

Fone Zone Group Limited

ABN 62 113 178 519

Half-Year Financial Report 31 December 2007

FONE ZONE GROUP LIMITED – HALF-YEAR REPORT

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FONE ZONE GROUP LIMITED – HALF-YEAR REPORT

Corporate Information

ABN 62 113 178 519

This half-year report covers the consolidated entity comprising Fone Zone Group Limited and its subsidiaries (the Group). The Group's functional and presentation currency is AUD (\$).

A description of the Group's operations and of its principal activities is included in the review of operations and activities in the directors' report on page 4. The directors' report is unaudited and does not form part of the financial report.

Directors

T. B. Finn AO (Chairman)

D. L. McMahon (Joint Chief Executive Officer)

M. J. Horne (appointed Joint Chief Executive Officer 30 November 2007)(previously Chief Operating Officer)

N. A. Osborne

G. J. Robertson

R. A. Simpson

Company Secretaries

W. L. te Kloot

G.A. Petterson (resigned effective 31 August 2007)

T.J. Wulfse (appointed 29 October 2007)

Registered Office and Principal Place of Business

67 Links Avenue North

Eagle Farm, Queensland, Australia

Telephone: 61 7 3868 6000

Facsimile: 61 7 3630 0670

www.fonezone.com.au

Share Registry

Computershare Investor Services Pty Limited

Level 19, 307 Queen Street

Brisbane, Queensland, Australia

Telephone: 61 7 3237 2100

Facsimile: 61 7 3237 2152

www.computershare.com.au

ASX Listing

Fone Zone Group Limited shares are listed on the Australian Stock Exchange

ASX Code: FZN

Solicitors

Minter Ellison Lawyers

Brisbane, Australia

Bankers

National Australia Bank Limited

Brisbane, Australia

Auditors

Ernst & Young

Brisbane, Australia

FONE ZONE GROUP LIMITED – HALF-YEAR REPORT

Directors' Report

Your directors submit their report for the half-year ended 31 December 2007.

DIRECTORS

The names of the company's 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.

- Thomas Brian Finn
- David Lawrence McMahon
- Maxine Joan Horne
- Neil Anthony Osborne
- Gregory James Robertson
- Richard Anthony Simpson

REVIEW AND RESULTS OF OPERATIONS

	Half-year ended 31 December 2007 \$000s	Half-year ended 31 December 2006 \$000s	Growth %
Total operating revenue	148,502	99,129	49.8%
Gross operating margin	54,829	42,573	28.8%
Earnings before interest, taxation, depreciation and amortisation	12,155	6,097	99.4%
Earnings before interest and taxation	9,407	3,264	188.2%
Net profit for the period attributable to members	6,250	1,940	222.2%
Earnings per share (cents)	4.60 cents	1.55 cents	196.8%

The strong revenue growth of \$49.373 million was driven by the strategic acquisition of Next Byte (completed in September 2007) as well as by improved sales within the Fone Zone business as a result of the improvement in the MRO/subsidy mix within the growing NextG handset range.

The availability of a broader NextG handset range and the increase in the MRO percentage in the sales mix back towards traditional levels has also bolstered Fone Zone's operating margins from 43% to 45%. The Next Byte business traded as expected with a gross operating margin of 21% resulting in a net group operating margin of 37%.

The Next Byte acquisition demonstrates Fone Zone's intention to diversify the income and profit streams of the group. As part of this diversification process, further investment has been made in strengthening both the management expertise and the IT infrastructure, systems and processes to allow us to operate within a multi branded, multi product environment.

In addition to the initial Next Byte transaction there have been a further 3 successful smaller acquisitions within the Apple Re-Seller channel which have been re-branded and are now successfully operating under the Next Byte brand.

The Next Byte brand has traded in line with our expectations and continues to grow strongly off the back of Apple's new range of iPods and more significantly, Apple's increasing share of the computer market.

Cash Flow

Net cash flow from operating activities is abnormally high due to \$15.1m in December 07 trade creditors being paid in early January 08.

