

**PEOPLE TELECOM LIMITED  
ACN 009 273 152**

**ANNUAL FINANCIAL REPORT**

**FOR THE YEAR ENDED 30 JUNE 2007**

# COMPANY DIRECTORY

## DIRECTORS

Barry John Hamilton (Non Executive Chairman)  
John Leslie Stanton (Chief Executive Officer & Executive Director)  
Brendan William Fleiter (Non-Executive)  
Colin Joseph Marland (Non-Executive)  
Ryan Michael O'Hare (Non-Executive)  
Stephe Peter Wilks (Alternate for C.M. Marland)  
Martin Edward Wylie (Non-Executive)

## COMPANY SECRETARY

Wayne Robert Wanders

## REGISTERED AND HEAD OFFICE

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North Sydney NSW 2060  
Telephone: (02) 9458 5888  
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Website: [www.peopletelecom.com.au](http://www.peopletelecom.com.au)

## AUDITORS

Pitcher Partners

## SOLICITORS

Steinepreis Paganin

## BANKERS

National Australia Bank

## SHARE REGISTRY

Computershare Investor Services  
Level 2, Bank Building, 45 St Georges Terrace  
Perth WA 6000  
Telephone: (08) 9323 2000  
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## People Telecom Limited Directors' Report

Your Directors present their report on the Group for the financial year ended 30 June 2007.

### Principal Activities

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

### Results

The profit after income tax of the Group was \$1,964,270 for the financial year ended 30 June 2007 (2006: loss of \$21,609,667).

This result includes:

- A profit after tax from the sale of the Perth Fibre Business and its operations of \$2,626,138. This sale was settled on 31 March 2007. Further information relating to this sale can be found in Note 31 to the Financial Statements.
- A tax credit of \$1,076,000 (2006: \$6,160 tax expense) on recognition of the utilisation of prior period tax losses.
- A loss of \$1,420,513 from continuing operations.

### Review of Operations

During the year the Group continued to show strong growth in data revenue. Business grade data recurring revenue grew by 94% during the year due to increased success in selling and delivering complex data network solutions to business customers. Total data revenue increased by 18% to \$22.6 million, also reflecting growth in the consumer broadband customer base.

During the year the Group undertook, and continues to undertake, a wide-ranging program designed to address operational and commercial issues and solidify performance going forward.

Although the positive impact of these changes began flowing into the business during the year, the underlying activities were adversely affected by a combination of factors, including intensified competition, higher than budgeted customer churn and some unbudgeted non-recurring costs.

Mobile recurring revenue grew by 2%. Fixed voice revenue was 12% lower, reflecting increased competition in the small-medium enterprise (SME) sector and its impact on customer churn and retail price levels. Notwithstanding the revenue reduction, the margin percentage on fixed voice revenue grew from 20.7% to 21.1%.

Other features for the year ended 30 June 2007 include:

- Total revenue from continuing operations was \$100.9m - a reduction of 4%, driven by the fall in fixed voice revenue.
- Operating expenses were reduced to \$24.3 million. This was a decrease of 2%, despite the inclusion of some non-recurring expenses including some additional accommodation expenses and the costs associated with the reworking of the ADSL-2 service network to deliver a more strategic profitable service going forward.
- Total gross margin was \$22.9m. Gross margin was 22.7% of revenue, down from 23.9% in 2005-06.

**People Telecom Limited  
Directors' Report**

Revenue of the continuing operations for the year	2007	2006	Growth year on year	% Growth year on year
	\$	\$	\$	
Fixed Voice	57,923,923	65,725,419	(7,801,496)	(12%)
Mobile	20,393,636	20,277,077	116,559	1%
Data	22,573,675	19,196,469	3,377,206	18%
<b>Total</b>	<b>100,891,234</b>	<b>105,198,965</b>	<b>(4,307,731)</b>	<b>(4%)</b>

**Business Strategy**

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

The Group'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 Group has commenced and will continue its drive to improve operational efficiencies and commercial arrangements in order to improve customer service, reduce customer churn and generate stronger margins. It will also re-boost its sales activities to deliver top line growth and subsequently economies of scale – a key ingredient to a successful long term Service Provider model.

Areas of particular focus this year include:

Customer Retention

Through re-direction of internal resources a comprehensive customer retention program is in place to provide customer lifecycle management, cross-sell additional services into the existing customer base and improve overall retention rates. Several customer win-back initiatives are also in place.

Margin Management & Revenue Assurance

Strengthened revenue assurance and margin management processes are in place to improve or eliminate lower margin activities and prevent sources of revenue leakage.

Customer Care

Steady and ongoing improvement in our Customer Care performance has been achieved in 2006-07, with productivity gains of up to 40% being realised and service levels greatly improved. Further gains are targeted for 2007-08.

**People Telecom Limited  
Directors' Report**

**Product Strategy**

The Group is scheduled to launch 3G mobile services in October 2007, opening up new data-based revenue streams and providing a stronger platform to compete against existing 3G service providers. Several new SME-focused products are in the development process and will be launched during 2007-08.

The integration - presently underway - of Ethernet-based aggregation equipment into each of the capital city points-of-presence (POPs) within the Group's network will facilitate stronger growth of the broadband customer base and enable the introduction of new value-added services to consumer and business broadband customers.

**Wholesale Business**

A concerted push has commenced to expand the consolidated entity's wholesale division which supplies fixed voice, mobile and broadband services to ISP and telcos across Australia.

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:

<b>Name, Qualifications and Special Responsibilities</b>	<b>Experience</b>
Barry John Hamilton B Com., FCA. Non-Executive Chairman	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

**People Telecom Limited  
Directors' Report**

**Name, Qualifications and  
Special Responsibilities**

**Experience**

John Leslie Stanton MBA,  
Chief Executive Officer and  
Executive Director

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

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

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

**People Telecom Limited  
Directors' Report**

**Name, Qualifications and  
Special Responsibilities**

**Experience**

Ryan Michael O'Hare  
Non-Executive Director

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 - Director Tel.Pacific Ltd (2007 - )  
Appointed 29 June 2004

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

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 - )  
Service Stream Ltd (2005 - )  
Tel.Pacific Ltd (2007 - )  
Appointed 15 February 2006

Martin Edward Wylie LLB.,  
Non-Executive Director

Mr Wylie is the Chief Executive Officer of Callplus Limited, which is New Zealand's third-largest fixed line carrier. Mr Wylie is 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 IInet. Directorships of other listed companies in last three years - None  
Appointed 1 September 2004

**People Telecom Limited  
Directors' Report**

**Company Secretary**

**Name, Qualifications and  
Special Responsibilities**

**Experience**

Wayne Robert Wanders  
B Com., CA

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 Committee	
	A	B	A	B	A	A	A	B
B. Hamilton	13	13	2	2	2	2	-	-
B. Fleiter	12	13	-	-	2	2	1	1
C. Marland	12	13	2	2	-	-	1	1
R. O'Hare	12	13	-	-	2	2	-	-
S. Wilks	-	-	-	-	-	-	-	-
M. Wylie	13	13	-	-	-	-	-	-

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 and a Corporate Governance Committee.

Members acting on the committees of the Board were:

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

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

**People Telecom Limited  
Directors' Report**

**Directors' Security Holdings**

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

	<b>Fully Paid Ordinary Shares</b>	<b>Unlisted Options</b>
B. Hamilton	33,725,758	-
J. Stanton	1,775,854	13,000,000
B. Fleiter	67,351,515	-
C. Marland	46,610,635	-
R. O'Hare	47,822,414	-
S. Wilks	-	-
M. Wylie	500,000	-

**Dividends**

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

**Employees**

The consolidated entity employed 125 full time equivalent people at 30 June 2007 (30 June 2006: 127).

**Significant Changes in State of Affairs**

Other than the sale of the Perth Fibre business as detailed in Note 31 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 2007, nor have there been any after 30 June 2007 up to date of this report.

**After Balance Date Events**

There have not been any significant events occurring after 30 June 2007 up to the date of this report other than on 19 July 2007 the company announced a planned on-market buy-back of the company's shares during coming months. The company proposes to buy-back up to 30,782,385 shares (being 10% of the company's share capital).

