



22 December 2006

Mr Bill Te Kloot
Company Secretary
Fone Zone Group Limited
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By email: bill.tekloot@fonezone.com.au

Dear Mr Te Kloot,

Fone Zone Group Limited (the "Company")

ASX Limited ("ASX") refers to the following:

1. The article published in The Australian on Monday 11 December 2006, entitled "*Telstra dealers miss targets*". An extract of that article is set out below:

"Telstra's two biggest mobile phone dealers have missed their targets for connections for the past two months, despite the launch of the much hyped NextG network, as growth in the \$11 billion a year sector slows to as little as 2 per cent. Internal company documents, obtained by The Australian, reveal that Telstra's entire third-party dealer channel missed its targets in October but just scraped through in November. The telco's biggest dealers, Fone Zone and Crazy John's with more than 100 outlets each around the country, missed ambitious targets set by Telstra for October and November."
2. The announcement made by the Company at 10.35 am on Monday 18 December 2006, "*Fone Zone Trading Update*" (the "Announcement"). The Announcement advised that the Company's earnings before interest, taxation, depreciation and amortisation ("EBITDA") will decline by 40% in the six months to December 2006. In the Announcement, the Company advised that one of the contributing factors to the decrease in EBITDA was as follows:

"...While sales of NextG handsets have grown substantially since the launch of Telstra's NextG network, the limited NextG handset range and short term supply issues have restricted Fone Zone from fully satisfying the growth in customer demand..."
3. The decline in the Company's share price from a high of \$1.30 on 1 December 2006 to \$1.14 on Friday, 15 December 2006, the day prior to the release of the Announcement.

As you are aware, listing rule 3.1 requires an entity, once it becomes *aware* of any information concerning it that a reasonable person would expect to have a material effect on the price or value of the entity's securities, to immediately tell ASX that information. The exceptions to this requirement are set out in listing rule 3.1A.

I would also like to draw your attention to the definition of "aware" in Chapter 19 of the listing rules. This definition states that:

"an entity becomes aware of information if a director or executive director (in the case of a trust, director or executive officer of the responsible entity or management company) has, or ought reasonably to have, come into possession of the information in the course of the performance of their duties as a director or executive officer of that entity."

Furthermore, paragraph 17 of Guidance Note 8 states:

"Once a director or executive officer becomes aware of information, he or she must immediately consider whether that information should be given to ASX. An entity cannot delay giving information to ASX pending formal sign-off or adoption by the board, for example."

Listing rule 3.1A sets out an exception from the requirement to make immediate disclosure, provided that each of the following are satisfied.

- 3.1A.1 *A reasonable person would not expect the information to be disclosed.*
- 3.1A.2 *The information is confidential and ASX has not formed the view that the information has ceased to be confidential.*
- 3.1A.3 *One or more of the following applies.*
- *It would be a breach of a law to disclose the information.*
 - *The information concerns an incomplete proposal or negotiation.*
 - *The information comprises matters of supposition or is insufficiently definite to warrant disclosure.*
 - *The information is generated for the internal management purposes of the entity.*
 - *The information is a trade secret."*

Finally, I would like to draw your attention to ASX's policy position on the concept of "confidentiality" which is detailed in paragraphs 33 to 39 of Guidance Note 8. In particular, paragraphs 34 and 35 of the Guidance Note state that:

"'Confidential' in this context has the sense of 'secret'..." and "Loss of confidentiality may be indicated by otherwise unexplained changes to the price of the entity's securities, or by reference to the information in the media or analysts reports".

Having regard to the above definition, listing rule 3.1 and Guidance Note 8 - Continuous Disclosure, we ask that you answer the following questions in a format suitable for release to the market in accordance with listing rule 18.7A.

1. Whether the Company considers that the information contained in the Announcement concerning the downgrade (the "Information") was material to the Company?

2. If the answer to question 1 is "no", please advise the basis on which the Company does not consider the Information to be material.
3. If the answer to question 1 is "yes", when did the Company first become aware of the information contained in the Announcement?
4. If this was before the release of the Announcement to the market, please identify any earlier announcement from the Company which disclosed the Information.
5. If there was no earlier announcement, and the Company became aware of the Information prior to the release of the Announcement, please advise why the Company did not release the Information to the market at an earlier time, or request a trading halt at that time, pending the release of the Announcement. Please comment specifically on the application of listing rule 3.1 and the exceptions to the rule in listing rule 3.1A.
6. In addressing question 5 above, please consider whether the increase in the share price before the Announcement, indicated that confidentiality in relation to the Information was lost.
7. Please confirm that the Company is in compliance with the listing rules and, in particular, listing rule 3.1.

Your responsibility under listing rule 3.1 is not confined to, or necessarily satisfied by, answering the questions set out in this letter. If the information requested by this letter is information required to be given to ASX under listing rule 3.1 your obligation is to disclose the information immediately.

If you are unable to respond by the time requested, you should consider a request for a trading halt in the Company's securities. As set out in listing rule 17.1 and Guidance Note 16 - Trading Halts, we may grant a trading halt at your request. We may require the request to be in writing. We are not required to act on your request. You must tell each of the following.