FONE ZONE GROUP LIMITED – HALF-YEAR REPORT

Directors' Report (continued)

AUDITOR'S INDEPENDENCE DECLARATION

The directors append to the Directors' Report the declaration from the auditor of Fone Zone Group Limited.

Signed in accordance with a resolution of the directors.



T B Finn AO
Chairman

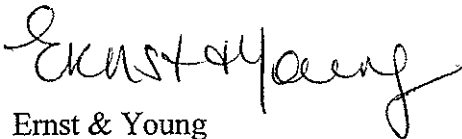


D L McMahon
Director

Brisbane,
Date: 25 February 2008

Auditor's Independence Declaration to the Directors of Fone Zone Group Limited

In relation to our review of the financial report of Fone Zone Group Limited for the half-year ended 31 December 2007, to the best of my knowledge and belief, there have been no contraventions of the auditor independence requirements of the Corporations Act 2001 or any applicable code of professional conduct.



Ernst & Young



Winna Brown

Partner

25 February 2008

FONE ZONE GROUP LIMITED – HALF-YEAR REPORT

Income Statement

FOR THE HALF-YEAR ENDED 31 DECEMBER 2007

	Notes	Consolidated	
		2007 \$'000	2006 \$'000
Sale of goods		123,836	74,016
Fee revenue		13,235	13,510
Commission revenue		11,431	11,603
Finance revenue	4	367	268
Revenue		148,869	99,397
Cost of sales		(93,673)	(56,556)
Gross profit		55,196	42,841
Other income	4	2,211	1,961
Employment expenses	4	(28,473)	(24,543)
Marketing and advertising expenses		(2,282)	(1,620)
Depreciation and amortisation expenses	4	(2,748)	(2,833)
Operating lease rental expense		(7,731)	(6,488)
Other expenses	4	(6,399)	(5,786)
Profit before tax and finance costs		9,774	3,532
Finance costs	4	(867)	(405)
Profit before income tax		8,907	3,127
Income tax expense	5	(2,657)	(1,187)
Net profit attributable to members of the parent		6,250	1,940
Earnings per share for profit attributable to members of the parent (cents per share)			
- basic earnings per share		4.60	1.55
- diluted earnings per share		4.58	1.54
Dividends paid per share (cents per share)	7	2.30	4.00

FONE ZONE GROUP LIMITED – HALF-YEAR REPORT

Balance Sheet

AS AT 31 DECEMBER 2007

	Notes	Consolidated	
		As at 31 December 2007 \$'000	As at 30 June 2007 \$'000
ASSETS			
Current Assets			
Cash and cash equivalents		27,372	5,920
Trade and other receivables		16,100	14,080
Inventories	8	18,426	8,576
Prepayments		369	347
Total Current Assets		62,267	28,923
Non-current Assets			
Term deposits		631	611
Deferred tax asset		1,944	1,490
Plant and equipment	9	15,423	12,955
Intangible assets and goodwill		55,163	21,254
Total Non-current Assets		73,161	36,310
TOTAL ASSETS		135,428	65,233
LIABILITIES			
Current Liabilities			
Trade and other payables		54,390	17,888
Interest bearing loans and borrowings	10	7,010	3,133
Income tax payable		1,266	1,305
Provisions		4,064	2,786
Total Current Liabilities		66,730	25,112
Non-current Liabilities			
Trade and other payables		932	642
Interest bearing loans and borrowings	10	23,496	8,742
Provisions		2,749	2,255
Total Non-current Liabilities		27,177	11,639
TOTAL LIABILITIES		93,907	36,751
NET ASSETS		41,521	28,482
EQUITY			
Contributed equity	11	12,986	2,885
Retained earnings		25,981	22,980
Reserve		2,554	2,617
TOTAL EQUITY		41,521	28,482