This on-market buy-back will commence following the release of People Telecom's results for the financial year ended 30 June 2007, on or before 28 August 2007.

**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.

**People Telecom Limited  
Directors' Report**

**Share Options**

As at the date of this report, there were 13,000,000 unissued ordinary shares under option (13,000,000 at reporting date). Refer to Note 19(e) of the Financial Statements for further details of the options outstanding.

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

Since 30 June 2006 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 2 February 2007 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 \$61,304.

No other indemnities have been given during or since the end of the financial year, for any directors, officers or auditors.

**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 (2007: \$25,280, 2006: \$43,500). 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.

**People Telecom Limited  
Directors' Report**

**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 any share or option 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.

The executive team previously had the opportunity to qualify for participation in the Executive Share Incentive Plan. This plan was approved at a General Meeting on 14 June 2004. This plan currently has 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.

**People Telecom Limited  
Directors' Report**

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.

At present the Remuneration Committee is reviewing if the Executive Share Incentive Plan should be replaced with an Executive Share Option Plan. This Plan, if adopted will have similar components as the Executive Share Incentive Plan noted above including the requirement of continuing service periods prior to any options being exercised. Currently there have been no options issued under this proposed Plan.

As approved by the shareholders at a general meeting held on 28 September 2006, Mr Stanton was granted 13,000,000 CEO 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 to Note 30 of the Financial Statements for further details of these Executive Options.

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 2007 and 30 June 2006.

2007	Short term employee benefits			Post	Long	Equity	Total
	Cash Salary & Fees \$	Cash Bonus \$	Non Monetary Benefits \$	Employment Superannuation \$	Term benefits \$	Based \$	
B. Hamilton	90,000	-	-	8,100	-	-	98,100
J. Stanton	371,624	-	5,706	11,434	-	199,800	588,564
B. Fleiter	50,000	-	-	4,500	-	-	54,500
C. Marland	50,000	-	2,896	5,903	-	-	58,799
R. O'Hare	129,886	-	2,472	3,750	-	-	136,108
S. Wilks	-	-	-	-	-	-	-
M. Wylie	41,666	-	-	-	-	-	41,666
<b>Total</b>	<b>733,176</b>	<b>-</b>	<b>11,074</b>	<b>33,687</b>	<b>-</b>	<b>199,800</b>	<b>977,737</b>

**People Telecom Limited  
Directors' Report**

2006	Short term employee benefits			Post Employment	Long Term benefits	Equity Based	Total
	Cash Salary & Fees \$	Cash Bonus \$	Non Monetary Benefits \$	Superannuation \$	\$	\$	\$
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>	<b>635,000</b>	<b>-</b>	<b>10,458</b>	<b>54,450</b>	<b>-</b>	<b>-</b>	<b>699,908</b>

*Details of Key Management personnel*

The names and positions of the key management personnel in the consolidated entity that received the highest remuneration and having the authority and responsibility for the planning, directing and controlling the activities of the consolidated entity, directly or indirectly during the financial year, along with the components of their remuneration is provided below.

Executive	Position
P. Humphrey	General Manager Sales – Southern Region
M. Manion	General Manager - Channel Sales
G. Roache	General Manager Sales – Northern Region
W. Wanders	Chief Financial Officer / Company Secretary
G. White	General Manager Sales – Western Region

**People Telecom Limited  
Directors' Report**

The following tables set out the remuneration received by the specified executives of the company during the financial year ended 30 June 2007 and 30 June 2006.

2007	Short term employee benefits			Post Employment	Long Term benefits	Equity Based (1)	Total
	Cash Salary & Fees \$	Cash Bonus \$	Non Monetary Benefits \$	Superannuation \$	\$	\$	\$
P. Humphrey	135,000	57,821	3,851	12,890	-	12,387	221,949
M. Manion	143,500	50,533	6,847	12,915	-	12,452	226,247
G. Roache	140,000	50,859	6,847	12,665	-	12,061	222,432
W. Wanders	173,500	18,250	-	12,126	-	13,691	217,567
G. White	160,000	70,672	5,135	14,400	-	12,387	262,594
<b>Total</b>	<b>752,000</b>	<b>248,135</b>	<b>22,680</b>	<b>64,996</b>	<b>-</b>	<b>62,978</b>	<b>1,150,789</b>

2006	Short term employee benefits			Post Employment	Long Term benefits	Equity Based (1)	Total
	Cash Salary & Fees \$	Cash Bonus \$	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>	<b>802,833</b>	<b>239,850</b>	<b>26,915</b>	<b>68,636</b>	<b>-</b>	<b>65,586</b>	<b>1,203,820</b>

(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.

**People Telecom Limited  
Directors' Report**

**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 24th day of August 2007



# PITCHER PARTNERS

ACCOUNTANTS AUDITORS & ADVISORS

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Sydney NSW 2000  
Australia

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Sydney NSW 2001

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K J CRANFIELD  
A W ELKERTON  
M A GODLEWSKI  
D M HODGKINSON  
C W HOPE  
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 2007, 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.

### PITCHER PARTNERS

**MARK GODLEWSKI**  
Partner

Sydney  
24 August 2007

## People Telecom Limited Corporate Governance Statement

The Board of Directors of People Telecom Limited (the "Board") is responsible for the Corporate Governance of the consolidated entity. The Directors aspire to the 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 63% of the issued capital of the Company), has a representative on the Board of Directors;
- Each of these four representatives has valuable and necessary skills, experience and expertise that the Board wishes to utilize,

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

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

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

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

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

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

*Promote ethical and responsible decision making*

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

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

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

*Safeguard integrity in financial reporting*

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

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.

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

*Recognise and manage risk*

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

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

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

*Encourage enhanced performance*

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.

**People Telecom Limited**  
**Income Statements**  
**For the year ended 30 June 2007**

	Note	Consolidated		The Company	
		2007	2006	2007	2006
		\$	\$	\$	\$
Revenue from continuing operations rendering telecommunications services	2	100,891,234	105,198,965	-	-
Cost of sales		(78,013,647)	(80,060,041)	-	-
Gross margin		<u>22,877,587</u>	<u>25,138,924</u>	-	-
		22.7%	23.9%		
<b>Operating Costs</b>					
Wages and related expenses		(12,246,499)	(11,579,065)	(622,889)	(414,545)
Advertising and promotion expenses		(298,596)	(525,946)	-	-
Billing and collection costs		(1,599,976)	(1,783,474)	-	-
Dealer charges		(5,501,443)	(5,948,391)	-	-
Insurance		(247,606)	(218,016)	(11,179)	(8,382)
Professional fees		(419,935)	(480,270)	(4,703)	(97,821)
Rental expenditure		(1,188,397)	(857,399)	-	-
Other operating expenses		(2,795,648)	(3,451,166)	(234,593)	(353,951)
		<u>(24,298,100)</u>	<u>(24,843,727)</u>	<u>(873,364)</u>	<u>(874,699)</u>
		24.1%	23.6%		
<b>Earnings before Interest, Taxation, Depreciation and Amortisation (EBITDA)</b>		<u>(1,420,513)</u>	<u>295,197</u>	<u>(873,364)</u>	<u>(874,699)</u>
Depreciation and Amortisation	3	(422,736)	(504,917)	-	-
Finance costs	3	(12,392)	(34,071)	-	(4,682)
Asset impairment loss	3	-	(21,241,233)	-	(21,241,233)
Plant and equipment written off		(183,830)	(207,231)	-	-
Other income	2	301,603	188,979	2,026	17,553
(Loss) from ordinary activities before income tax		<u>(1,737,868)</u>	<u>(21,503,276)</u>	<u>(871,338)</u>	<u>(22,103,061)</u>
Income tax credit (expense) relating to ordinary activities	4	1,076,000	(6,160)	-	-
(Loss) from continuing operations		<u>(661,868)</u>	<u>(21,509,436)</u>	<u>(871,338)</u>	<u>(22,103,061)</u>
Profit (loss) from discontinued operations	31	2,626,138	(100,231)	-	-
Profit / (Loss) attributable to members of People Telecom Limited		<u>1,964,270</u>	<u>(21,609,667)</u>	<u>(871,338)</u>	<u>(22,103,061)</u>
<b>Earnings per share from continuing operations</b>		Cents per share	Cents per share		
Basic earnings/(loss) per share	5	(0.22)	(7.01)		
Diluted earnings/(loss) per share	5	(0.21)	(7.01)		
<b>Earnings per share from Profit / (Loss) attributable to members of People Telecom Limited</b>					
Basic earnings/(loss) per share	5	0.64	(7.04)		
Diluted earnings/(loss) per share	5	0.61	(7.04)		

