12,948	-	11,288	208,303
<b>Total</b>	863,529	118,512	21,627	52,878	1,133,036

(1) This represents the value of shares that have been 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.

### 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 31st day of August 2006



PITCHER PARTNERS

ACCOUNTANTS AUDITORS & ADVISORS

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

CONSULTANTS:  
J S YOUNG  
D G BARNSDALL  
P S ROWE

**AUDITOR'S INDEPENDENCE DECLARATION**

**To the Directors of People Telecom Ltd**

In relation to the independent audit for the year ended 30 June 2006, to the best of my knowledge and belief there have been:

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

Mark Godlewski  
Partner

PITCHER PARTNERS

Sydney

31 August 2006

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 highest 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 except where otherwise noted.

Note the ASX “Principles of Good Corporate Governance and Best Practice Recommendations” may differ materially from the NZX’s corporate governance rules and the principles of “NZX Corporate Governance Best Practice Code”. For New Zealand investors, the ASX’s “Principles of Good Corporate Governance and Best Practice Recommendations” can be found at [www.asx.com.au/supervision/governance/index.htm](http://www.asx.com.au/supervision/governance/index.htm).

**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 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.

### **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.

The consolidated entity has established an audit committee, which 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.

**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.

Note for the 2006 financial year the declaration was made by the retiring chief executive officer.

**Encourage enhanced performance**

The board has adopted a self evaluation process to evaluate its own performance and the performance of its Chairman and of its committees. The Chairman undertakes an annual assessment of the performance of individual directors and discusses privately with each director this assessment.

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 consists 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.

[ Income Statements ]  
for the year ended 30th June 2006

	Note	Consolidated		The Company	
		2006 \$	2005 \$	2006 \$	2005 \$
Revenue from rendering telecommunications services	2	110,781,591	100,041,117	-	-
Cost of sales		(85,392,454)	(75,085,920)	-	-
Gross margin		25,389,137	24,955,197	-	-
		22.9%	24.9%		
<b>Operating Costs</b>					
Wages and related expenses		(13,034,635)	(11,851,637)	(414,545)	(354,322)
Advertising and promotion expenses		(610,942)	(633,844)	-	-
Billing and collection costs		(1,018,967)	(1,216,684)	-	-
Dealer charges		(3,192,981)	(2,853,984)	-	-
Insurance		(238,008)	(224,868)	(8,382)	(59,066)
Professional fees		(480,270)	(629,728)	(97,821)	(102,724)
Rental expenditure		(1,798,472)	(1,408,897)	-	-
Other operating expenses		(4,491,370)	(4,051,498)	(353,951)	(358,520)
		(24,865,645)	(22,871,140)	(874,699)	(874,632)
		22.4%	22.9%		
Earnings before Interest, Taxation, Depreciation and Amortisation (EBITDA)		523,492	2,084,057	(874,699)	(874,632)
		0.5%	2.1%		
Depreciation and Amortisation	3	(771,389)	(700,538)	-	-
Finance costs	3	(95,125)	(103,444)	(4,682)	(883)
Asset impairment loss	3	(21,241,233)	(1,907,433)	(21,241,233)	(1,907,433)
Plant and equipment written off		(208,231)	(156,328)	-	-
Interest income	2	188,979	187,274	17,553	36,017
(Loss) from ordinary activities before income tax		(21,603,507)	(596,412)	(22,103,061)	(2,746,931)
Income tax expense relating to ordinary activities	4	6,160	-	-	-
(Loss) attributable to members of People Telecom Limited		(21,609,667)	(596,412)	(22,103,061)	(2,746,931)
Basic earnings/(loss) per share (cents per share)	5	(7.04)	(0.20)	-	-
Diluted earnings/(loss) per share (cents per share)	5	(7.04)	(0.20)	-	-

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

	Note	Consolidated		The Company	
		2006 \$	2005 \$	2006 \$	2005 \$
<b>Current Assets</b>					
Cash assets	6	4,882,774	2,671,522	5,825	335,873
Receivables	7	14,138,073	16,150,591	-	-
Other	8	3,691,783	3,418,381	-	-
<b>Total Current Assets</b>		22,712,630	22,240,494	5,825	335,873
<b>Non Current Assets</b>					
Other financial assets	9	819,643	1,557,403	19,990,488	41,488,551
Property, plant and equipment	10	2,766,146	2,983,579	-	-
Other	11	479,561	489,222	-	-
Goodwill	12	15,000,000	36,241,233	-	-
<b>Total Non Current Assets</b>		19,065,350	41,271,437	19,990,488	41,488,551
<b>Total Assets</b>		41,777,980	63,511,931	19,996,313	41,824,424
<b>Current Liabilities</b>					
Payables	13	18,092,253	17,717,472	-	-
Interest bearing liabilities	14	265,789	390,453	-	5,206
Provisions	15	476,780	441,087	-	-
Other	16	3,142,743	3,619,548	-	-
<b>Total Current Liabilities</b>		21,977,565	22,168,560	-	5,206
<b>Non-Current Liabilities</b>					
Interest bearing liabilities	17	-	178,238	-	-
Other	18	585,002	620,209	-	-
<b>Total Non-Current Liabilities</b>		585,002	798,447	-	-
<b>Total Liabilities</b>		22,562,567	22,967,007	-	5,206
<b>Net Assets</b>		19,215,413	40,544,924	19,996,313	41,819,218
<b>Equity</b>					
Contributed equity	19	62,383,448	62,103,292	62,383,448	62,103,292
Accumulated Losses	20	(43,168,035)	(21,558,368)	(42,387,135)	(20,284,074)
<b>Total Equity</b>		19,215,413	40,544,924	19,996,313	41,819,218

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

[ Statements of Changes in Equity ]

for the year ended 30th June 2006

	Note	Consolidated 2006 \$	2005 \$	The Company 2006 \$	2005 \$
(Loss) attributable to members of People Telecom Limited		(21,609,667)	(596,412)	(22,103,061)	(2,746,931)
Transactions with equity holders in their capacity as equity holders					
Issue of Shares	19(b)	282,968	7,500	282,968	7,500
Share Issue Costs	19(b)	(2,812)	(17,607)	(2,812)	(17,607)
<b>Net (decrease) in Equity</b>		(21,329,511)	(606,519)	(21,822,905)	(2,757,038)
Total equity at the beginning of the financial year		40,544,924	41,151,443	41,819,218	44,576,256
<b>Total equity at the end of the financial year</b>		19,215,413	40,544,924	19,996,313	41,819,218