- The reasons for the trading halt.
- How long you want the trading halt to last.
- The event you expect to happen that will end the trading halt.
- That you are not aware of any reason why the trading halt should not be granted.
- Any other information necessary to inform the market about the trading halt, or that we may ask for.

The trading halt cannot extend past the commencement of normal trading on the second day after the day on which it is granted. If a trading halt is requested and granted and you are still unable to reply to this letter before the expiry of the trading halt at the commencement of trading on Thursday, 4 January 2007, suspension from quotation would normally be imposed by us from the commencement of trading if not previously requested by you. The same applies if you have requested a trading halt because you are unable to release information to the market, and are still unable to do so before the commencement of trading.

Your response should be sent to me by e-mail at simon.obrien@asx.com.au or by facsimile on **facsimile number (07) 3832 4114**. It should not be sent to the Company Announcements Office. Unless the information is required immediately under listing rule 3.1, a response is requested as soon as possible, and in any event, not later than **9.30am, on Tuesday, 2 January 2007**.

Please note that ASX reserves the right, under listing rule 18.7A, to release this letter and the Company's response to the market if it considers it necessary for an informed market. Accordingly, it would be appreciated if you would prepare your response in a format suitable for release to the market and separately address each of the questions asked.

If you have any concerns about release of your response, or any queries in relation to this matter, please contact me immediately.

Yours sincerely,

A handwritten signature in black ink, appearing to read 'Simon O'Brien', with a small dot at the end.

Simon O'Brien
Senior Adviser, Issuers (Brisbane)



29 December 2006

Fone Zone responds to ASX Questions

Fone Zone responds to questions from the ASX set out in their letter dated 22 December 2006, as follows:

1. Fone Zone Group Limited (the 'Company') considers that the information (the 'Information') contained in its announcement made on Monday 18 December 2006 entitled 'Fone Zone Trading Update' (the 'Announcement') was material to the Company.
2. Not Applicable.
3. 4.54 pm Brisbane time (5.54pm Sydney time) on Friday 15 December 2006. Prior to this time, the Company had been in extensive confidential discussions with Telstra on a number of issues, and was reviewing its own performance. The Company had reasonable expectations that the confidential discussions with Telstra would result in financial performance consistent with budgets and with the guidance given at the Company's AGM in October. As soon as the financial and timing effects of the confidential discussions and the review were known, a full reforecast for the half and full year was completed by management and immediately distributed to the Board at 4.54 pm Brisbane time on Friday 15 December.
4. There was no earlier announcement regarding the Information as it did not exist prior to 4.54pm on Friday 15 December. Prior to the Announcement, the Company last gave guidance regarding 2007 results at its AGM and, at the time, indicated its result for the half year to 31 December 2006 would be similar to the half year to 31 December 2005.
5. At the time the Company became aware of the Information
 - (i) The market had closed and would not re-open until 9.00am Brisbane time (10.00am Sydney time) on Monday 18 December 2006.
 - (ii) The Company had arranged a meeting of Directors for 7.00am Brisbane time (8.00am Sydney time) on Monday 18 December to consider the Information.
 - (iii) The Company believed that prior to the conclusion of the confidential discussions with Telstra, LR 3.1A.1 had been satisfied.
 - (iv) The Company believed that prior to the conclusion of the confidential discussions with Telstra, LR 3.1A.2 had been satisfied.
 - (v) The Company believed that prior to the conclusion of the confidential discussions with Telstra, LR 3.1A.3 had been satisfied as the information was generated for the internal management purposes of the Company, and was insufficiently definite to warrant disclosure until after the conclusion of the confidential discussions with Telstra.

It was intended that the meeting of Directors scheduled for 7.00am Brisbane time on Monday 18 December would determine whether LR 3.1 was applicable to the Information, and, if so, an announcement would be made immediately. In these circumstances, it was not considered necessary to request a trading halt.

The Information was included in the Announcement made to the market at 9.35am Brisbane time (10.35am Sydney time) on Monday 18 December 2006.

6. The chart of daily prices over 6 months available on the ASX website indicates that for the period from early September 2006 to end November 2006, the Company's shares traded in a range of \$1.11 to \$1.21. The shares briefly rose to \$1.30 on 1 December, falling again within a week back to the \$1.11 to \$1.21 price range. The Shares were trading at \$1.14 when the Announcement was made. Trading volumes remained reasonably consistent at approximately 400,000 to 800,000 shares per day from end November to the date of the Announcement.

The Company does not consider the share price movements before the Announcement was made indicated that confidentiality in relation to any material inputs considered in compiling the Information was lost.

With reference to the article in The Australian on Monday 11 December the Company comments that:

- Telstra does not set, approve or review Fone Zone's budgets or business plans and the reference in that article to targets is not a matter on which Fone Zone is qualified to comment.
 - Fone Zone's connections to date are consistent with our expectations. Any suggestion in the article that connections were lower than our expectations is incorrect. We are unable to discern any relationship between our actual connections and the numbers mentioned in the article.
 - For these reasons, the Announcement made by the Company on 18 December made no mention of connections. Contrary to the thrust of the article, the Company's Announcement did confirm that revenue was up on the same period in the prior year.
7. The company believes it is in compliance with the Listing Rules, and, in particular, with LR 3.1.

Fone Zone Group Limited does not consider that a trading halt is required.