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

**People Telecom Limited**  
**Balance Sheets**  
For the year ended 30 June 2007

	Note	Consolidated		The Company	
		2007	2006	2007	2006
		\$	\$	\$	\$
<b>Current Assets</b>					
Cash assets	6	7,313,509	4,882,774	2,068	5,825
Receivables	7	13,649,226	14,138,073	-	-
Other	8	3,574,114	3,691,783	-	-
<b>Total Current Assets</b>		<b>24,536,849</b>	<b>22,712,630</b>	<b>2,068</b>	<b>5,825</b>
<b>Non Current Assets</b>					
Other financial assets	9	1,758,000	819,643	19,316,297	19,990,488
Property, plant and equipment	10	764,222	2,766,146	-	-
Other	11	311,043	479,561	-	-
Goodwill	12	15,000,000	15,000,000	-	-
<b>Total Non Current Assets</b>		<b>17,833,265</b>	<b>19,065,350</b>	<b>19,316,297</b>	<b>19,990,488</b>
<b>Total Assets</b>		<b>42,370,114</b>	<b>41,777,980</b>	<b>19,318,365</b>	<b>19,996,313</b>
<b>Current Liabilities</b>					
Payables	13	15,733,668	18,092,253	-	-
Interest bearing liabilities	14	188,843	265,789	-	-
Provisions	15	512,619	476,780	-	-
Other	16	3,606,684	3,142,743	-	-
Current tax liabilities		78,000	-	-	-
<b>Total Current Liabilities</b>		<b>20,119,814</b>	<b>21,977,565</b>	<b>-</b>	<b>-</b>
<b>Non-Current Liabilities</b>					
Interest bearing liabilities	17	63,475	-	-	-
Other	18	813,752	585,002	-	-
<b>Total Non-Current Liabilities</b>		<b>877,227</b>	<b>585,002</b>	<b>-</b>	<b>-</b>
<b>Total Liabilities</b>		<b>20,997,041</b>	<b>22,562,567</b>	<b>-</b>	<b>-</b>
<b>Net Assets</b>		<b>21,373,073</b>	<b>19,215,413</b>	<b>19,318,365</b>	<b>19,996,313</b>
<b>Equity</b>					
Contributed equity	19	62,377,038	62,383,448	62,377,038	62,383,448
Reserves	20	199,800	-	199,800	-
Accumulated Losses	21	(41,203,765)	(43,168,035)	(43,258,473)	(42,387,135)
<b>Total Equity</b>		<b>21,373,073</b>	<b>19,215,413</b>	<b>19,318,365</b>	<b>19,996,313</b>

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

**People Telecom Limited**  
**Statements of Changes in Equity**  
**For the year ended 30 June 2007**

	Note	Consolidated		The Company	
		2007	2006	2007	2006
		\$	\$	\$	\$
Profit / (Loss) attributable to members of People Telecom Limited		1,964,270	(21,609,667)	(871,338)	(22,103,061)
Transactions with equity holders in their capacity as equity holders					
Issue of Shares	19(b)	-	282,968	-	282,968
Share Issue Costs	19(b)	(6,410)	(2,812)	(6,410)	(2,812)
Share based payments – option expense	20	199,800	-	199,800	-
<b>Net increase (decrease) in Equity</b>		<u>2,157,660</u>	<u>(21,329,511)</u>	<u>(677,948)</u>	<u>(21,822,905)</u>
Total equity at the beginning of the financial year		19,215,413	40,544,924	19,996,313	41,819,218
<b>Total equity at the end of the financial year</b>		<u>21,373,073</u>	<u>19,215,413</u>	<u>19,318,365</u>	<u>19,996,313</u>

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

**People Telecom Limited**  
**Statements of Cash Flows**  
For the year ended 30 June 2007

Note	Consolidated		The Company	
	2007	2006	2007	2006
	\$	\$	\$	\$
<b>Cash Flow From Operating Activities</b>				
	112,392,885	119,522,714	-	-
Receipts from customers				
Payments to suppliers & employees	(114,301,884)	(117,069,015)	(673,564)	(481,205)
Interest received & other revenue	301,603	188,979	2,026	17,553
Interest and borrowing costs paid	(18,270)	(95,125)	-	(4,682)
Taxation paid	-	(6,160)	-	-
Net cash (used in) / generated by operating activities	22 (1,625,666)	2,541,393	(671,538)	(468,334)
<b>Cash Flow From Investing Activities</b>				
	(708,770)	(757,643)	-	-
Payment for property, plant & equipment				
Proceeds from sale of Perth Fibre business	31 5,723,407	-	-	-
Security deposits	(938,357)	737,760	-	146,304
Acquisition of customer bases	-	(4,545)	-	-
Net cash generated by / (used in) investing activities	4,076,280	(24,428)	-	146,304
<b>Cash Flow From Financing Activities</b>				
	(6,410)	(2,812)	(6,410)	(2,812)
Payment of share issue costs				
Proceeds from loans	290,990	254,930	674,191	-
Payment of loans	(221,908)	(280,523)	-	-
Proceeds of finance leases	115,435	-	-	-
Repayment of finance lease principal	(197,986)	(277,308)	-	(5,206)
Net cash (used in) / generated by financing activities	(19,879)	(305,713)	667,781	(8,018)
Net increase / (decrease) in cash held	2,430,735	2,211,252	(3,757)	(330,048)
Cash at beginning of the financial year	4,882,774	2,671,522	5,825	335,873
Cash at the end of the financial year	6 7,313,509	4,882,774	2,068	5,825

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

**People Telecom Limited**  
**Notes to the Financial Statements**  
**For the year ended 30 June 2007**

**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. The financial statements comply with International Financial Reporting Standards.

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.

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 24 August 2007.

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

**People Telecom Limited**  
**Notes to the Financial Statements**  
**For the year ended 30 June 2007**

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

**a) Going concern**

The consolidated entity and the company have made a loss from continuing ordinary activities of \$1,737,868 and \$871,338 respectively for the year ended 30 June 2007 (2006: \$21,503,276 and \$22,103,061 respectively).

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 received net proceeds on the sale of the Perth Fibre business of \$5.7m; and,
- b) Total cash and debtors as at 30 June 2007 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 2007. Note the sale of the Perth Fibre business involved the sale of certain assets and customer agreement of the consolidated entity but did not involve the sale of any subsidiary.

Subsidiary acquisitions are accounted for using the purchase method of accounting. Investments in subsidiaries are carried at the lower of cost or net realisable value in the parent's financial statements and tested for impairment (refer note 1(i)).

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.

**People Telecom Limited**  
**Notes to the Financial Statements**  
**For the year ended 30 June 2007**

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

**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.

**People Telecom Limited**  
**Notes to the Financial Statements**  
**For the year ended 30 June 2007**

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

**h) Other assets and liabilities**

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

*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.

*Subsidised connection costs – broadband customers*

Costs are incurred in connecting new broadband connections to the consolidated entity's network. In selected circumstances the customer is not charged for these costs. Where the customer has received a free or subsidised connection, these subsidised connection costs 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 subsidised acquisition costs for broadband customers over the average period over which benefits are expected to accrue.

*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.

People Telecom Limited  
Notes to the Financial Statements  
For the year ended 30 June 2007

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

**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:

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

*Regular review of depreciation and amortisation rates*

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

*Changes to depreciation rates and methods*

When depreciation rates or methods are changed, the change is accounted for as a charge in the 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.

**People Telecom Limited**  
**Notes to the Financial Statements**  
**For the year ended 30 June 2007**

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

**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 and the CEO Executive Option Plan.

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.

The fair value of options granted under the CEO Executive Option Plan is recognised as an employee benefit expense with a corresponding increase in equity. The fair value is measured at grant date and recognised over the period in which the Chief Executive Officer becomes unconditionally entitled to the options.