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

[ **Statements of Cash Flows** ]

for the year ended 30th June 2006

	Note	Consolidated		The Company	
		2006	2005	2006	2005
		\$	\$	\$	\$
<b>Cash Flow From Operating Activities</b>					
Receipts from customers		119,522,714	100,840,430	-	-
Payments to suppliers & employees		(117,069,015)	(100,816,477)	(481,205)	(1,684,885)
Interest received		188,979	187,273	17,553	36,017
Interest and borrowing costs paid		(95,125)	(103,444)	(4,682)	(883)
Taxation paid		(6,160)	-	-	-
Net cash generated by / (used in) operating activities	21	2,541,393	107,782	(468,334)	(1,649,751)
<b>Cash Flow From Investing Activities</b>					
Payment for property, plant & equipment		(757,643)	(694,480)	-	-
Proceeds from returned deposits		737,760	180,007	146,304	1,142
Acquisition of customer bases		(4,545)	-	-	-
Net cash (used in) / generated by investing activities		(24,428)	(514,473)	146,304	1,142
<b>Cash Flow From Financing Activities</b>					
Proceeds from share issues		-	7,500	-	7,500
Payment of share issue costs		(2,812)	(17,607)	(2,812)	(17,607)
Proceeds from loans		254,930	206,763	-	-
Payment of loans		(280,523)	(157,802)	-	(53,047)
Repayment of finance lease principal		(277,308)	(517,689)	(5,206)	(8,312)
Net cash (used in) financing activities		(305,713)	(478,835)	(8,018)	(71,466)
Net increase / (decrease) in cash held		2,211,252	(885,526)	(330,048)	(1,720,075)
Cash at beginning of the financial year		2,671,522	3,557,048	335,873	2,055,948
Cash at the end of the financial year	6	4,882,774	2,671,522	5,825	335,873

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

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

The financial report is a general-purpose financial report, which has been prepared in accordance with Australian Equivalents of International Financial Reporting Standards (AIFRS), 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 accruals 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.

This is the first financial report of the consolidated entity prepared in accordance with AIFRS. The financial reports of the consolidated entity were prepared in accordance with the previous Australian Generally Accepted Accounting Principles (AGAAP) until 30 June 2005. There are certain differences between accounting policies under AIFRS and AGAAP and where applicable the comparative figures have been restated to reflect these adjustments. A summary of the significant accounting policies under AIFRS is provided below. Reconciliations of equity and operating profit/loss between AGAAP and AIFRS are provided under notes 29 to 32 of the financial statements.

The preparation of this financial report requires the consolidated entity to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets and liabilities, income and expenses.

The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgements about carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

The material area where the consolidated entity has made judgements and estimates that has significant effect on the financial report is in respect of any impairment of assets. The estimates in respect of this are detailed in note 12 of the financial statements.

The financial report was authorised for issue by a resolution of directors on 31 August 2006.

The significant accounting policies that have been adopted in the preparation and presentation of the financial report are set out in the following pages.

**a) Going concern**

The company and the consolidated entity have made a loss from ordinary activities of \$22,103,061 and \$21,609,667 respectively for the year ended 30 June 2006 (2005: \$2,746,931 and \$596,412 respectively). Excluding the asset impairment loss of \$21,241,233 the company and the consolidated entity made a loss of \$861,828 and \$368,434 respectively for the year ended 30 June 2006.

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 consolidated entity generated a net cash inflow from operations for the year ended 30 June 2006.
- b) Total cash and debtors as at 30 June 2006 exceed creditors at the same date.

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.

**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 during the period 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. There were no entities over which control has been gained or lost in the year ended 30 June 2006.

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 and cash equivalents**

Cash and cash equivalents include:

- (i) cash on hand and at call deposits with banks or financial institutions, net of bank overdrafts; and
- (ii) investment 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 based on past experience, 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.

**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 identifiable assets at date of acquisition.

Goodwill is not amortised but is tested annually for impairment or more frequently if events or changes in circumstances indicate that it might be impaired. Goodwill is carried at cost less accumulated impairment losses. (Refer also to note 29 regarding first-time adoption of AIFRS).

**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.

*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 Income Statement 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 Income Statement 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 Income Statement 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 Income Statement 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.

**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 carrier's network. This commission / subsidy is taken to revenue and booked to the Income Statement over 24 months, the period over which commission is repayable to carrier, if the contract is broken.

**i) Impairment of Assets**

Assets with an indefinite useful life are not amortised but are tested annually for impairment in accordance with AASB 136. Assets subject to annual depreciation or amortisation are reviewed for impairment whenever events or circumstances arise that indicates that the carrying amount of the asset may be impaired. An impairment loss is recognised in the Income Statement where the carrying amount of the asset exceeds its recoverable amount. The recoverable amount of an asset is defined as the higher of its fair value less costs to sell and value in use.

**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:

<b>Class of Asset</b>	<b>Depreciation Rate</b>
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 Income Statement. 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 Income Statement or Accumulated Losses.

**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.

**l) Interest-bearing liabilities**

All borrowings are measured at the principal amount. Subsequent to initial recognition, borrowings are measured at amortised cost using the effective interest rate method. Interest is charged as an expense as it accrues.

**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, 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.

*Share based payments*

The consolidated entity operates employee share schemes. The market value of shares issued to employees for no cash consideration is recognised as an expense in the Income Statement in the period(s) when the benefit is earned.

*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.

**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 are recognised directly in equity as a reduction of the proceeds received.

**p) Revenue**

Revenue is 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 Telecommunications Services*

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

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

Revenue from the supply of a bundled mobile handset is recognised when the mobile service is activated. The revenue is measured at the fair value of the consideration to be received over the life of the contract.

*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**

Current income tax expense or revenue is the tax payable on the current period's taxable income based on the applicable income tax rate adjusted by changes in deferred tax assets and liabilities.

