
People Telecom Limited

ACN 009 273 152

**CONSOLIDATED HALF YEAR
FINANCIAL REPORT
31 December 2005**

People Telecom Limited
ACN 009 273 152
and its controlled entities

Table of Contents

Company Directory	1
Directors' Report	2
Condensed Consolidated Income Statement for the half-year ended 31 December 2005	6
Condensed Consolidated Balance Sheet as at 31 December 2005	7
Condensed Consolidated Statement of Changes in Equity for the half-year ended 31 December 2005	8
Condensed Consolidated Statement of Cash Flow for the half-year ended 31 December 2005	9
Notes to the Half-Year Financial Statements	10
Directors' Declaration	21
Independent Review Report	22
Auditors' Independence Declaration	23

Company Directory

Directors

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

Company Secretary

Wayne Robert Wanders

Registered and Head Office

Level 9, People Telecom Centre
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North Sydney NSW 2060

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Auditors

Pitcher Partners

Solicitors

Somerville & Co

Share Registry

Computershare Investor Services Pty Ltd
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PERTH WA 6000

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Directors' Report

The Board of Directors of People Telecom Limited submit their report in respect of the financial half-year ended 31 December 2005.

Directors

The names and details of the directors in office during the half-year and until the date of this report are as below.

Directors were in office for this entire period unless otherwise stated.

		Appointed
Barry John Hamilton	(Non Executive Chairman)	29 June 2004
Ryan Michael O'Hare	(Chief Executive Officer)	29 June 2004
Brendan William Fleiter	(Non Executive)	29 June 2004
Colin Joseph Marland	(Non Executive)	12 September 2003
Stephe Peter Wilks	(alternate for Mr Marland)	15 February 2006
Martin Edward Wylie	(Non Executive)	1 September 2004

Principal Activity

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

Results

The loss from ordinary activities after income tax of the consolidated entity was \$361,037 for the half year ended 31 December 2005 (2004: loss of \$22,934).

People Telecom's growth success is driven by its ability to develop sophisticated sales channels, whether it is a direct sales force in the capital cities or a substantial national Indirect Channel Program. This is evidenced in the half year result where revenue grew 15.5% over the prior corresponding period to \$55.5 million.

The company focuses on small to medium enterprise customers where its sophisticated service platforms deliver high service levels as evidenced by a number of recent awards.

Significant recent achievements include:

- The entering into a strategic alliance with Australia's Downer EDI and China's Huawei who jointly have been chosen as the preferred vendor for the supply of People Telecom's modems and network equipment within its national IP Network.
- A new agreement executed with Telstra Wholesale delivering substantial margin benefits for the balance of the financial year.
- An agreement with NEC to gain access to Nextep's DSLAM network enabling the group to roll out second generation broadband services and business grade IP services in 2006, increasing its margins on these products.
- Recently winning a contract to provide co-location services and domestic voice telecom services to AT&T Inc. the largest telecommunications company in the United States and one of the largest in the world.

The half year to 31 December 2005 financial result discloses:

- **Strong organic revenue growth to \$55,576,498, an increase of 15.5% over the prior corresponding period;**
- **Earnings before interest, tax, depreciation and amortization of \$88,598 driven by a number of non-recurring items amounting to \$601,165 (see below);**
- **Strong Cash Collections over the half year of \$60 million, an increase of 23% over the prior corresponding period;**
- **A gross margin of 23% that will be maintained in the second half.**
- **Heavy investment in sales in the first half that will be evident in revenues in the 2006 calendar year.**

The earnings before interest, tax, depreciation and amortization was reduced this half due to a number of items that will not recur in the second half leading to a very much improved EBITDA for the full year. These one off items include a theft/loss of \$381,165 and the costs of the establishment and subsequent closure of an advertising department of \$220,000.

In addition, a significant cost reduction program was completed in December, the benefits of which will be reflected in the second half results.

Operational Review:

The group continues its drive for organic growth mainly from the small to medium business sector. The group will also consider growth by acquisitions when appropriate opportunities arise.

Growth in customer numbers continues in all product lines - fixed voice, mobile and data (including VoIP) with sales being delivered by its 46 strong sales team in Sydney, Perth, Brisbane and Melbourne and over 100 within its national indirect sales channels. Sales have jumped as a result of further investment in and growing effectiveness of the sales channels with:

- **1,500 broadband applications now signed per month**
- **1,000 business accounts signed each month for voice**
- **600 business mobiles signed each month**

Customers are contracted for a minimum of 12 months with 55% contracted for 24 months or longer.