The fair value at grant date is independently determined using a Black-Scholes option pricing model that takes into account the exercise price, the terms of the option, the impact of the dilution, the share price at grant date and expected price volatility of the underlying share, the expected dividend yield and the risk free interest rate for the term of the option.

At each balance date the entity revises its estimate of the number of options that are expected to become exercisable. The employee benefit expense recognised each period takes into account the most recent estimate. The impact of the revision to original estimates, if any, is recognised in the income statement with a corresponding adjustment to equity.

*Long service leave*

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

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

*Superannuation plan*

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

**People Telecom Limited**  
**Notes to the Financial Statements**  
**For the year ended 30 June 2007**

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

**o) Contributed equity**

Issued and paid up capital is recognised at the fair value of the consideration received by the company. Any transaction costs arising on the issue of ordinary shares 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.

**People Telecom Limited**  
**Notes to the Financial Statements**  
**For the year ended 30 June 2007**

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

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

Certain new accounting standards and Australian interpretations and other authoritative pronouncements of the Australian Accounting Standards Board have been issued with an application date after the year ended 30 June 2007 which are not mandatory for adoption in the financial report for the year ended 30 June 2007, 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 interpretations will not have a material impact on the financial statements.

**People Telecom Limited**  
**Notes to the Financial Statements**  
**For the year ended 30 June 2007**

	Consolidated		The Company	
	2007	2006	2007	2006
	\$	\$	\$	\$
<b>Note 2: Revenue from ordinary activities</b>				
<i>(a) Continuing operations</i>				
Revenue from rendering telecommunications services	100,891,234	105,198,965	-	-
Other revenue				
Interest income	298,219	188,979	2,026	17,553
Other income	3,384	-	-	-
	<u>301,603</u>	<u>188,979</u>	<u>2,026</u>	<u>17,553</u>
	<u>101,192,837</u>	<u>105,387,944</u>	<u>2,026</u>	<u>17,553</u>
<i>(b) Discontinued operations</i>				
Revenue from rendering telecommunications services	<u>4,453,493</u>	<u>5,582,626</u>	-	-
<b>Note 3: (Loss) from ordinary activities</b>				
<i>Expenses from ordinary activities in respect of continuing operations include the following:</i>				
Borrowing costs expensed				
Interest expense				
- Finance lease	11,844	31,688	-	-
- Other	548	2,383	-	4,682
Total borrowing costs	<u>12,392</u>	<u>34,071</u>	<u>-</u>	<u>4,682</u>
Asset impairment loss	<u>-</u>	<u>21,241,233</u>	<u>-</u>	<u>21,241,233</u>
Depreciation - plant and equipment	422,736	500,372	-	-
Amortisation - customer acquisition costs	-	4,545	-	-
Total depreciation and amortisation	<u>422,736</u>	<u>504,917</u>	<u>-</u>	<u>-</u>
Movement in allowance for doubtful debtors	343,256	487,280	-	-
Bad debts written off	834,205	793,551	-	-
Movement in provision for employee entitlements	35,839	35,692	-	-
Auditors' Remuneration:				
Auditing or reviewing the financial report				
Pitcher Partners	116,725	104,128	-	-
Other Services				
Pitcher Partners	25,280	43,500	-	-

**People Telecom Limited**  
**Notes to the Financial Statements**  
**For the year ended 30 June 2007**

	Consolidated		The Company	
	2007	2006	2007	2006
	\$	\$	\$	\$
<b>Note 4: Income Tax Expense</b>				
<i>(a) Major components of tax expense</i>				
Current tax expense (income)	893,919	(263,491)	-	(284,710)
Deferred tax expense relating to the origination and reversal of temporary differences	(210,392)	129,975	-	20,347
Deferred tax asset in respect of current tax expense (income) not recognised	-	263,491	-	284,710
Deferred tax income relating to temporary differences not previously recognised as an asset	210,392	(129,975)	-	(20,437)
Deferred tax income relating to tax losses not previously recognised as an asset	(815,919)	-	-	-
Under provided tax in prior year	-	6,160	-	-
<b>Tax expense</b>	<b>78,000</b>	<b>6,160</b>	<b>-</b>	<b>-</b>
Income tax expense attributable to:				
Loss from continuing operations	(1,076,000)	6,160	-	-
Gain on sale of discontinued operations	1,154,000	-	-	-
<b>Tax expense</b>	<b>78,000</b>	<b>6,160</b>	<b>-</b>	<b>-</b>

**People Telecom Limited**  
**Notes to the Financial Statements**  
**For the year ended 30 June 2007**

	Consolidated		The Company	
	2007	2006	2007	2006
	\$	\$	\$	\$
<b>Note 4: Income Tax Expense</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:				
Loss from continuing operations before income tax	(1,737,868)	(21,503,276)	(871,338)	(22,103,061)
(Loss) from discontinued operations before income tax	(148,691)	(100,231)	-	-
Gain on sale of discontinued operations	3,928,829	-	-	-
	<u>2,042,270</u>	<u>(21,603,507)</u>	<u>(871,338)</u>	<u>(22,103,061)</u>
Income tax expense (credit) at 30% (2006: 30%)	612,681	(6,481,052)	(261,401)	(6,630,918)
Tax effect of expenses that are not deductible in determining taxable profit:				
Asset impairment loss	-	6,372,369	-	6,372,369
Non-deductible costs	94,555	50,254	-	-
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	210,392	-	-	-
Tax effect of tax loss not recognised as an asset	(815,919)	82,138	285,110	282,257
Under provided tax in prior year	-	6,160	-	-
Income tax expense	<u>78,000</u>	<u>6,160</u>	<u>-</u>	<u>-</u>

**People Telecom Limited**  
**Notes to the Financial Statements**  
**For the year ended 30 June 2007**

	Consolidated		The Company	
	2007	2006	2007	2006
	\$	\$	\$	\$
<b>Note 4: Income Tax Expense</b>				
<i>(c) Deferred tax assets not recognised in the balance sheet</i>				
Temporary differences	200,697	(9,695)	-	615
Estimated and unconfirmed unused tax losses	5,654,082	6,443,272	-	-
	<u>5,854,779</u>	<u>6,433,577</u>	<u>-</u>	<u>615</u>

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	427,456	324,479	-	-
Employee provisions	153,786	143,034	-	-
Staff related accruals	225,295	128,136	-	-
Other operating costs	183,008	159,632	-	-
Differences between accounting and tax carrying value of property, plant and equipment	221,560	270,765	-	615
Customer acquisition costs not yet expensed but deducted for taxation when paid	(989,677)	(1,034,816)	-	-
Unearned income included in taxable income when received	(20,731)	(925)	-	-
Deferred tax asset / (liability) not recognised in the balance sheet	<u>200,697</u>	<u>(9,695)</u>	<u>-</u>	<u>615</u>

**People Telecom Limited**  
**Notes to the Financial Statements**  
**For the year ended 30 June 2007**

	Consolidated	
	2007	2006
	\$	\$
<b>Note 5: Earnings per share</b>		
<i>(a) Continuing operations</i>		
Basic earnings/(loss) per share (cents per share)	(0.22)	(7.01)
Diluted earnings/(loss) per share (cents per share)	(0.21)	(7.01)
Net (Loss) used in the calculation of basic and diluted EPS	(661,868)	(21,509,436)
<i>(b) Discontinued operations</i>		
Basic earnings/(loss) per share (cents per share)	0.85	(0.03)
Diluted earnings/(loss) per share (cents per share)	0.82	(0.04)
Net Profit (Loss) used in the calculation of basic and diluted EPS	2,626,138	(100,231)
<i>(c) Total</i>		
Basic earnings/(loss) per share (cents per share)	0.64	(7.04)
Diluted earnings/(loss) per share (cents per share)	0.61	(7.04)
Net Profit (Loss) used in the calculation of basic and diluted EPS	1,964,270	(21,609,667)
	<b>Number</b>	<b>Number</b>
Weighted average number of ordinary shares outstanding during the year used in the calculation of basic EPS	307,823,854	306,760,483
Weighted average number of ordinary shares outstanding during the year used in the calculation of diluted EPS	320,823,854	306,760,483

Options on issue at 30 June 2007 are considered to be potential ordinary shares and have been included in the determination of diluted earnings per share to the extent to which they are dilutive.