A balance sheet approach is adopted under which deferred tax assets and liabilities are recognised for temporary differences between the tax bases of assets and liabilities and their carrying amounts in the financial statements. No deferred tax asset or liability is recognised in relation to temporary differences arising from the initial recognition of an asset or a liability if they arose in a transaction, other than a business combination, that at the time of the transaction did not affect either accounting profit or taxable profit or loss.

Deferred tax assets are recognised for temporary differences and unused tax losses only when it is probable that future taxable amounts will be available to utilize those temporary differences and losses.

Current and deferred tax balances attributable to amounts recognised directly in equity are also recognised directly in equity.

**Tax Consolidation**

The parent entity and its controlled entities have formed an income tax consolidated group under the tax consolidation legislation. The parent entity is responsible for recognising the current and deferred tax assets and liabilities for the tax consolidated group. The tax consolidated group has also entered a tax sharing agreement whereby each company in the group contributes to the income tax payable in proportion to their contribution to the net profit before tax of the tax consolidated group.

**s) Goods and services tax**

Revenue, 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 Balance Sheet. 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;
- other non discretionary changes in revenue and expenses during the period that would result from the dilution of potential ordinary shares; and,
- divided by the weighted average number of ordinary shares and dilutive potential ordinary shares, adjusted for any bonus element.

**u) Comparatives**

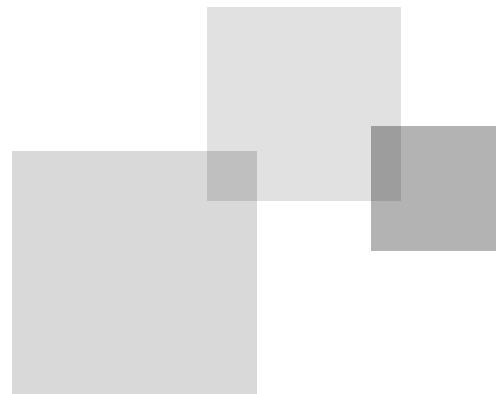
In accordance with the first-time adoption of AIFRS, comparative information has been reclassified where appropriate through retrospective application of AIFRS to the previous year results so as to achieve consistency with current year disclosures.

**v) Adoption of Accounting Standards before their due date**

Certain new accounting standards and Urgent Issues Group (UIG) interpretations have been issued with an application date after the year ended 30 June 2006.

As a result these accounting standards and UIG interpretations are not mandatory for adoption in the financial report for the year ended 30 June 2006, nor has the consolidated entity adopted early any of these new accounting standards or UIG interpretations.

It is also considered that these new accounting standards or UIG interpretations will not have a material impact on the consolidated entity.



	Consolidated		The Company	
	2006	2005	2006	2005
	\$	\$	\$	\$
<b>Note 2: Revenue from ordinary activities</b>				
Revenue from rendering telecommunications services	110,781,591	100,041,117	-	-
Other revenue				
Interest income	188,979	187,274	17,553	36,017
<b>Total Revenue from ordinary activities</b>	<b>110,970,570</b>	<b>100,228,391</b>	<b>17,553</b>	<b>36,017</b>
<b>Note 3: (Loss) from ordinary activities</b>				
Expenses from ordinary activities include the following:				
Borrowing costs expensed				
Interest expense				
- Finance lease	88,339	95,385	-	883
- Other	6,786	-	4,682	-
Other borrowing costs	-	8,059	-	-
<b>Total borrowing costs</b>	<b>95,125</b>	<b>103,444</b>	<b>4,682</b>	<b>883</b>
Asset impairment loss (note 12)	21,241,233	1,907,433	21,241,233	1,907,433
Depreciation - plant and equipment	766,845	700,538	-	-
Amortisation - customer acquisition costs	4,544	-	-	-
<b>Total depreciation and amortisation</b>	<b>771,389</b>	<b>700,538</b>	<b>-</b>	<b>-</b>
Movement in allowance for doubtful debtors	487,280	(176,090)	-	-
Bad debts written off	793,551	1,098,657	-	-
Movement in provision for employee entitlements	35,692	140,351	-	-
Share based remuneration payments	134,573	228,000	-	-
Auditors' Remuneration:				
Auditing or reviewing the financial report				
Pitcher Partners	104,128	118,694	-	16,203
Other Services				
Pitcher Partners	43,500	18,000	-	18,000

	Consolidated		The Company	
	2006	2005	2006	2005
	\$	\$	\$	\$
<b>Note 4: Income Tax Expense</b>				
<i>(a) Major components of tax expense</i>				
Current tax expense (income)	(263,491)	(83,562)	(284,710)	(329,497)
Deferred tax expense relating to the origination and reversal of temporary differences	129,975	481,220	20,347	37,561
Deferred tax asset in respect of current tax expense (income) not recognised	263,491	83,562	284,710	329,497
Deferred tax income relating to temporary differences not previously recognised as an asset	(129,975)	(481,220)	(20,437)	(37,561)
Under provided tax in prior year	6,160	-	-	-
<b>Tax expense</b>	<b>6,160</b>	<b>-</b>	<b>-</b>	<b>-</b>
<i>(b) Explanation of the relationship between tax expense and accounting loss</i>				
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% (2005: 30%)	6,481,052	178,924	6,630,918	824,080
Tax effect of expenses that are not deductible in determining taxable profit:				
Asset impairment loss	(6,372,369)	(572,230)	(6,372,369)	(572,230)
Non-deductible costs	(50,254)	(97,626)	-	-
Tax effect of non assessable income	-	16,377	-	16,377
Tax effect of items deductible in determining taxable profit:				
Other deductible items	23,709	23,709	23,709	23,709
Deferred tax income relating to temporary differences not previously recognised as an asset	-	481,220	-	-
Tax effect of tax loss not recognised as an asset	(82,138)	(30,374)	(282,257)	(291,936)
Under provided tax in prior year	6,160	-	-	-
<b>Income tax expense</b>	<b>6,160</b>	<b>-</b>	<b>-</b>	<b>-</b>

	Consolidated		The Company	
	2006	2005	2006	2005
	\$	\$	\$	\$
<b>Note 4: Income Tax Expense</b>				
<i>(c) Deferred tax assets not recognised in the balance sheet</i>				
Temporary differences	(9,695)	120,280	615	20,962
Estimated and unconfirmed unused tax losses	6,443,272	6,179,781	-	-
	6,433,577	6,300,061	615	20,962

The potential future income tax benefits arising from estimated and unconfirmed 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.