FONE ZONE GROUP LIMITED – HALF-YEAR REPORT

Cash Flow Statement

FOR THE HALF-YEAR ENDED 31 DECEMBER 2007

	Notes	Consolidated	
		2007 \$'000	2006 \$'000
Cash flows from operating activities			
Receipts from customers		168,161	111,270
Payments to suppliers and employees		(129,850)	(95,053)
Interest received		367	268
Finance costs		(867)	(405)
Income tax paid		(3,000)	(3,578)
Net GST remitted		(2,352)	(2,655)
Net cash flows from operating activities		32,459	9,847
Cash flows from investing activities			
Proceeds from sale of plant and equipment	9	-	7
Purchase of plant and equipment	9	(3,031)	(1,709)
Purchase of intangibles		(479)	(277)
Acquisition of subsidiary, net of cash acquired	12	(22,284)	(5,471)
Purchase of interest bearing deposits		(20)	6
Net cash flows used in investing activities		(25,814)	(7,444)
Cash flows from financing activities			
Proceeds from borrowings		21,000	33
Repayment of borrowings		(1,715)	(429)
Treasury shares bought from the market		(501)	-
Ordinary shares issued for options exercised		137	-
Repayment of finance lease principal		(865)	(819)
Dividends paid on ordinary shares	7	(3,249)	(5,006)
Net cash flows from/(used in) financing activities		14,807	(6,221)
Net increase/(decrease) in cash and cash equivalents		21,452	(3,818)
Cash and cash equivalents at beginning of period		5,920	12,038
Cash and cash equivalents at end of period	6	27,372	8,220

FONE ZONE GROUP LIMITED – HALF-YEAR REPORT

Statement of Changes in Equity

FOR THE HALF-YEAR ENDED 31 DECEMBER 2007

Consolidated	Attributable to equity holders of the parent				Total equity \$'000
	Contributed Equity \$'000	Retained earnings \$'000	Employee equity benefits reserve \$'000	Total equity \$'000	
At 1 July 2006	2,885	22,267	1,692	26,844	
Total income / expense for the period recognised directly in equity	-	-	-	-	
Profit for the period	-	1,940	-	1,940	
Total income / expense for the period	-	1,940	-	1,940	
Dividends paid	-	(5,006)	-	(5,006)	
Cost of share-based payment	-	-	958	958	
At 31 December 2006	2,885	19,201	2,650	24,736	
At 1 July 2007	2,885	22,980	2,617	28,482	
Total income / expense for the period recognised directly in equity	-	-	-	-	
Profit for the period	-	6,250	-	6,250	
Total income / expense for the period	-	6,250	-	6,250	
Ordinary Shares issued	10,465	-	-	10,465	
Dividends paid	-	(3,249)	-	(3,249)	
Cost of share based payment	-	-	(63)	(63)	
Treasury shares bought from the market	(501)	-	-	(501)	
Ordinary shares issued for options exercised	137	-	-	137	
At 31 December 2007	12,986	25,981	2,554	41,521	

FONE ZONE GROUP LIMITED – HALF-YEAR REPORT

Notes to the Half-Year Financial Statements

FOR THE HALF-YEAR ENDED 31 DECEMBER 2007

1. CORPORATE INFORMATION

The financial report of Fone Zone Group Limited (the Company) for the half-year ended 31 December 2007 was authorised for issue in accordance with a resolution of directors on 25 February 2008.

Fone Zone Group Limited is a company limited by shares and incorporated in Australia whose shares are publicly traded on the Australian Stock Exchange.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The half-year financial report does not include all notes of the type normally included within the annual financial report and therefore cannot be expected to provide as full an understanding of the financial performance, financial position and financing and investing activities of the consolidated entity as the full financial report.

The half-year financial report should be read in conjunction with the annual Financial Report of Fone Zone Group Limited as at 30 June 2007.

It is also recommended that the half-year financial report be considered together with any public announcements made by Fone Zone Group Limited and its controlled entities during the half-year ended 31 December 2007 in accordance with the continuous disclosure obligations arising under the *Corporations Act 2001*.