**People Telecom Limited**  
**Notes to the Financial Statements**  
**For the year ended 30 June 2007**

	Consolidated		The Company	
	2007	2006	2007	2006
	\$	\$		\$
<b>Note 6: Cash assets</b>				
Cash at bank	1,310,904	4,163,924	2,068	5,825
Deposits	6,000,000	716,000	-	-
Cash on hand	2,605	2,850	-	-
	<u>7,313,509</u>	<u>4,882,774</u>	<u>2,068</u>	<u>5,825</u>

<b>Note 7: Receivables (current)</b>				
Trade debtors (billed and unbilled)	15,046,395	15,126,253	-	-
Allowance for doubtful debtors	(1,424,852)	(1,081,596)	-	-
	<u>13,621,543</u>	<u>14,044,657</u>	<u>-</u>	<u>-</u>
Other debtors	27,683	93,416	-	-
	<u>13,649,226</u>	<u>14,138,073</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

<b>Note 8: Other assets (current)</b>				
Prepayments	586,235	721,959	-	-
Deferred upfront commission costs – mobile customers	1,840,936	2,009,599	-	-
Unbilled handset revenue	580,091	585,903	-	-
Deferred upfront commission costs – fixed wire customers	139,165	81,455	-	-
Subsidised connection costs – broadband customers	347,066	257,147	-	-
Deferred VOIP handset costs	-	35,720	-	-
Other deferred costs	80,621	-	-	-
	<u>3,574,114</u>	<u>3,691,783</u>	<u>-</u>	<u>-</u>

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

Deposits <sup>(1)</sup>	1,758,000	819,643	-	-
Unlisted controlled entities				
- at cost (Note 25)	-	-	42,464,963	43,139,154
- asset impairment loss <sup>(2)</sup>	-	-	(23,148,666)	(23,148,666)
	<u>1,758,000</u>	<u>819,643</u>	<u>19,316,297</u>	<u>19,990,488</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.

**People Telecom Limited**  
**Notes to the Financial Statements**  
**For the year ended 30 June 2007**

	Consolidated		The Company	
	2007	2006	2007	2006
	\$	\$	\$	\$
<b>Note 10: Property, plant and equipment</b>				
<i>(a) Carrying values</i>				
Telecommunications Infrastructure - at cost	144,749	2,485,318	-	-
Less accumulated depreciation	(4,799)	(687,649)	-	-
	139,950	1,797,669	-	-
Office plant and equipment - at cost	1,281,016	942,309	-	-
Less accumulated depreciation	(1,170,521)	(561,461)	-	-
	110,495	380,848	-	-
Leased plant and equipment - at cost	115,435	629,355	-	-
Less accumulated depreciation	(12,986)	(514,472)	-	-
	102,449	114,883	-	-
Leasehold improvements – at cost	431,474	381,720	-	-
Less accumulated depreciation	(183,959)	(116,017)	-	-
	247,515	265,703	-	-
Computer equipment, software and website development - at cost	598,103	456,310	-	-
Less accumulated depreciation	(434,290)	(249,267)	-	-
	163,813	207,043	-	-
<b>Total property, plant and equipment</b>	<b>764,222</b>	<b>2,766,146</b>	<b>-</b>	<b>-</b>

*Assets pledged as security:*

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

*(b) Reconciliations*

Telecommunications Infrastructure				
Carrying amount at the beginning of the year	1,797,669	1,912,572	-	-
Additions	132,865	9,302	-	-
Disposals	(1,694,645)	-	-	-
Depreciation	(95,939)	(124,205)	-	-
Carrying amount at year end	139,950	1,797,669	-	-

**People Telecom Limited**  
**Notes to the Financial Statements**  
**For the year ended 30 June 2007**

	Consolidated		The Company	
	2007	2006	2007	2006
	\$	\$	\$	\$
<b>Note 10: Property, plant and equipment</b>				
<i>(b) Reconciliations con't</i>				
Office plant and equipment				
Carrying amount at the beginning of the year	380,848	440,929	-	-
Additions	22,745	181,736	-	-
Disposals	(77,509)	-	-	-
Depreciation	(215,589)	(241,817)	-	-
Carrying amount at year end	<u>110,495</u>	<u>380,848</u>	-	-
Leased plant and equipment				
Carrying amount at the beginning of the year	114,883	301,809	-	-
Additions	115,435	-	-	-
Depreciation	(127,869)	(186,926)	-	-
Carrying amount at year end	<u>102,449</u>	<u>114,883</u>	-	-
Leasehold Improvements				
Carrying amount at the beginning of the year	265,703	203,530	-	-
Additions	102,036	130,984	-	-
Disposals	(29,687)	-	-	-
Depreciation	(90,537)	(68,811)	-	-
Carrying amount at year end	<u>247,515</u>	<u>265,703</u>	-	-
Computer equipment, software and website development				
Carrying amount at the beginning of the year	207,043	124,739	-	-
Additions	342,952	435,621	-	-
Depreciation	(185,023)	(145,086)	-	-
Equipment written off	(201,159)	(208,231)	-	-
Carrying amount at year end	<u>163,813</u>	<u>207,043</u>	-	-
<b>Note 11: Other assets (non-current)</b>				
Deferred upfront commission costs – mobile customers	197,811	362,688	-	-
Unbilled handset revenue	68,992	50,465	-	-
Subsidised connection costs – broadband customers	44,240	66,408	-	-
	<u>311,043</u>	<u>479,561</u>	-	-

**People Telecom Limited**  
**Notes to the Financial Statements**  
**For the year ended 30 June 2007**

	Consolidated		The Company	
	2007	2006	2007	2006
	\$	\$	\$	\$
<b>Note 12: Goodwill</b>				
Goodwill at cost	38,148,666	38,148,666	-	-
Less asset impairment loss	(23,148,666)	(23,148,666)	-	-
	15,000,000	15,000,000	-	-

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 19.29% (2006:15.71%) 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 2007/ 2008 year for the CGU, plus a growth rate of 2.5% (2006: 2.5%). This growth rate is based on the expectation of the CGU's long term performance.

**Note 13: Payables**

Trade creditors	9,462,530	10,615,828	-	-
Accrued expenses	6,271,138	7,476,425	-	-
	15,733,668	18,092,253	-	-

*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 23)	43,348	189,375	-	-
Borrowings	145,495	76,414	-	-
	188,843	265,789	-	-

**Note 15: Provisions (current)**

Employee entitlements	512,619	476,780	-	-
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**People Telecom Limited**  
**Notes to the Financial Statements**  
**For the year ended 30 June 2007**

	Consolidated		The Company	
	2007	2006	2007	2006
	\$	\$	\$	\$
<b>Note 16: Other liabilities (current)</b>				
Unearned Income - Carrier			-	-
Commissions / Subsidies	1,701,776	1,354,502	-	-
Unearned income – other	1,904,908	1,788,241	-	-
	<u>3,606,684</u>	<u>3,142,743</u>	<u>-</u>	<u>-</u>
<b>Note 17: Interest bearing liabilities (non current)</b>				
Lease Liabilities (Note 23)	63,475	-	-	-
<b>Note 18: Other liabilities (non current)</b>				
Unearned Income - Carrier			-	-
Commissions / Subsidies	813,752	585,002	-	-
<b>Note 19: Contributed equity</b>				
<b>(a) Issued and paid up capital</b>				
307,823,854 fully paid ordinary shares (2006: 307,823,854)	62,377,038	62,383,448	62,377,038	62,383,448
	<b>2007</b>	<b>2007</b>	<b>2006</b>	<b>2006</b>
	<b>Number</b>	<b>\$</b>	<b>Number</b>	<b>\$</b>
<b>(b) Movements in fully paid ordinary shares</b>				
At the beginning of the financial year	307,823,854	62,383,448	305,653,709	62,103,292
Issue of shares at \$0.1304 each <sup>(1)</sup>	-	-	2,170,145	282,968
Share issue costs	-	(6,410)	-	(2,812)
	<u>307,823,854</u>	<u>62,377,038</u>	<u>307,823,854</u>	<u>62,383,448</u>

(1) Issued in conjunction with the Executive Incentive Share Plan refer note 30.