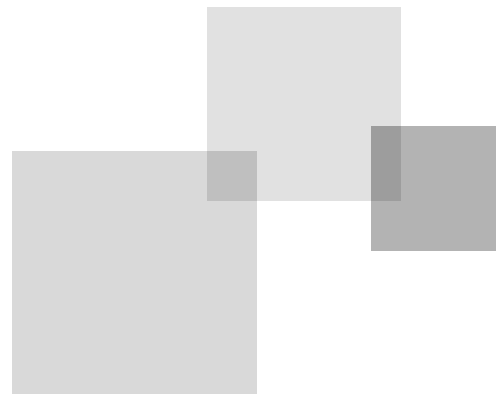
*(d) Summary of temporary differences not recognised in the balance sheet*

Amounts only deducted for taxation when paid:

Doubtful debts	324,479	178,295	-	-
Employee provisions	143,034	132,326	-	-
Staff related accruals	128,136	162,354	-	-
Other operating costs	159,632	224,262	-	-
Differences between accounting and tax carrying value of property, plant and equipment	270,765	292,767	615	20,962
Customer acquisition costs not yet expensed but deducted for taxation when paid	(1,034,816)	(953,374)	-	-
Unearned income included in taxable income when received	(925)	83,650	-	-
Deferred tax (liability) / asset not recognised in the balance sheet	(9,695)	120,280	615	20,962

	Consolidated	
	2006	2005
	\$	\$
<b>Note 5: Earnings per share</b>		
Basic earnings/(loss) per share (cents per share)	(7.04)	(0.20)
Diluted earnings/(loss) per share (cents per share)	(7.04)	(0.20)
Net Loss used in the calculation of basic and diluted EPS	21,609,667	596,412
	<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	306,760,483	305,616,209

Options on issue are considered to be potential ordinary shares. In accordance with AASB 133, 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 2006.



	Consolidated		The Company	
	2006 \$	2005 \$	2006 \$	2005 \$
<b>Note 6: Cash assets</b>				
Cash at bank	4,163,924	2,668,391	5,825	335,873
Deposits	716,000	-	-	-
Cash on hand	2,850	3,131	-	-
	<u>4,882,774</u>	<u>2,671,522</u>	<u>5,825</u>	<u>335,873</u>

**Note 7: Receivables (current)**

Trade debtors (billed and unbilled)	15,126,253	16,290,959	-	-
Allowance for doubtful debtors	(1,081,596)	(594,316)	-	-
	<u>14,044,657</u>	<u>15,696,643</u>	<u>-</u>	<u>-</u>
Other debtors	93,416	453,948	-	-
	<u>14,138,073</u>	<u>16,150,591</u>	<u>-</u>	<u>-</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

**Note 8: Other assets (current)**

Prepayments	721,959	579,006	-	-
Deferred upfront commission costs				
– mobile customers	2,009,599	1,862,634	-	-
Unbilled handset revenue	585,903	485,534	-	-
Deferred upfront commission costs				
– fixed wire customers	81,455	161,859	-	-
Deferred VOIP handset costs	35,720	150,684	-	-
Other deferred costs	257,147	178,664	-	-
	<u>3,691,783</u>	<u>3,418,381</u>	<u>-</u>	<u>-</u>

**Note 9: Other financial assets  
(non-current)**

Deposits (1)	819,643	1,557,403	-	146,304
Unlisted controlled entities				
- at cost (Note 24)	-	-	43,139,154	43,249,680
- asset impairment loss (2)	-	-	(23,148,666)	(1,907,433)
	<u>819,643</u>	<u>1,557,403</u>	<u>19,990,488</u>	<u>41,488,551</u>

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

(2) The impairment testing compares the carrying value of investment in unlisted controlled entities with the recoverable amount of the underlying cash generating unit. The asset impairment loss relates to the carrying value of the People Telecommunications Pty Limited business (CGU). The recoverable amount is determined using a value in use calculation and the assumptions for determining the recoverable amount of this CGU are set out in more detail in Note 12 of the financial statements.

	Consolidated		The Company	
	2006 \$	2005 \$	2006 \$	2005 \$
<b>Note 10: Property, plant and equipment</b>				
(a) Carrying values				
Telecommunications Infrastructure -at cost	2,485,318	2,476,018	-	-
Less accumulated depreciation	(687,649)	(563,446)	-	-
	<u>1,797,669</u>	<u>1,912,572</u>	-	-
Office plant and equipment - at cost	942,309	760,570	-	-
Less accumulated depreciation	(561,461)	(319,641)	-	-
	<u>380,848</u>	<u>440,929</u>	-	-
Leased plant and equipment - at cost	629,355	629,355	-	-
Less accumulated depreciation	(514,472)	(327,546)	-	-
	<u>114,883</u>	<u>301,809</u>	-	-
Leasehold improvements – at cost	381,720	250,734	-	-
Less accumulated depreciation	(116,017)	(47,204)	-	-
	<u>265,703</u>	<u>203,530</u>	-	-
Computer equipment, software and website development - at cost	456,310	228,922	-	-
Less accumulated depreciation	(249,267)	(104,183)	-	-
	<u>207,043</u>	<u>124,739</u>	-	-
<b>Total property, plant and equipment</b>	<u>2,766,146</u>	<u>2,983,579</u>	-	-
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	1,912,572	2,043,602	-	-
Additions	9,302	20,170	-	-
Transfers	-	(39,610)	-	-
Depreciation	(124,205)	(111,590)	-	-
<b>Carrying amount at year end</b>	<u>1,797,669</u>	<u>1,912,572</u>	-	-