(a) Basis of Preparation

The half-year consolidated financial report is a general-purpose financial report, which has been prepared in accordance with the requirements of the *Corporations Act 2001*, applicable Accounting Standards including AASB 134 *Interim Financial Reporting* and other mandatory professional reporting requirements.

The half-year financial report has been prepared on a historical cost basis.

The financial report is presented in Australian dollars and all values are rounded to the nearest thousand dollars (\$'000) unless otherwise stated under the option available to the company under ASIC Class Order 98/0100. The company is an entity to which the class order applies.

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

(b) Significant accounting policies

The half-year consolidated financial statements have been prepared using the same accounting policies as used in the annual financial statements for the year ended 30 June 2007, except for the adoption of amending standards mandatory for annual periods beginning on or after 1 July 2007, as described in note 2(d).

(c) Basis of consolidation

The half-year consolidated financial statements comprise the financial statements of Fone Zone Group Limited and its subsidiaries as at 31 December 2007 ('the Group').

Next Byte Holdings Pty Ltd has been included in the consolidated financial statements using the purchase method of accounting, which measures the acquiree's assets and liabilities at their fair value at acquisition date. Accordingly, the consolidated financial statements include the results of Next Byte Holdings Pty Ltd for the four-month period from its acquisition on 31 August 2007. The purchase consideration has been allocated to the assets and liabilities on the basis of fair value at the date of acquisition.

FONE ZONE GROUP LIMITED – HALF-YEAR REPORT

Notes to the Half-Year Financial Statements

FOR THE HALF-YEAR ENDED 31 DECEMBER 2007

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(d) Changes in accounting policies

Since 1 July 2007 the Group has adopted the following Standards and Interpretations mandatory for annual periods beginning on or after 1 January 2007. Adoption of these Standards and Interpretations did not have any effect on the financial position or performance of the Group.

- *AASB 7 Financial Instrument Disclosures*
- *AASB 2005-10 Amendments to Australian Accounting Standards (AASB 132, 101, 114, 117, 133, 139, 1, 4, 1023 and 1038)*
- *AASB 2007-7 Amending standards to wording errors, discrepancies and inconsistencies*
- *AASB 2007-4 Amendments to Australian Accounting standards arising from ED 151 and Other Amendments*
- *Interpretation 8 Scope of AASB 2 Share Based Payment*
- *Interpretation 9 Reassessment of Embedded Derivatives*
- *Interpretation 10 Interim financial Reporting and Impairment*

FONE ZONE GROUP LIMITED – HALF-YEAR REPORT

Notes to the Half-Year Financial Statements

FOR THE HALF-YEAR ENDED 31 DECEMBER 2007

3. SEGMENT REPORTING

Fone Zone Group Limited has two segments for statutory reporting, telecommunications and computing. As a result of acquisitions during the six months ended 31 December 2007, the Fone Zone group now has different business units that sell different products and as a result have a different risk profile.

Business segment

The following table presents revenue and profit information for business segments for the half years ended 31 December 2007 and 31 December 2006.

	Telecomm- unications \$'000	Computing \$'000	Total Operations \$'000
Half year ended 31 December 2007			
Revenue			
Sales of goods	76,977	46,859	123,836
Fee revenue	13,235	-	13,235
Commission revenue	11,431	-	11,431
Finance revenue	274	93	367
Total segment revenue	101,917	46,952	148,869
Unallocated revenue			-
Total consolidated revenue			148,869
Result			
Segment result	6,469	3,152	9,621
Unallocated expenses/income			(714)
Net profit before income tax			8,907
Half year ended 31 December 2006			
Revenue			
Sales of goods	74,016	-	74,016
Fee revenue	13,510	-	13,510
Commission revenue	11,603	-	11,603
Finance revenue	268	-	268
Total segment revenue	99,397	-	99,397
Unallocated revenue			-
Total consolidated revenue			99,397
Result			
Segment result	3,390	-	3,390
Unallocated expenses/income			(263)
Net profit before income tax			3,127