Segment Review

Revenues by segment demonstrate the company's ability to manage and deliver effective national sales channels.

Segment Revenue for the half year	December 2005	December 2004	Growth period on period	% Growth period on period
Fixed Wire	33,071,531	27,487,418	5,584,113	20%
Mobile	10,099,620	7,829,786	2,269,834	29%
Data	12,405,347	12,815,552	(410,205)	(3%)
Total	<u>55,576,498</u>	<u>48,132,756</u>	<u>7,443,742</u>	<u>15%</u>

Mobile revenue grew 29% to \$10.1 million with the monthly average revenue per user of \$99. Business mobile customer numbers grew to a total of 16,000 in the half. The roll out of mobile data started later in the period with these new products expected to increase the average revenue per user (ARPU) in the next financial year.

Fixed Wire revenue grew 20% to \$33.1 million over the period with the more profitable products such as inbound and outbound long distance increasing with the higher sales volumes. Business grade voice over internet (VoIP) is now part of our product offerings and revenue from this source will grow in the future.

Data revenue reduced marginally by 3% to \$12.4 million. This was adversely impacted by ADSL revenue which fell by \$0.9m (9%) as a result of the market moving towards free or subsidised connections. This has reduced our non recurring revenues in data while total ADSL tails in use has increased to 34,000 in the half.

Business grade data revenue continues to climb due to strong demand in business grade IP Virtual Private Networks. In particular, co-location and fibre sales have driven up corporate data revenue in the half. In addition, the company's data centre offering co-location, backup and other services is reaching capacity and is to be expanded in the coming months.

Auditors' Independence Declaration

The Auditors' Independence Declaration is on page 23 of the Consolidated Half Year Financial Report and forms part of this report.



Barry Hamilton
Chairman

Sydney
Date: 20 February 2006

**Condensed Consolidated Income Statement
for the half-year ended 31 December 2005**

		Consolidated	
		31 December 2005 \$	31 December 2004 \$
Revenue from rendering telecommunication services	2	55,576,498	48,132,756
Cost of sales		<u>(42,896,456)</u>	<u>(36,053,901)</u>
Gross margin		<u>12,680,042</u>	<u>12,078,855</u>
		22.8%	25.1%
Operating Costs			
Wages and related expenses		(6,592,163)	(5,515,381)
Advertising and promotion expenses		(385,809)	(364,825)
Billing and collection costs		(972,135)	(703,644)
Dealer charges		(1,597,928)	(1,303,538)
Theft / Loss		(381,165)	-
Insurance		(119,410)	(103,128)
Professional fees		(251,796)	(271,206)
Rental expenditure		(770,015)	(628,756)
Other operating expenses		<u>(1,521,023)</u>	<u>(1,858,690)</u>
		<u>(12,591,444)</u>	<u>(10,749,168)</u>
		22.7%	22.3%
Earnings before Interest, Taxation, Depreciation and Amortisation (EBITDA)		<u>88,598</u>	<u>1,329,687</u>
		0.2%	2.8%
Depreciation		(374,886)	(374,469)
Finance costs		(54,807)	(53,736)
Asset impairment loss		-	(953,717)
Plant and equipment written off		(107,103)	(75,629)
Interest income	2	87,161	104,930
(Loss) before income tax expense		<u>(361,037)</u>	<u>(22,934)</u>
Income tax expense		-	-
(Loss) attributable to members of People Telecom Limited		<u>(361,037)</u>	<u>(22,934)</u>
Basic (loss) per share (cents per share)		(0.11)	0.00
Diluted (loss) per share (cents per share)		(0.11)	0.00

The accompanying notes form an integral part of this condensed consolidated income statement.