	Consolidated		The Company	
	2006	2005	2006	2005
	\$	\$	\$	\$
<b>Note 10: Property, plant and equipment</b>				
(b) Reconciliations con't				
Office plant and equipment				
Carrying amount at the beginning of the year	440,929	389,655	-	-
Additions	181,736	244,486	-	-
Transfers	-	(6,263)	-	-
Depreciation	(241,817)	(186,949)	-	-
<b>Carrying amount at year end</b>	<b>380,848</b>	<b>440,929</b>	<b>-</b>	<b>-</b>
Leased plant and equipment				
Carrying amount at the beginning of the year	301,809	509,240	-	-
Depreciation	(186,926)	(207,431)	-	-
<b>Carrying amount at year end</b>	<b>114,883</b>	<b>301,809</b>	<b>-</b>	<b>-</b>
Leasehold Improvements				
Carrying amount at the beginning of the year	203,530	69,062	-	-
Additions	130,984	179,722	-	-
Transfers	-	69,228	-	-
Depreciation	(68,811)	(114,482)	-	-
<b>Carrying amount at year end</b>	<b>265,703</b>	<b>203,530</b>	<b>-</b>	<b>-</b>
Computer equipment, software and website development				
Carrying amount at the beginning of the year	124,739	134,406	-	-
Additions	435,621	250,102	-	-
Transfers	-	(23,355)	-	-
Depreciation	(145,086)	(80,086)	-	-
Equipment written off	(208,231)	(156,328)	-	-
<b>Carrying amount at year end</b>	<b>207,043</b>	<b>124,739</b>	<b>-</b>	<b>-</b>
<b>Note 11: Other assets (non-current)</b>				
Deferred upfront commission costs				
- mobile customers	362,688	413,098	-	-
Unbilled handset revenue	50,465	53,596	-	-
Other deferred costs	66,408	22,528	-	-
	<b>479,561</b>	<b>489,222</b>	<b>-</b>	<b>-</b>

	Consolidated		The Company	
	2006 \$	2005 \$	2006 \$	2005 \$
<b>Note 12: Goodwill</b>				
Goodwill at cost	38,148,666	38,148,666	-	-
Less asset impairment loss	(23,148,666)	(1,907,433)	-	-
	15,000,000	36,241,233	-	-

The goodwill above which has an indefinite useful life was generated upon the acquisition of the People Telecommunications Pty Limited group of companies in June 2004. The impairment testing compares the carrying value of goodwill with the recoverable amount of the underlying cash generating unit of the People Telecommunications Pty Limited business (CGU). This recoverable amount is determined using a value in use calculation.

The assumptions for determining the recoverable amount of goodwill is based on past experience and our expectations of the future. These include:

- (i) Pre tax discount rate of 15.71% (2005:13.70%) which is based on the current market assessments of the time value of money and the risks specific to the CGU.
- (ii) The cash flow projections are based on the forecast for the 2006 / 2007 year for the CGU, plus a growth rate of 2.5% (2005: 3.0%). This growth rate is based on the expectation of the CGU's long term performance.

In respect of the current financial year, the consolidated entity has recognised an impairment loss of \$21,241,233 in respect of the above CGU. The decline in value of the CGU is a consequence of the increased uncertainty and challenges currently facing the Australian telecommunications sector.

**Note 13: Payables**

Trade creditors	10,615,828	10,889,902	-	-
Accrued expenses	7,476,425	6,827,570	-	-
	18,092,253	17,717,472	-	-

Terms and conditions relating to the above financial instruments:

- (i) Trade creditors are non-interest bearing and normally settled on 30 to 45 day terms.

**Note 14: Interest bearing liabilities (current)**

Lease Liabilities (Note 22)	189,375	288,444	-	5,206
Borrowings	76,414	102,009	-	-
	265,789	390,453	-	5,206

**Note 15: Provisions (current)**

Employee entitlements	476,780	441,087	-	-
Number of employees at the end of the financial year	127	135	-	1

	Consolidated		The Company	
	2006	2005	2006	2005
	\$	\$	\$	\$

**Note 16: Other liabilities**

Unearned Income

- Carrier Commissions / Subsidies	1,354,502	1,931,414	-	-
- Other	1,788,241	1,688,134	-	-
	3,142,743	3,619,548	-	-

**Note 17: Interest bearing liabilities (non current)**

Lease Liabilities (Note 22)	-	178,238	-	-
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**Note 18: Other liabilities (non current)**

Unearned Income

- Carrier Commissions / Subsidies	585,002	620,209	-	-
	585,002	620,209	-	-

**Note 19: Contributed equity**

*(a) Issued and paid up capital*

307,823,854 fully paid ordinary shares  
(2005: 305,653,709)

	62,383,448	62,103,292	62,383,448	62,103,292
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	2006	2006	2005	2005
	Number	\$	Number	\$

*(b) Movements in fully paid ordinary shares*

At the beginning of the financial year	305,653,709	62,103,292	305,578,709	62,113,399
Issue of Shares at \$0.10 each	-	-	75,000	7,500
Issue of shares at \$0.1304 each (1)	2,170,145	282,968	-	-
Share issue costs	-	(2,812)	-	(17,607)
	307,823,854	62,383,448	305,653,709	62,103,292

(1) Issued in conjunction with the Executive Incentive Share Plan

*(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.

	2006 Number	2006 Average Exercise Price Cents
<b>Note 19: Contributed equity (con't)</b>		
<i>(d) Movements in share options</i>		
At the beginning of the financial year	3,500,000	41.42
Unlisted Options lapsed 3 October 2005	(500,000)	80.00
<b>At the end of the financial year</b>	<b>3,000,000</b>	<b>35.00</b>

*(e) Options outstanding at balance date*

Grant Date	No of Options	Exercise Price Cents	Expiry Date	Details
	(1)	(1)		
5 April 2002	1,500,000	30	30 September 2006	Other
5 April 2002	1,500,000	40	30 September 2006	Other
	<b>3,000,000</b>	<b>35</b>		

There have been no options issued or exercised since balance date. Options carry no voting rights or rights to dividends.