FONE ZONE GROUP LIMITED – HALF-YEAR REPORT

Notes to the Half-Year Financial Statements

FOR THE HALF-YEAR ENDED 31 DECEMBER 2007

4. REVENUE AND EXPENSES

Profit before income tax expense includes the following revenues and expenses whose disclosure is relevant in explaining the performance of the entity:

	Consolidated	
	2007 \$'000	2006 \$'000
(i) Finance income		
<i>Breakdown of finance income:</i>		
Bank interest	367	268
(ii) Other income		
Cooperative advertising income	2,007	1,678
Other sundry income	204	283
	2,211	1,961
(iii) Depreciation and amortisation		
Depreciation of plant and equipment	1,470	1,180
Amortisation of plant and equipment	828	724
Amortisation of intangibles	390	883
Depreciation of lease make good	60	46
	2,748	2,833
(iv) Employment expense		
Salaries and other employment costs	28,536	23,585
Expense of share-based payments	(63)	958
	28,473	24,543
(v) Finance costs		
Bank loans	683	236
Finance charges under finance leases	153	142
Finance charges under hire purchase contracts	31	27
	867	405
(vi) Other expenses		
(Gain) / Loss on disposal of plant and equipment	43	126
Provision for doubtful debts	37	677
Consulting	557	1,063
Communications	1,133	819
Other sundry expenses	4,629	3,101
	6,399	5,786

FONE ZONE GROUP LIMITED – HALF-YEAR REPORT

Notes to the Half-Year Financial Statements

FOR THE HALF-YEAR ENDED 31 DECEMBER 2007

5. INCOME TAX

The major components of income tax expense for the half-year ended 31 December 2007 and 31 December 2006 are:

	Consolidated	
	2007 \$'000	2006 \$'000
Consolidated Income Statement		
<i>Current Income Tax</i>		
Current income tax charge	2,812	1,334
<i>Deferred Income Tax</i>		
Relating to origination and reversal of temporary differences	(155)	(147)
Income tax expense reported in the consolidated income statement	2,657	1,187

A reconciliation between tax expense and the product of accounting profit before income tax multiplied by the Group's applicable income tax rate is as follows:

Accounting profit before income tax	8,907	3,127
At the Group's statutory income tax rate of 30% (2006: 30%)	2,672	938
Adjustment in respect of current income tax of previous years	(191)	(237)
Amortisation of intangibles not allowable for income tax purposes	54	177
Share-based payment expense not allowable for income tax purposes	(19)	288
Effect of income tax consolidation on the group resulting in items becoming not allowable for income tax purposes	-	67
Other expenditure not allowable for income tax purposes	141	(46)
Income tax expense reported in the consolidated income statement	2,657	1,187

6. CASH AND CASH EQUIVALENTS

For the purpose of the half-year condensed cash flow statement, cash and cash equivalents are comprised of the following:

Cash at bank and in hand	27,320	1,500
Short-term deposits	52	6,720
	27,372	8,220

7. DIVIDENDS PAID AND PROPOSED

Equity dividends on ordinary shares

Dividends paid during the half-year:

Final franked dividend declared from retained profits at 30 June 2007: 2.3 cents per share (2006: 4 cents per share)

	3,249	5,006
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Approved by the board of directors on 25 February 2008
(not recognised as a liability as at 31 December 2007)

Dividends on ordinary shares:

Interim franked dividend for 2008: 2.5 cents
(2007: 1.0 cent)

	3,531	1,251
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FONE ZONE GROUP LIMITED – HALF-YEAR REPORT

Notes to the Half-Year Financial Statements

FOR THE HALF-YEAR ENDED 31 DECEMBER 2007

8. INVENTORIES

During the half-year ended 31 December 2007 inventory write down recognised as an expense totalled \$188,638 (2006: \$71,373) for the Group. This expense is included in the cost of sales line item as a cost of inventories.

At 31 December 2007, the company has committed to purchase inventory, which was in transit with a value of \$315,598 (2006: \$722,436). The terms and conditions of supply for this inventory results in the risk of ownership passing to the company on despatch from the supplier.