**Condensed Consolidated Balance Sheet
as at 31 December 2005**

	Consolidated	
	31 December 2005 \$	30 June 2005 \$
Current Assets		
Cash and cash equivalents	3,290,265	2,671,522
Receivables	15,256,184	16,150,591
Other	3,740,238	3,418,381
Total Current Assets	<u>22,286,687</u>	<u>22,240,494</u>
Non-Current Assets		
Other financial assets	1,623,171	1,557,403
Property, plant and equipment	2,949,563	2,983,579
Intangible assets	36,241,233	36,241,233
Other	374,314	489,222
Total Non-Current Assets	<u>41,188,281</u>	<u>41,271,437</u>
Total Assets	<u>63,474,968</u>	<u>63,511,931</u>
Current Liabilities		
Payables	17,723,145	17,717,472
Interest bearing liabilities	222,870	390,453
Provisions	450,689	441,087
Other	3,966,007	3,619,548
Total Current Liabilities	<u>22,362,711</u>	<u>22,168,560</u>
Non-Current Liabilities		
Interest bearing liabilities	81,236	178,238
Other	564,166	620,209
Total Non-Current Liabilities	<u>645,402</u>	<u>798,447</u>
Total Liabilities	<u>23,008,113</u>	<u>22,967,007</u>
Net Assets	<u>40,466,855</u>	<u>40,544,924</u>
Equity		
Share Capital	62,386,260	62,103,292
Accumulated losses	(21,919,405)	(21,558,368)
Total Equity	<u>40,466,855</u>	<u>40,544,924</u>

The accompanying notes form an integral part of this condensed consolidated balance sheet.

**Condensed Consolidated Statement of Changes in Equity
for the half-year ended 31 December 2005**

	Consolidated	
	31 December 2005 \$	31 December 2004 \$
(Loss) attributable to members of People Telecom Limited	(361,037)	(22,934)
Transactions with equity holders in their capacity as equity holders		
Issue of Shares	282,968	7,500
Net (decrease) in Equity	<u>(78,069)</u>	<u>(15,434)</u>
Total equity at the beginning of the financial period	40,544,924	41,151,443
Total equity at the end of the financial period	<u>40,466,855</u>	<u>41,136,009</u>

The accompanying notes form an integral part of this condensed consolidated statement of changes in equity.

**Condensed Consolidated Statement of Cash Flow
for the half-year ended 31 December 2005**

	Consolidated	
	31 December 2005	31 December 2004
	\$	\$
	Inflows/(Outflows)	
Cash flow from operating activities		
Receipts from customers	59,775,387	48,665,925
Payments to suppliers and employees	(58,410,671)	(49,291,936)
Interest received	87,161	104,930
Interest and borrowing costs paid	(54,807)	(53,736)
Net cash generated by / (used in) operating activities	<u>1,397,070</u>	<u>(574,817)</u>
 Cash flow from investing activities		
Payments for property, plant & equipment	(447,974)	(333,074)
Investment in deposits	(65,768)	(32,757)
Net cash used in investing activities	<u>(513,742)</u>	<u>(365,831)</u>
 Cash flow from financing activities		
Proceeds from share issues	-	7,500
Payment of loans	(102,008)	(53,047)
Repayment of finance lease principal	(162,577)	(309,118)
Net cash (used in) financing activities	<u>(264,585)</u>	<u>(354,665)</u>
 Net increase (decrease) in cash held	618,743	(1,295,313)
Cash at the beginning of the financial period	<u>2,671,522</u>	<u>3,557,048</u>
Cash at the end of the financial period	<u>3,290,265</u>	<u>2,261,735</u>

The accompanying notes form an integral part of this condensed consolidated statement of cash flow.

Note 1. Basis of Preparation:

These general purpose consolidated financial statements have been prepared for the half-year ended 31 December 2005 in accordance with Accounting Standard AASB 134 'Interim Financial Reporting' and the *Corporations Act 2001*.

The notes to the financial statements do not include all information normally contained within the notes to an annual financial report. It is recommended that this report be read in conjunction with the 30 June 2005 Annual Report and any public announcements made by People Telecom Limited and its controlled entities during the half-year ended 31 December 2005 in accordance with the continuous disclosure obligations of the Corporations Act 2001 and Australian Stock Exchange Listing Rules.

This is the first financial report of People Telecom Limited prepared in accordance with Australian Equivalents of International Financial Reporting Standards (AIFRS). The financial reports of People Telecom Limited were prepared in accordance with the previous Australian Generally Accepted Accounting Principles (AGAAP) until 30 June 2005. There are certain differences between accounting policies under AIFRS and AGAAP and where applicable the comparative figures have been restated to reflect these adjustments. A summary of the significant accounting policies under AIFRS is provided below. Reconciliations of equity and operating profit/loss between AGAAP and AIFRS are provided under notes 6 to 9.