	Consolidated		The Company	
	2006	2005	2006	2005
	\$	\$	\$	\$
<b>Note 20: Accumulated losses</b>				
Accumulated losses at the beginning of the year	21,558,368	20,961,956	20,284,074	17,537,143
Net loss from ordinary activities after income tax	21,609,667	596,412	22,103,061	2,746,931
Accumulated losses at the end of the financial year	43,168,035	21,558,368	42,387,135	20,284,074
<b>Note 21: Cash Flow Information</b>				
Reconciliation of Cash Flow from Operations with Loss from Ordinary Activities after Income Tax				
Loss from ordinary activities after income tax	(21,609,667)	(596,412)	(22,103,061)	(2,746,931)
Add non-cash items:				
Allowance for doubtful debtors	793,551	943,089	-	-
Amounts set aside to provisions	35,693	85,761	-	-
Asset impairment loss	21,241,233	1,907,433	21,241,233	1,907,433
Depreciation and amortisation	771,389	700,538	-	-
Issue of Shares under Executive Incentive Share Plan	282,968	-	282,968	-
Plant and equipment written off	208,231	156,328	-	-
Net cash generated by / (used in) operating activities before change in assets and liabilities	1,723,398	3,196,737	(578,860)	(839,498)
Changes in assets and liabilities:				
Decrease/(Increase) in trade debtors	858,435	(4,954,807)	-	-
Decrease/(Increase) in other receivables	360,532	(197,601)	-	78,476
Decrease/(Increase) in loans to controlled entities	-	-	110,526	(449,247)
(Increase) in current prepayments	(273,402)	(1,447,358)	-	-
Decrease/(Increase) in other assets	9,660	(191,683)	-	90,444
Increase/(Decrease) in trade creditors and accruals	374,782	3,240,020	-	(529,926)
(Decrease)/Increase in unearned income	(512,012)	462,474	-	-
<b>Cash Flows from Operating Activities</b>	<b>2,541,393</b>	<b>107,782</b>	<b>(468,334)</b>	<b>(1,649,751)</b>

	Consolidated		The Company	
	2006 \$	2005 \$	2006 \$	2005 \$
<b>Note 22: Capital and Leasing Commitments</b>				
<i>(a) Finance Lease Commitments</i>				
Payable				
- not later than one year	198,458	329,916	-	5,364
- later than one year but not later than 5 years	-	191,492	-	-
Minimum lease payments	198,458	521,408	-	5,364
Less future lease interest	(9,083)	(54,726)	-	(158)
	189,375	466,682	-	5,206
Current liability	189,375	288,444	-	5,206
Non-current liability	-	178,238	-	-
<b>Total lease Liability</b>	189,375	466,682	-	5,206
<i>(b) Operating Lease Commitments</i>				
Non-cancellable operating leases contracted for but not capitalised in the financial statements				
Payable				
- not later than one year	1,168,991	1,099,653	138,300	194,992
- later than one year but not later than 5 years	1,917,611	2,382,178	531,970	252,025
	3,086,602	3,481,831	670,270	447,017

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 10.81% (2005: 9.95%). Lease liabilities are secured by a charge over the leased assets.

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

**Note 23: Directors and Executives Disclosures**

*(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. Subject to approval of shareholders at a general meeting to be held on 28 September 2006, Mr Stanton will be granted 13,000,000 Executive Options.

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

	<b>Balance at Beginning of year</b>	<b>Granted as remuneration</b>	<b>On exercise of Options</b>	<b>Net Change Other</b>	<b>Balance at end of year</b>
<b>Directors</b>					
B. Hamilton	33,725,758	-	-	-	33,725,758
J. Stanton	-	-	-	-	-
B. Fleiter	67,351,515	-	-	-	67,351,515
C. Marland	47,260,355	-	-	500,280	47,760,635
R. O'Hare	49,166,090	-	-	-	49,166,090
S. Wilks	-	-	-	-	-
M.Wylie	500,000	-	-	-	500,000
<b>Specified Executives</b>					
M. Manion	250,000	-	-	-	250,000
K. Reza	9,779,084	-	-	(472,500)	9,306,584
G. Roache	306,187	-	-	-	306,187
W. Wanders	130,000	-	-	-	130,000
G. White	-	-	-	-	-
	<b>208,468,989</b>	<b>-</b>	<b>-</b>	<b>27,780</b>	<b>208,496,769</b>

**Note 23: 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.

(f) *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						
2006	12,414	-	1,088	-	-	1
2005	-	-	715	-	12,414	1
Specified executives						
2006	25,000	-	693	-	-	1
2005	-	-	1,531	-	25,000	1
Total Directors & Specified executives						
2006	37,414	-	1,781	-	-	2
2005	-	-	2,246	-	37,414	2

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

(g) *Fixed Service agreements*

Mr Stanton, Chief Executive Officer

- Term of agreement – 3 years commencing on 7 August 2006.
- Base salary for the year ended 30 June 2007, inclusive of superannuation \$425,000.
- Bonus payable if targets are met, inclusive of superannuation \$150,000.
- Payment of termination benefit equal to six months base salary if termination prior to 6 August 2007, thereafter termination benefit equal to three months base salary.
- Subject to shareholder approval at a general meeting to be held on 28 September 2006, Mr Stanton will be granted 13,000,000 options. These options vest as follows:
  - 1,000,000 vest on commencement of employment;
  - 1,000,000 vest if Mr Stanton is still employed on 30 June 2007;
  - 1,000,000 vest if Mr Stanton is still employed on 30 June 2008;
  - 1,000,000 vest if Mr Stanton is still employed on 30 June 2009;
  - 9,000,000 vest subject to achievement of earnings per share targets set annually by the Board.

The vested options can be exercised between the date the consolidated entity's Appendix 4e (preliminary final report) for the year ended 30 June 2009 is released to the market and 31 December 2009.

Mr O'Hare, retiring Chief Executive Officer

- Term of agreement – 2 months commencing on 1 July 2006.
- Base salary for the year ended 30 June 2007, inclusive of superannuation \$72,667.

**Note 23: Directors and Executives Disclosures con't**

Mr Manion, General Manager – Channel Sales

- Term of agreement – 2 years commencing on 8 May 2006.
- Base salary for the year ended 30 June 2007, inclusive of superannuation \$155,290.
- Bonus payable if targets are met, inclusive of superannuation \$60,000.
- Payment of termination benefit equal to the lesser of six months base salary or base salary from the date of termination to 7 May 2008. In addition any unvested shares in the Executive Incentive Share Plan will vest on a pro rata basis up to the termination date.