9. PROPERTY, PLANT AND EQUIPMENT

During the half-year ended 31 December 2007, the Group acquired assets with a total cost of \$3,365,358, comprising of leased assets of \$334,441 and owned assets of \$3,030,917 (2006: \$3,371,855, leased \$1,661,885, owned \$1,709,970).

Assets with a net book value of \$42,955 were disposed of by the Group during the half-year ended 31 December 2007 (2006: \$132,775), resulting in a loss on disposal of \$42,955 (2006: \$125,850).

10. INTEREST-BEARING LOANS AND BORROWINGS

During the half-year ended 31 December 2007 the Group has entered into new loans of \$21,171,001 (\$21,000,000 bill facility and \$171,001 finance leases), acquired loans of \$38,460 and made repayments of \$2,579,391. This has resulted in a net position of \$30,505,731 (June 2007: \$11,875,661).

11. CONTRIBUTED EQUITY

	31 December 2007 \$'000	30 June 2007 \$'000
<hr/>		
<i>Ordinary shares</i>		
Issued and fully paid	12,986	2,885
	<hr/>	
	31 December 2007	
	Number of shares	\$'000
<hr/>		
<i>Movements in ordinary shares on issue</i>		
At 1 July 2007	125,147,800	2,885
Ordinary shares issued for the Next Byte purchase	16,100,000	10,465
Treasury shares bought from the market	(730,333)	(501)
Ordinary shares issued for options exercised	730,333	137
	<hr/>	
At 31 December 2007	141,247,800	12,986
	<hr/>	

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 all 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.

FONE ZONE GROUP LIMITED – HALF-YEAR REPORT

Notes to the Half-Year Financial Statements

FOR THE HALF-YEAR ENDED 31 DECEMBER 2007

12. BUSINESS COMBINATIONS

On 31 August 2007, Fone Zone Group Limited acquired 100% of the voting shares of Next Byte Holdings Pty Ltd, an unlisted company based in Australia specialising in the sale and service of Apple Products.

The total cost of the combination was \$31,795,423 and comprised an issue of equity instruments, the payment of cash and costs directly attributable to the combination. The Group issued 16,100,000 ordinary shares with a fair value of \$0.65 each, based on the quoted price of the shares of Fone Zone Group Limited at the date of exchange.

The fair value of the assets and liabilities of Next Byte Holdings Pty Ltd as at the date of acquisition were:

	Recognised on acquisition \$'000	Carrying value \$'000
Cash and cash equivalents	2,284	2,284
Trade and other receivables	3,828	3,828
Inventories	5,638	5,638
Deferred income tax asset	332	332
Plant and equipment	1,425	1,425
Intangible assets	46	46
Total assets	13,553	13,553
Trade and other payables	12,193	12,193
Interest bearing loans and borrowings	38	38
Provisions	1,038	1,038
Total liabilities	13,269	13,269
Fair Value of net assets	284	284
Goodwill arising on acquisition	31,511	
	31,795	
Cost of the combination:		
Cash paid	21,052	
Shares issued at fair value	10,465	
Direct costs of acquisition	278	
	31,795	
The cash outflow on acquisition is as follows:		
Net cash acquired with subsidiary	2,284	
Direct costs of acquisition	(278)	
Cash paid	(21,052)	
	(19,046)	

From the date of acquisition, Next Byte Holdings Pty Ltd has contributed \$3,152,424 to the net profit before tax of the group.

If the combination had taken place at the beginning of the half year, the profit before tax for the Group would have been \$9,260,783 and revenue from continuing operations would have been \$167,058,113.

The balances reported as "recognised on acquisition" are provisional at the date of this report.

FONE ZONE GROUP LIMITED – HALF-YEAR REPORT

Notes to the Half-Year Financial Statements

FOR THE HALF-YEAR ENDED 31 DECEMBER 2007

12. BUSINESS COMBINATIONS (continued)

On 3 September 2007, Next Byte Holdings Pty Limited acquired the net assets of The Smart Shop Enterprise Pty Ltd an unlisted company based in Australia specialising in the sale and service of Apple Products. There were no voting shares attached to this acquisition.