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

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

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

People Telecom Limited  
Notes to the Financial Statements  
For the year ended 30 June 2007

	2007 Number	2007 Average Exercise Price Cents
<b>Note 19: Contributed equity (con't)</b>		
<b>(d) Movements in share options</b>		
At the beginning of the financial year	3,000,000	35.0
Unlisted CEO Executive Options – Note 30	13,000,000	6.8
Unlisted Options lapsed 30 October 2006	(3,000,000)	35.0
At the end of the financial year	13,000,000	6.8

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

Grant Date	No of Options (1)	Exercise Price Cents (1)	Expiry Date	Details
28 September 2006	13,000,000	6.8	31 December 2009	CEO Executive Options
	13,000,000	6.8		

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

**(f) On-market Share buy-back**

On 19 July 2007 the consolidated entity announced a planned on-market buy-back of the company's shares during coming months. The company proposes to buy-back up to 30,782,385 shares (being 10% of People Telecom's share capital).

This on-market buy-back will commence following the release of People Telecom's results for the 2006-07 financial year, on or before 28 August 2007.

	Consolidated		The Company	
	2007	2006	2007	2006
	\$	\$	\$	\$
<b>Note 20: Reserves</b>				
Share-based payments reserve	199,800	-	199,800	-
Movements in share-based payments reserve				
Balance at the beginning of the year	-	-	-	-
Option expense	199,800	-	199,800	-
	199,800	-	199,800	-

**People Telecom Limited**  
**Notes to the Financial Statements**  
**For the year ended 30 June 2007**

	Consolidated		The Company	
	2007	2006	2007	2006
	\$	\$	\$	\$
<b>Note 21: Accumulated losses</b>				
Accumulated losses at the beginning of the year	43,168,035	21,558,368	42,387,135	20,284,074
Net (profit) / loss from ordinary activities after income tax	(1,964,270)	21,609,667	871,338	22,103,061
Accumulated losses at the end of the financial year	<u>41,203,765</u>	<u>43,168,035</u>	<u>43,258,473</u>	<u>42,387,135</u>
<b>Note 22: Cash Flow Information</b>				
<i>Reconciliation of Cash Flow from Operations with Loss from Ordinary Activities after Income Tax</i>				
Profit (Loss) from ordinary activities after income tax	1,964,270	(21,609,667)	(871,338)	(22,103,061)
Add non-cash items:				
Allowance for doubtful debtors	858,269	793,551	-	-
Amounts set aside to provisions	35,839	35,693	-	-
Asset impairment loss	-	21,241,233	-	21,241,233
Depreciation and amortisation	714,956	771,389	-	-
Share based payments	313,915	282,968	199,800	282,968
Plant and equipment written off	201,159	208,231	-	-
Profit on sale of Perth Fibre business	(3,928,829)	-	-	-
Net cash generated by / (used in) operating activities before change in assets and liabilities	<u>159,579</u>	<u>1,723,398</u>	<u>(671,538)</u>	<u>(578,860)</u>
Changes in assets and liabilities:				
(Increase)/Decrease in trade debtors	(435,156)	858,435	-	-
Decrease in other receivables	-	360,532	-	-
Decrease in loans to controlled entities	-	-	-	110,526
Decrease/(Increase) in current prepayments	3,553	(273,402)	-	-
Decrease in other assets	234,251	9,660	-	-
(Decrease)/Increase in trade creditors and accruals	(2,358,584)	374,782	-	-
Increase in current tax liabilities	78,000	-	-	-
Increase/(Decrease) in unearned income	692,691	(512,012)	-	-
Cash Flows from Operating Activities	<u>(1,625,666)</u>	<u>2,541,393</u>	<u>(671,538)</u>	<u>(468,334)</u>

**People Telecom Limited**  
**Notes to the Financial Statements**  
**For the year ended 30 June 2007**

	Consolidated		The Company	
	2007	2006	2007	2006
	\$	\$	\$	\$
<b>Note 23: Capital and Leasing Commitments</b>				
<i>(a) Finance Lease Commitments</i>				
Payable				
- not later than one year	46,961	198,458	-	-
- later than one year but not later than 5 years	72,247	-	-	-
Minimum lease payments	119,208	198,458	-	-
Less future lease interest	(12,385)	(9,083)	-	-
	<u>106,823</u>	<u>189,375</u>	-	-
Current liability	43,348	189,375	-	-
Non-current liability	63,475	-	-	-
Total lease liability	<u>106,823</u>	<u>189,375</u>	-	-
<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	1,116,640	1,168,991	392,024	138,300
- later than one year but not later than 5 years	1,074,860	1,917,611	567,362	531,970
	<u>2,191,500</u>	<u>3,086,602</u>	<u>959,386</u>	<u>670,270</u>

*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 7.9% (2006: 10.81%). Lease liabilities are secured by a charge over the leased assets.

Operating lease commitments are principally in relation to the rental of premises and some telecommunications infrastructure.

**People Telecom Limited**  
**Notes to the Financial Statements**  
**For the year ended 30 June 2007**

**Note 24: Key Management Personnel Disclosures**

*(a) Directors*

The names of each person who held the position of a Director at any time during the financial year are set out below,

B. Hamilton Non Executive Chairman  
J. Stanton Chief Executive Officer and Executive Director (appointed 7 August 2006)  
B. Fleiter Non-Executive Director  
C. Marland Non-Executive Director  
R. O'Hare Non-Executive Director  
S. Wilks Alternate Director to Colin Joseph Marland  
M. Wylie Non-Executive Director

*(b) Other Key Management personnel*

The names and positions of the key management personnel in the consolidated entity that received the highest remuneration and having the authority and responsibility for the planning, directing and controlling the activities of the consolidated entity, directly or indirectly during the financial year are set out below.

<b>Executive</b>	<b>Position</b>
P. Humphrey	General Manager Sales – Southern Region
M. Manion	General Manager - Channel Sales
G. Roache	General Manager Sales – Northern Region
W. Wanders	Chief Financial Officer / Company Secretary
G. White	General Manager Sales – Western Region

All of the above persons other than P. Humphrey were also key management persons during the financial year ended 30 June 2006.

K. Reza, Chief Operating Officer was also a key management person in the financial year ended 30 June 2006.

*(c) Remuneration Policies*

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

**People Telecom Limited**  
**Notes to the Financial Statements**  
**For the year ended 30 June 2007**

**Note 24: Key Management Personnel Disclosures con't**

*(d) Key Management Personnel compensation*

	Consolidated		The Company	
	2007	2006	2007	2006
	\$	\$	\$	\$
<b>Directors</b>				
Short-term employee benefits	744,250	645,458	366,920	221,568
Post-employment benefits	33,687	54,450	22,253	17,100
Long-term benefits	-	-	-	-
Share-based benefits	199,800	-	199,800	-
	<u>977,737</u>	<u>699,908</u>	<u>588,973</u>	<u>238,668</u>
<b>Key Management Personnel</b>				
Short-term employee benefits	1,022,815	1,069,598	-	-
Post-employment benefits	64,996	68,636	-	-
Long-term benefits	-	-	-	-
Share-based benefits	62,978	65,586	-	-
	<u>1,150,789</u>	<u>1,203,820</u>	<u>-</u>	<u>-</u>
<b>Total</b>				
Short-term employee benefits	1,767,065	1,715,056	366,920	221,568
Post-employment benefits	98,683	123,086	22,253	17,100
Long-term benefits	-	-	-	-
Share-based benefits	262,778	65,586	199,800	-
	<u>2,128,526</u>	<u>1,903,728</u>	<u>588,973</u>	<u>238,668</u>

The consolidated entity has taken advantage of the relief provided by Corporations Regulation 2M.6.04 and has transferred the detailed remuneration disclosures to the Directors' Report pages 11 to 14.

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

Details of options provided as remuneration and shares issued on the exercise of such options, together with the terms and conditions of the options can be found in the remuneration report on page 12 and note 30.

There were no options granted or vested with any Directors or the key management personnel named in the Directors' Report during, or since the end of, the financial year, other than in respect of Mr Stanton. Mr Stanton was issued 13,000,000 CEO Executive Options, the details of which are set out in Note 30.