Mr Roache, General Manager Sales – Northern Region

- Term of agreement – 2 years commencing on 4 May 2006.
- Base salary for the year ended 30 June 2007, inclusive of superannuation \$151,250.
- Bonus payable if targets are met, inclusive of superannuation \$60,000.
- Payment of termination benefit equal to the lesser of six months base salary or base salary from the date of termination to 3 May 2008. In addition any unvested shares in the Executive Incentive Share Plan will vest on a pro rata basis up to the termination date.

Mr White, General Manager Sales – Western Region

- Term of agreement – 2 years commencing on 1 August 2006.
- Base salary for the year ended 30 June 2007, inclusive of superannuation \$173,050.
- Retention bonus of \$50,000 if still employed on 1 December 2007.
- Bonus payable if targets are met, inclusive of superannuation \$70,000.
- Payment of termination benefit equal to the lesser of six months base salary or base salary from the date of termination to 31 July 2008.

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

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

**Purchases**

Fees amounting to \$20,000 (2005: \$20,000) 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.

	Holding		Investment	
	2006	2005	2006	2005
	%	%	\$	\$
<b>Note 24: Controlled Entities</b>				
<i>Name Parent Entity</i>				
People Telecom Limited				
<i>Controlled entities – consolidated entity interest at cost</i>				
Swiftel Communications Pty Ltd	100%	100%	2,246,203	2,246,203
Swift Broadband Pty Ltd	100%	100%	1,164,156	1,164,156
People Telecommunications Pty Limited	100%	100%	39,728,795	39,839,321
People Mobile Pty Ltd (1)	100%	100%	-	-
PTS Australia Pty Ltd (1)	100%	100%	-	-
			43,139,154	43,249,680
Asset impairment loss			(23,148,666)	(1,907,433)
			19,990,488	41,342,247

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.

**Note 25: 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 Interest Rate	Floating Rate	Fixed Interest	Rate Maturing	Non-interest bearing	Total
	2006	2006	Within 1 Year 2006	1 to 5 Years 2006	2006	2006
	%	\$	\$	\$	\$	\$
<b>Financial Assets</b>						
Cash assets	5.75%	4,882,774	-	-	-	4,882,774
Current receivables	n/a	-	-	-	14,138,073	14,138,073
Other financial assets	5.60%	819,643	-	-	-	819,643
<b>Total Financial Assets</b>		5,702,417	-	-	14,138,073	19,840,490
<b>Financial Liabilities</b>						
Lease liabilities	10.81%	-	189,375	-	-	189,375
Borrowings	5.00%	-	76,414	-	-	76,414
Trade creditors and accruals	n/a	-	-	-	18,092,253	18,092,253
<b>Total Financial Liabilities</b>		-	265,789	-	18,092,253	18,358,042

**Note 25: Financial Instruments (con't)**

	Weighted	Floating	Fixed Rate Maturing		Non-interest	Total
	Average	Interest			bearing	
	Effective Interest	Rate	Within 1 Year	1 to 5 Years		
	Interest Rate					
	2005	2005	2005	2005	2005	2005
	%	\$	\$	\$	\$	\$
<b>Financial Assets</b>						
Cash assets	4.26%	2,671,522	-	-	-	2,671,522
Current receivables	n/a	-	-	-	16,150,591	16,150,591
Other financial assets	5.33%	1,557,403	-	-	-	1,557,403
<b>Total Financial Assets</b>		4,228,925	-	-	16,150,591	20,379,516
<b>Financial Liabilities</b>						
Lease liabilities	9.95%	-	288,444	178,238	-	466,682
Borrowings	6.50%	-	102,009	-	-	102,009
Trade creditors and accruals	n/a	-	-	-	17,717,472	17,717,472
<b>Total Financial Liabilities</b>		-	390,453	178,238	17,717,472	18,286,163

**(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 Balance Sheets 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 26: Subsequent Events**

There have not been any significant subsequent events after 30 June 2006.

**Note 27: 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.

**Note 28: 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. All options under this scheme have lapsed. There are no plans for any further options to be granted under this plan.

*(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 was established where the CEO would have been be allocated performance rights pending the successful achievement of the required performance criteria. This Plan is intended to be replaced by Executive Options which will offered to Mr Stanton.

*(e) CEO Executive Options*

Mr Stanton as the chief executive officer, subject to shareholder approval at a general meeting on 28 September 2006, will be granted 13,000,000 Executive Options. These options have three components, which are:

- Sign on component;
- Retention component with no performance conditions attached; and,
- Incentive component with earnings per share performance conditions attached ("EPS Hurdle"). The EPS Hurdle will be set by the Board within the first 3 months of each financial year.

Refer note 23(g) for more information.

**Note 29: Adoption of AIFRS – explanation of changes in accounting policy arising on the first time adoption of AIFRS**

Set out below are the key areas where accounting policies have changed on the adoption of AIFRS.

**(i) Share based payments**

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

On first-time adoption of AIFRS retained earnings at 1 July 2004 (\$nil) and reported results for the year ended 30 June 2005 (\$228,000 adverse impact) have been adjusted for all share-based payments granted after 7 November 2002, which did not vest prior to 1 January 2005.

**(ii) Goodwill**

Goodwill on consolidation has been 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.

On adoption of AIFRS, reported results for the year ended 30 June 2005 have been adjusted for amortisation charges from 1 July 2004 (\$1,907,433 positive impact). Amortisation charges prior to 30 June 2004 may not be reversed under the first-time adoption provisions.

**(iii) Impairment of Assets**

Under AIFRS the recoverable amount test under the previous AGAAP is 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.

On adoption of AIFRS, reported results for the year ended 30 June 2005 have been adjusted for impairment (\$1,907,433 adverse impact).

**(iv) Income taxes**

Under AIFRS a balance-sheet approach has been 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.