The fair value of the assets and liabilities of The Smart Shop Enterprise Pty Ltd as at the date of acquisition were:

	Recognised on acquisition \$'000	Carrying value \$'000
Cash and cash equivalents	1	1
Inventories	221	221
Plant and equipment	119	119
Total assets	341	341
Trade and other payables	25	25
Provisions	7	7
Total liabilities	32	32
Fair Value of net assets	309	309
Goodwill arising on acquisition	646	
	955	
Cost of the combination:		
Cash paid	940	
Direct costs of acquisition	15	
	955	
Net cash outflow on acquisition is as follows:		
Net cash acquired	1	
Cash paid	(955)	
	(954)	

From the date of acquisition, The Smart Shop Enterprise Pty Ltd has contributed a loss of \$27,177 to the net profit before tax of the group.

If the combination had taken place at the beginning of the half year, the profit before tax for the Group would have been \$8,916,610 and revenue from continuing operations would have been \$149,179,248.

The balances reported as "recognised on acquisition" are provisional at the date of this report.

FONE ZONE GROUP LIMITED – HALF-YEAR REPORT

Notes to the Half-Year Financial Statements

FOR THE HALF-YEAR ENDED 31 DECEMBER 2007

12. BUSINESS COMBINATIONS (continued)

On 18 October 2007, Next Byte Holdings Pty Limited acquired the net assets of Smart Bomb Productions Pty Ltd (trading as Frequency) an unlisted company based in Australia specialising in the sale and service of Apple Products. There were no voting shares attached to this acquisition.

The fair value of the assets and liabilities of Smart Bomb Productions Pty Ltd as at the date of acquisition were:

	Recognised on acquisition \$'000	Carrying value \$'000
Cash and cash equivalents	-	-
Trade and other receivables	6	6
Inventories	449	449
Plant and equipment	300	300
Total assets	755	755
Trade and other payables	32	32
Interest bearing loans and borrowings	25	25
Provisions	22	22
Total liabilities	79	79
Fair Value of net assets	676	676
Goodwill arising on acquisition	859	
	1,535	
Cost of the combination:		
Cash paid	1,495	
Direct costs of acquisition	40	
	1,535	
Net cash outflow on acquisition is as follows:		
Net cash acquired	-	
Cash paid	(1,535)	
	(1,535)	

From the date of acquisition, Smart Bomb Productions Pty Ltd has contributed \$42,643 to the net profit before tax of the group.

If the combination had taken place at the beginning of the half year, the profit before tax for the Group would have been \$8,966,139 and revenue from continuing operations would have been \$150,928,415.

The balances reported as "recognised on acquisition" are provisional at the date of this report.

FONE ZONE GROUP LIMITED – HALF-YEAR REPORT

Notes to the Half-Year Financial Statements

FOR THE HALF-YEAR ENDED 31 DECEMBER 2007

12. BUSINESS COMBINATIONS (continued)

On 10 December 2007, Next Byte Holdings Pty Limited acquired the net assets of Infinite Systems Group Pty Ltd an unlisted company based in Australia specialising in the sale and service of Apple Products. There were no voting shares attached to this acquisition.

The fair value of the assets and liabilities of Infinite Systems Group Pty Ltd as at the date of acquisition were:

	Recognised on acquisition \$'000	Carrying value \$'000
Cash and cash equivalents	1	1
Trade and other receivables	6	6
Inventories	419	419
Plant and equipment	100	100
Total assets	526	526
Trade and other payables	77	77
Provisions	50	50
Total liabilities	127	127
Fair Value of net assets	399	399
Goodwill arising on acquisition	748	
	1,147	
Cost of the combination:		
Cash paid	(750)	
Deferred Cash Payment	(397)	
Direct costs of acquisition	-	
	1,147	
Net cash outflow on acquisition is as follows:		
Net cash acquired	1	
Cash paid	(750)	
	(749)	

From the date of acquisition, Infinite Systems Group Pty Ltd has contributed \$5,275 to the net profit before tax of the group.