**People Telecom Limited**  
**Notes to the Financial Statements**  
**For the year ended 30 June 2007**

**Note 24: Key Management Personnel Disclosures con't**

*(f) Movements in share holdings of Directors and key management personnel*

	Balance at beginning of year	Granted as remuneration	On vesting of previously granted shares (1)	Net Change Other	Balance at end of year
<b>Directors</b>					
B. Hamilton	33,725,758	-	-	-	33,725,758
J. Stanton	-	-	-	1,775,854	1,775,854
B. Fleiter	67,351,515	-	-	-	67,351,515
C. Marland	47,760,635	-	-	(1,150,000)	46,610,635
R. O'Hare	49,166,090	-	-	(1,343,676)	47,822,414
S. Wilks	-	-	-	-	-
M. Wylie	500,000	-	-	-	500,000
<b>Key Management personnel</b>					
P. Humphrey	-	-	254,548	-	254,548
M. Manion	250,000	-	286,500	-	536,500
G. Roache	306,187	-	346,875	-	653,062
W. Wanders	130,000	-	315,000	-	445,000
G. White	-	-	242,055	-	242,055
	<u>199,190,185</u>	<u>-</u>	<u>1,444,978</u>	<u>(717,822)</u>	<u>199,917,341</u>

(1) The shares vested as remuneration are shares granted under the Executive Share Incentive Plan in respect of the year ended 30 June 2005 which did not vest till the current financial year.

There were no shares granted during, or since the end of, the financial year as compensation.

All transactions with Directors and key management personnel executives other than those arising from the vesting of shares under the Executive Share Incentive Plan have been entered into under terms and conditions no more favourable than those the entity would have adopted if dealing at arm's length.

**People Telecom Limited**  
**Notes to the Financial Statements**  
**For the year ended 30 June 2007**

**Note 24: Key Management Personnel Disclosures con't**

*(g) Loans to Directors and key management personnel*

	Balance at Beginning of year \$	Interest Charged \$	Interest not charged \$	Write Off \$	Balance at end of year \$	Number in group
<b>Directors</b>						
2007	-	-	-	-	-	-
2006	12,414	-	1,088	-	-	1
<b>Key Management personnel</b>						
2007	-	-	-	-	-	-
2006	25,000	-	693	-	-	1
<b>Total Directors &amp; Specified executives</b>						
2007	-	-	-	-	-	-
2006	37,414	-	1,781	-	-	2

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

*(h) 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 2008, inclusive of superannuation \$425,000.
- Bonus payable if targets are met, inclusive of superannuation \$150,000.
- Payment of termination benefit equal to three months base salary.
- As approved by the shareholders at a general meeting held on 28 September 2006, Mr Stanton was granted 13,000,000 options. These options vest as follows:
  - 1,000,000 vested on commencement of employment;
  - 1,000,000 vested 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 Manion, General Manager – Channel Sales**

- Term of agreement – 2 years commencing on 8 May 2006.
- Base salary for the year ended 30 June 2008, 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.

**People Telecom Limited**  
**Notes to the Financial Statements**  
**For the year ended 30 June 2007**

**Note 24: Key Management Personnel Disclosures con't**

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 2008, 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.

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 2008, inclusive of superannuation \$173,050.
- Retention bonus of \$50,000 payable on 23 November 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 3 May 2008.

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

*(i) Other Transactions with Directors and key management personnel*

*Purchases*

Fees amounting to \$69,720 (2006: \$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.

**People Telecom Limited**  
**Notes to the Financial Statements**  
**For the year ended 30 June 2007**

	Holding		Investment	
	2007	2006	2007	2006
	%	%	\$	\$
<b>Note 25: Controlled Entities</b>				
<i>Name Parent Entity</i>				
People Telecom Limited				
<i>Controlled entities – consolidated entity interest at cost (including loans)</i>				
Swiftel Communications Pty Ltd	100%	100%	130,104	3,865,298
Swift Broadband Pty Ltd	100%	100%	1	1
People Telecommunications Pty Limited	100%	100%	42,334,858	39,273,855
People Mobile Pty Ltd <sup>(1)</sup>	100%	100%	-	-
PTS Australia Pty Ltd <sup>(1)</sup>	100%	100%	-	-
			<hr/>	<hr/>
			42,464,963	43,139,154
Asset impairment loss			<hr/>	<hr/>
			(23,148,666)	(23,148,666)
			<hr/>	<hr/>
			19,316,297	19,990,488

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.

**People Telecom Limited**  
**Notes to the Financial Statements**  
**For the year ended 30 June 2007**

**Note 26: Financial Instruments**

*(a) Interest Rate Risk*

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

	Weighted Average Effective Interest Rate 2007 %	Floating Interest Rate 2007 \$	Fixed Interest Rate Maturing		Non – interest bearing 2007 \$	Total 2007 \$
			Within 1 Year 2007 \$	1 to 5 Years 2007 \$		
<b>Financial Assets</b>						
Cash assets	6.1%	7,313,509	-	-	-	7,313,509
Current receivables	n/a	-	-	-	13,649,226	13,649,226
Other financial assets	6.1%	1,758,000	-	-	-	1,758,000
<b>Total Financial Assets</b>		<b>9,071,509</b>	<b>-</b>	<b>-</b>	<b>13,649,226</b>	<b>22,720,735</b>
<b>Financial Liabilities</b>						
Lease liabilities	7.9%	-	43,348	63,475	-	106,823
Borrowings	5.0%	-	145,495	-	-	145,495
Trade creditors and accruals	n/a	-	-	-	15,733,668	15,733,668
<b>Total Financial Liabilities</b>		<b>-</b>	<b>188,843</b>	<b>63,475</b>	<b>15,733,668</b>	<b>15,985,986</b>

**People Telecom Limited**  
**Notes to the Financial Statements**  
**For the year ended 30 June 2007**

**Note 26: Financial Instruments (con't)**

	Weighted Average Effective Interest Rate 2006 %	Floating Interest Rate 2006 \$	Fixed Interest Rate Maturing		Non – interest bearing 2006 \$	Total 2006 \$
			Within 1 Year 2006 \$	1 to 5 Years 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>		<b>5,702,417</b>	<b>-</b>	<b>-</b>	<b>14,138,073</b>	<b>19,840,490</b>
<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>		<b>-</b>	<b>265,789</b>	<b>-</b>	<b>18,092,253</b>	<b>18,358,042</b>

**People Telecom Limited**  
**Notes to the Financial Statements**  
**For the year ended 30 June 2007**

**Note 26: Financial Instruments (con't)**

*(b) Credit Risk*

The maximum exposure to credit risk, excluding the value of any collateral or other security, at balance date to recognised financial assets is the carrying amount, net of any allowance for doubtful debts of those assets, as disclosed in the 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 27: Subsequent Events**

There have not been any significant events occurring after 30 June 2007 up to the date of this report other than on 19 July 2007 the company announced a planned on-market buy-back of the company's shares during coming months. The company proposes to buy-back up to 30,782,385 shares (being 10% of the company's share capital).

This on-market buy-back will commence following the release of People Telecom's results for the financial year ended 30 June 2007, on or before 28 August 2007.

**Note 28: 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 29: Contingent Liabilities**

In pursuing debt recovery action against two former customers of the consolidated entity, the former customers have cross claimed against the consolidated entity and another party, for loss of profits (\$4.4 million), loss of opportunity (\$11.7 million) and costs incurred. The matter remains at an early stage and full particulars of the cross claims by the former customers have yet to be obtained.

The Directors of the consolidated entity deny the allegations made in the cross claims and based on the information currently available are of the opinion that the consolidated entity will not suffer a material loss.

**People Telecom Limited**  
**Notes to the Financial Statements**  
**For the year ended 30 June 2007**

**Note 30: Share-based payments**

*(a) 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.

*(b) 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.

*(c) CEO Executive Options*

As approved by the shareholders at a general meeting held on 28 September 2006, Mr Stanton was granted 13,000,000 CEO Executive options. These options vest as follows:

- 1,000,000 vested on commencement of employment;
- 1,000,000 vested 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. The exercise price is 6.8 cents per share. These options carry no dividend or voting rights.

Set out below is a summary of the options granted.