**Note 30: Adoption of AIFRS – reconciliation of profit / (loss) reported under AGAAP to AIFRS**

Reconciliation of Operating Profit after Tax for the financial year ended 30 June 2005	
Operating loss after tax for the year to 30 June 2005 as reported under AGAAP:	(\$42,690)
Share-based entitlements earned during the year	(\$228,000)
Goodwill on consolidation adjustments	
- reversal of amortisation for the year	
- impairment loss arising from events during the year	\$1,907,433
	(\$1,907,433)
Correction of prior period error in trade receivables cut off	(\$325,722)
Operating loss after tax as restated under AIFRS for the year ended 30 June 2005	(\$596,412)

**Note 31: Adoption of AIFRS – reconciliation of equity reported under AGAAP to AIFRS**

(a) Reconciliation of Total Equity at 1 July 2004	
Total equity at 1 July 2004 as reported under AGAAP	\$41,151,443
Adjustments to total equity as at 1 July 2004 -	
Total equity at 1 July 2004 as restated under AIFRS	\$41,151,443
(b) 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	(\$53,722)
<b>Total equity at 30 June 2005 as restated under AIFRS</b>	<b>\$40,544,924</b>

**Note 32: Adoption of AIFRS – reconciliation of cash flow statement reported under AGAAP to AIFRS**

The adoption of AIFRS has not resulted in any material adjustments to the cash flow statement.

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

1. In the opinion of the directors:

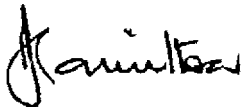
(a) the financial statements and notes of the company and of the consolidated entity are in accordance with the Corporations Act 2001, including:

- (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 2006 and of their performance for the year ended on that date; and

(b) That the directors have been given the declarations 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 31st day of August 2006



**PITCHER PARTNERS**

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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 LTD**

**Scope**

We have audited the financial report of People Telecom Ltd for the financial year ended 30 June 2006 comprising the Directors' Declaration, Income Statement, Balance Sheet, Statement of Changes in Equity, Statement 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.

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 Corporations Act 2001 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 their cash flows and whether the remuneration disclosures in the directors' report comply with Accounting Standard AASB 124.

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

**Audit Opinion**

In our opinion:

(1) the financial report of People Telecom Ltd 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 2006 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

(2) the remuneration disclosures that are contained in the director's report under the heading "Remuneration Report" comply with Accounting Standard AASB 124.

*Pitcher Partners*  
Pitcher Partners  
*Mark Godlewski*  
Mark Godlewski  
Sydney 31 August 2006



Offices throughout the world

Additional information required by the Australian Stock Exchange Ltd and not shown elsewhere in this report is as follows:  
The information was current as at 25 September 2006.

*(a) Distribution of equity securities*

The number of ordinary shareholders were:

Category (size of holdings)	Ordinary Shares	
	Number of holders	Number of shares
1 - 1000	480	94,873
1,001 - 5,000	378	1,197,561
5,001 - 10,000	220	1,772,298
10,001 - 100,000	523	21,341,412
100,001 and over	172	283,417,710
	<b>1,773</b>	<b>307,823,854</b>

The number of shareholders holding less than marketable parcels is 985, holding shares to a total of 2,158,594.

*(b) Twenty largest shareholders*

Name	Number of Ordinary Shares	% of Issued Ordinary Shares held
1 Telino Pty Limited	67,251,515	21.8%
2 Reven Pty Limited	32,625,758	10.6%
3 Rivacre Investments Pty Ltd	32,447,733	10.5%
4 Nashar Pty Limited	30,547,734	9.9%
5 Clystar Pty Limited	15,309,372	5.0%
6 Clystorm Pty Limited	15,309,372	5.0%
7 ANZ Nominees Limited	10,625,351	3.5%
8 Mr Kazim Reza	8,284,878	2.7%
9 Invia Custodian Pty Limited	6,600,000	2.1%
10 Mr Malcolm Dick	4,000,000	1.3%
11 CPU Share Plans Pty Limited	3,705,145	1.2%
12 Ronay Investments Pty Limited	1,928,324	0.6%
13 Mr Malcolm Stuart Dick + Mr Adrian Jeffrey Dick	1,750,000	0.6%
14 O'Hare Enterprises Pty Ltd	1,725,734	0.6%
15 Citicorp Nominees Pty Limited	1,680,981	0.5%
16 Mr Steven Mate Kunac	1,677,001	0.5%
17 Mr Ross Ian Goodridge	1,579,555	0.5%
18 Mrs Satwant Kaur Rai	1,235,483	0.4%
19 Chifley Capital Pty Ltd	1,166,500	0.4%
20 Thirty Fourth Zulu Pty Ltd	1,100,000	0.4%
	<b>240,550,436</b>	<b>78.1%</b>

*(c) Substantial Shareholders*

The names of the substantial shareholders who have notified the company in accordance with section 671B of the Corporation Act 2001 are:

<b>Name</b>	<b>Number of Ordinary Shares</b>	<b>% of Issued Ordinary Shares held</b>
Brendan Fleiter (personal and relevant interests)	67,351,515	21.9%
Ryan O'Hare (personal and relevant interests)	49,166,090	16.0%
Colin Marland (personal and relevant interests)	48,610,635	15.8%
Barry Hamilton (personal and relevant interests)	33,725,758	11.0%

*(d) Unlisted option holders*

The number of unlisted options granted by the company and the number of holders of each class of options were as follows:

<b>Class of Option</b>	<b>Number Granted</b>	<b>Number of Holders</b>
Expiry 30 September 2006 exercisable at \$0.30 to \$0.40	3,000,000	2

*(e) On market buy back*

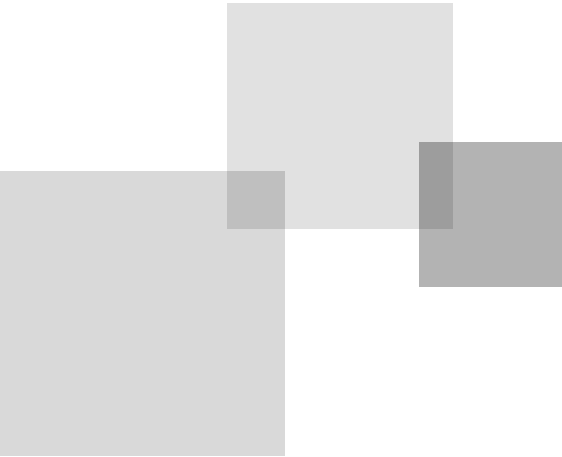
There is no current on market buy back for the company's shares

*(f) Voting Rights*

All ordinary shares carry one vote per share without restriction. On a show of hands every member or proxy present shall be entitled to one vote unless a poll is called in which every share shall have one vote.

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