The financial report has been prepared under the historical cost convention.

For the purpose of preparing the half-year financial report, the half-year has been treated as a discrete reporting period.

a) 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 half year ended 31 December 2005.

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

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

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

b) 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) investments in money market instruments with less than 90 days to maturity.

c) Receivables

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

d) 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.

e) 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.

f) **Goodwill**

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

Goodwill is not amortised but is tested annually for impairment or more frequently if events or changes in circumstances indicate that it might be impaired. Goodwill is carried at cost less accumulated impairment losses. (Refer also to note 6 regarding first-time adoption of AIFRS).

g) **Other assets and liabilities**

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

Mobile hardware / Handset costs

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

VOIP Handset costs

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

Dealer upfront commission payments – fixed wire customers

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

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

Dealer upfront commission payments – mobile customers

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

g) Other assets and liabilities (con't)

Corporate Data customer set up costs

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

Miscellaneous pre-paid expenses

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

Carrier commission / subsidies

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

h) 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.

i) 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.

j) 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.

k) Interest-bearing liabilities

All loans are measured at the principal amount. Interest is charged as an expense as it accrues.

l) 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.

m) Employment Entitlements

Wages, salaries and annual leave

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

Share based payments

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

Long service leave

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

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

Superannuation plan

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

n) **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.

o) **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 Telecommunication Services

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

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

Interest revenue

Interest revenue is recognised as it accrues.

p) **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.

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

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

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

Tax Consolidation

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

r) 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.

s) Earnings per share

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

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

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

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

t) Comparatives

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

**People Telecom Limited
Consolidated Half Year Financial Report**

31 December 2005

	Consolidated	
	31 December 2005	31 December 2004
	\$	\$
Note 2. Revenue		
Operating Revenue		
Income from rendering Telecommunications services	55,576,498	48,132,756
Other Revenue		
Interest income	<u>87,161</u>	<u>104,930</u>
Total revenue	<u>55,663,659</u>	<u>48,237,686</u>

Note 3. Segment Information

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 4. Subsequent Event

Subsequent to 31 December 2005 and up to the date of these financial statements, no significant events have occurred.

Note 5. Contingent Liabilities and Contingent Assets

There are no contingent liabilities or assets existing at the balance date.

Note 6: Adoption of AIFRS – explanation of changes in accounting policy arising on the first time adoption of AIFRS

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

(i) Share based payments

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

On first-time adoption of AIFRS retained earnings at 1 July 2004 (\$nil) and reported results for the half-year to 31 December 2004 (\$114,000 adverse impact) have been adjusted for all share-based payments granted after 7 November 2002, which did not vest prior to 1 January 2005.

(ii) Goodwill

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

In accordance with AASB 1, amortisation of goodwill ceases on first-time adoption of AIFRS at 1 July 2004. The carrying amount of goodwill as previously reported under AGAAP at 30 June 2004 is subject to impairment testing from that date.

On adoption of AIFRS, reported results for the half-year to 31 December 2004 have been adjusted for amortisation charges from 1 July 2004 (\$953,717 positive impact). Amortisation charges prior to 30 June 2004 may not be reversed under the first-time adoption provisions.

(iii) Impairment of Assets

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

On adoption of AIFRS, reported results for the half-year to 31 December 2004 have been adjusted for impairment (\$953,717 adverse impact).

(iv) Income taxes

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

Note 7: Adoption of AIFRS – reconciliation of profit / (loss) reported under AGAAP to AIFRS

(a) Reconciliation of Operating Profit after Tax for the half year ended 31 December 2004

Operating profit after tax for the half-year to 31 December 2004 as reported under AGAAP:	\$91,066
Share-based entitlements earned during the half-year	(\$114,000)
Goodwill on consolidation adjustments	
- reversal of amortisation for the half-year	\$953,717
- impairment loss arising from events during the half-year	(\$953,717)
	<hr/>
Operating loss after tax as restated under AIFRS for the half-year ended 31 December 2004	<u>(\$22,934)</u>

(b) Reconciliation of Operating Profit after Tax for the financial year ended 30 June 2005