	Balance at Beginning of year	Granted as remuneration	Exercised	Balance at end of year	Vested – not yet exercisable	Unvested
J. Stanton	-	13,000,000	-	13,000,000	4,500,000	8,500,000

**People Telecom Limited**  
**Notes to the Financial Statements**  
**For the year ended 30 June 2007**

**Note 30: Share-based payments (con't)**

*(d) Executive Share Option Plan*

At present the Remuneration Committee is reviewing if the Executive Incentive Share Plan should be replaced with an Executive Share Option Plan. This Plan, if adopted will have similar components as the Executive Share Incentive Plan noted above including the requirement of continuing service periods prior to any options being exercised. Currently there have been no options issued under this proposed Plan.

*(e) Expenses arising from Share-based payments*

	Consolidated		The Company	
	2007	2006	2007	2006
	\$	\$	\$	\$
Options issued under CEO Executive Option Plan	199,800	-	199,800	-
Shares purchased under Exempt Employee Share Plan	5,833	6,000	-	-
Shares purchased / issued under Executive Share Plan	108,282	134,573	-	-
	<u>313,915</u>	<u>140,573</u>	<u>199,800</u>	<u>-</u>

**Note 31: Discontinued Operations**

*(a) Description*

On 31 March 2007, the consolidated entity settled the sale of its Perth Fibre business. This involved the sale of certain assets and customer agreement of the consolidated entity but did not involve the sale of any subsidiary. The business unit sold is reported in this financial report as a discontinued operation.

Financial information relating to the discontinued operation for the period to the date of disposal is set out below.

**People Telecom Limited**  
**Notes to the Financial Statements**  
**For the year ended 30 June 2007**

**Note 31: Discontinued Operations (con't)**

*(b) Financial performance and cashflow information*

The financial performance and cash flow information presented are for the nine months ended 31 March 2007 and the year ended 30 June 2006.

	Consolidated		The Company	
	2007	2006	2007	2006
	\$	\$	\$	\$
Revenue from rendering telecommunications services	4,453,493	5,582,626	-	-
Cost of sales	(1,992,210)	(2,577,002)	-	-
Gross margin	2,461,283	3,005,624	-	-
	55.3%	53.8%		
Operating Costs	(2,294,547)	(2,777,329)	-	-
	51.5%	49.7%		
Earnings before Interest, Taxation, Depreciation and Amortisation (EBITDA)	166,736	228,295	-	-
	3.8%	4.1%		
Depreciation and Amortisation	(292,220)	(266,472)	-	-
Finance costs	(5,878)	(61,054)	-	-
Plant and equipment written off	(17,329)	(1,000)	-	-
(Loss) from ordinary activities before income tax	(148,691)	(100,231)	-	-
Income tax credit (expense) relating to ordinary activities	-	-	-	-
(Loss) from discontinued operations	(148,691)	(100,231)	-	-
Gain on sale of the business before income tax	3,928,829	-	-	-
Income tax expense	(1,154,000)	-	-	-
Gain on sale of the business after income tax	2,774,829	-	-	-
Profit (loss) from discontinued operations	2,626,138	(100,231)	-	-

**People Telecom Limited**  
**Notes to the Financial Statements**  
**For the year ended 30 June 2007**

**Note 31: Discontinued Operations (con't)**

	Consolidated		The Company	
	2007	2006	2007	2006
	\$	\$	\$	\$
Net Cash inflow from operating activities	160,858	167,241	-	-
Net cash inflow (outflow) from investing activities (2007 includes the inflow of \$5,723,407 from the sale of the Perth Fibre business)	5,706,078	(1,000)	-	-
Net increase in cash generated by the Perth Fibre business	5,866,936	166,241	-	-

*(c) Carrying amounts of assets and liabilities*

The carrying value of assets and liabilities as at 31 March 2007 and 30 June 2006 are set out below.

	Consolidated		The Company	
	2007	2006	2007	2006
	\$	\$	\$	\$
Property Plant and Equipment	1,794,578	2,086,798	-	-
Total Assets	1,794,578	2,086,798	-	-
Net Assets	1,794,578	2,086,798	-	-

*(d) Details of sale of the business*

	Consolidated		The Company	
	2007	2006	2007	2006
	\$	\$	\$	\$
Consideration received for sale of the business	6,250,000	-	-	-
Costs associated with the sale including redundancy of staff not transferred	(526,593)	-	-	-
Net proceeds on sale	5,723,407	-	-	-
Carrying amount of the assets sold	1,794,578	-	-	-
Gain on sale before income tax	3,928,829	-	-	-
Income tax expense	(1,154,000)	-	-	-
Gain on sale after income tax	2,774,829	-	-	-

**People Telecom Limited  
Directors' Declaration**

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

1. In the opinion of the Directors:

- (a) the financial statements and notes of the company and of the consolidated entity are in accordance with the Corporations Act 2001, including:
  - (i) complying with Accounting Standards, the Corporations Regulations and other mandatory professional reporting requirements;
  - (ii) giving a true and fair view of the company's and consolidated entity's financial position as at 30 June 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 24th day of August 2007



# PITCHER PARTNERS

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D G YOUNG

CONSULTANTS:  
J S YOLING  
D G BARNSDALL  
P S ROWE

**PEOPLE TELECOM LIMITED**  
**ACN 009 273 152**  
**INDEPENDENT AUDIT REPORT**  
**TO THE MEMBERS**

We have audited the accompanying financial report of People Telecom Limited and controlled entities. The financial report comprises the balance sheet as at 30 June 2007, and the income statement, statement of changes in equity and statement of cash flows for the year ended on that date, a summary of significant accounting policies, other explanatory notes and the director's declaration 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.

We have also audited the remuneration disclosures contained in the directors' report. As permitted by the *Corporations Regulations 2001*, the company has disclosed information about the remuneration of directors and executives ("remuneration disclosures"), required by Accounting Standard AASB 124 *Related Party Disclosures*, under the heading "remuneration report" in pages 11 to 14 of the directors' report and not in the financial report

*Director's Responsibility for the Financial Report and the AASB 124 Remuneration Disclosures Contained in the Directors' Report*

The directors of the company are responsible for the preparation and fair presentation of the financial report in accordance with Australian Accounting Standards (including the Australian Accounting Interpretations) and the *Corporations Act 2001*. This responsibility includes establishing and maintaining internal control relevant to the preparation and fair presentation of the financial report that is free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

In Note 1, the directors also state, in accordance with Accounting Standard AASB 101 *Presentation of Financial Statements*, that compliance with the Australian equivalents to International Financial Reporting Standards ensures that the financial report, comprising the financial statements and notes, complies with International Financial Reporting Standards. The directors of the company are also responsible for the remuneration disclosures contained in the directors' report.

*Auditor's Responsibility*

Our responsibility is to express an opinion on the financial report based on our audit. We conducted our audit in accordance with Australian Auditing Standards. These Auditing Standards require that we comply with relevant ethical requirements relating to audit engagements and plan and perform the audit to obtain reasonable assurance whether the financial report is free from material misstatement. Our responsibility is to also express an opinion on the remuneration disclosures contained in the directors' report based on our audit.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial report and the remuneration disclosures contained in the directors' report. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement in the financial report and the remuneration disclosures contained in the directors' report, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial report and the remuneration disclosures contained in the directors' report, in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the financial report and the remuneration disclosures contained in the directors' report.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

#### *Independence*

In conducting our audit, we have complied with the independence requirements of the *Corporations Act 2001*.

#### *Auditor's Opinion*

In our opinion:

- (a) the financial report of People Telecom Ltd is in accordance with 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 2007 and of their performance for the year ended on that date; and
  - (ii) complying with Australian Accounting Standards (including the Australian Accounting Interpretations) and the *Corporations Regulations 2001*; and
- (b) the consolidated financial report also complies with International Financial Reporting Standards as disclosed in Note 1.

#### *Auditor's Opinion on the AASB 124 Remuneration Disclosures Contained in the Directors' Report*

In our opinion the remuneration disclosures that are contained in pages (or paragraphs) x to y of the directors' report comply with Accounting Standard AASB 124.



MARK GODLEWSKI

24 August 2007



PITCHER PARTNERS

Sydney