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

Note 8: Adoption of AIFRS – reconciliation of equity reported under AGAAP to AIFRS

(a) Reconciliation of Total Equity at 1 July 2004

Total equity at 1 July 2004 as reported under AGAAP	\$41,151,443
Adjustments to total equity as at 1 July 2004	-
Total equity at 1 July 2004 as restated under AIFRS	<u>\$41,151,443</u>

(b) Reconciliation of Total Equity at 31 December 2004

Total equity at 31 December 2004 as reported under AGAAP	\$41,250,009
Adjustments to operating loss for the half-year as described above	(\$114,000)
Total equity at 31 December 2004 as restated under AIFRS	<u>\$41,136,009</u>

(c) Reconciliation of Total Equity at 30 June 2005:

Total equity at 30 June 2005 as reported under Australian Accounting Standards	\$41,098,646
Adjustments to operating loss for the year as described above	(\$553,722)
Total equity at 30 June 2005 as restated under AIFRS	<u>\$40,544,924</u>

Note 9: Adoption of AIFRS – reconciliation of cash flow statement reported under AGAAP to AIFRS

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

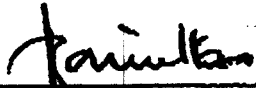
Directors' Declaration

The directors declare that the financial statements and notes set out on pages 6 to 20 in accordance with the *Corporations Act 2001*:

- (a) Comply with Accounting Standard AASB 134 "Interim Financial Reporting" and the *Corporations Regulations 2001*, and
- (b) Give a true and fair view of the financial position of the consolidated entity as at 31 December 2005 and of its performance as represented by the results of its operations and its cash flows, for the half-year ended on that date.

In the directors' opinion there are reasonable grounds to believe that People Telecom Limited will be able to pay its debts as and when they become due and payable.

This declaration is made in accordance with a resolution of the directors.



Barry Houston
Chairman

Sydney
Date: 20 February 2006



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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

INDEPENDENT REVIEW REPORT

To: The Members of People Telecom Limited

Scope

We have reviewed the financial report of People Telecom Limited for the half-year ended 31 December 2005 comprising the Directors' Declaration, Income Statement, Balance Sheet, Statement of Changes in Equity, Statement of Cash Flow, and notes to the financial statements. The financial report includes the condensed consolidated financial statements of the consolidated entity, comprising the company and the entities it controlled at the end of the half-year or from time to time during the half-year. The company's directors are responsible for the financial report. We have performed an independent review of the financial report in order to state whether, on the basis of the procedures described, anything has come to our attention that would indicate that the financial report is not presented fairly in accordance with Accounting Standard AASB 134: Interim Financial Reporting and other mandatory professional reporting requirements in Australia and statutory requirements, so as to present a view which is consistent with our understanding of the consolidated entity's financial position and performance, as represented by the results of its operations and its cash flows, and in order for the company to lodge the financial report with the Australian Stock Exchange and the Australian Securities and Investments Commission.

Our review has been conducted in accordance with Australian Auditing Standards applicable to review engagements. A review is limited primarily to inquiries of the company's personnel and analytical procedures applied to the financial data. These procedures do not provide all the evidence that would be required in an audit, thus the level of assurance provided is less than given in an audit. We have not performed an audit and, accordingly, we do not express an audit opinion.

Statement

Based on our review, which is not an audit, we have not become aware of any matter that makes us believe that the half-year financial report of People Telecom Limited is not in accordance with:

(a) the Corporations Act 2001, including:

- (i) giving a true and fair view of the consolidated entity's financial position as at 31 December 2005 and of its performance for the half-year ended on that date; and
- (ii) complying with Accounting Standard AASB 134: Interim Financial Reporting and the Corporations Regulations 2001; and

(b) other mandatory professional requirements in Australia.

PITCHER PARTNERS

Wayne M Wilson
Partner

20 February 2006
Sydney



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D G YOUNG

CONSULTANTS:
J S YOUNG
D G BARNSDALL
P S ROWE

AUDITOR'S INDEPENDENCE DECLARATION

To the Directors of People Telecom Limited.

In relation to the half-year independent review for the six months to 31 December 2005, to the best of my knowledge and belief there have been:

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

Pitcher Partners

Wayne M Wilson

Partner

Sydney

Date: 20 February 2006