If the combination had taken place at the beginning of the half year, the profit before tax for the Group would have been \$9,042,601 and revenue from continuing operations would have been \$152,703,513.

The balances reported as "recognised on acquisition" are provisional at the date of this report.

FONE ZONE GROUP LIMITED – HALF-YEAR REPORT

Notes to the Half-Year Financial Statements

FOR THE HALF-YEAR ENDED 31 DECEMBER 2007

12. BUSINESS COMBINATIONS (continued)

On 31 August 2006, Fone Zone Group Limited acquired 100% of the voting shares of Communique Holdings Pty Ltd, an unlisted company based in Australia specialising in the communications retail and service industry, for a consideration of \$5,859,285.

The fair value of the assets and liabilities of Communique Holdings Pty Ltd as at the date of acquisition were:

	Recognised on acquisition \$'000	Carrying value \$'000
Cash and cash equivalents	339	339
Trade and other receivables	676	676
Inventories	658	658
Other financial assets	36	36
Deferred income tax asset	96	96
Plant and equipment	885	885
Intangible assets	764	44
Total assets	3,454	2,734
Trade and other payables	1,140	1,140
Interest bearing loans and borrowings	768	768
Income tax payable	413	413
Deferred income tax liabilities	271	55
Provisions	257	257
Total liabilities	2,849	2,633
Fair Value of net assets	605	101
Goodwill arising on acquisition	5,254	
	5,859	

The cash outflow on acquisition is as follows:

Net cash acquired with subsidiary	339
Cash paid	(5,810)
Deferred Cash Payment	(49)
	(5,520)

From the date of acquisition, Communique Holdings Pty Ltd has contributed \$415,925 to the net profit after tax of the Group for the six months ending 31 December 2006.

The key factor contributing to the \$5,254,000 of goodwill relates to the synergies expected to be achieved as a result of combining Communique with the rest of the group and the consolidation of the Fone Zone Group retail position within the WA retail sales channel.

Included in intangibles is a customer database acquired which is being amortised over 2 years.

FONE ZONE GROUP LIMITED – HALF-YEAR REPORT

Notes to the Half-Year Financial Statements

FOR THE HALF-YEAR ENDED 31 DECEMBER 2007

12. BUSINESS COMBINATIONS (continued)

If the acquisitions' of Next Byte Holdings Pty Ltd, The Smart Shop Enterprise Pty Ltd, Smart Bomb Productions Pty Ltd (trading as Frequency) and Infinite Systems Group Pty Ltd had taken place on the 1 July 2007 the profit before tax for the Group would have been \$9,465,508 and revenue from continuing operations would have been \$173,257,750.

13. EVENTS AFTER BALANCE SHEET DATE

There have been no other matters or circumstances not otherwise dealt with in this report, that will significantly affect the operations of the company, the results of those operations or the state of affairs of the company in subsequent financial years.

14. ECONOMIC DEPENDENCY

Fone Zone Group Ltd is a Telstra Premium Dealer and operates under a Telstra Dealership Agreement that expires on 30 June 2010.

Next Byte Holdings Pty Ltd is an Apple Premium Reseller and operates under a Apple Dealer Agreement that expires on 28 February 2009. This agreement can be terminated by either party with 30 days notice.

15. CONTINGENT ASSETS AND CONTINGENT LIABILITIES

There are no contingent assets or liabilities as at the reporting date.

FONE ZONE GROUP LIMITED – HALF-YEAR REPORT

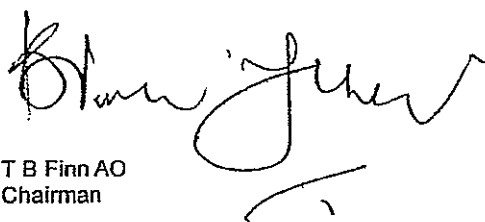
Directors' Declaration

In accordance with a resolution of the directors of Fone Zone Group Limited, we state that:

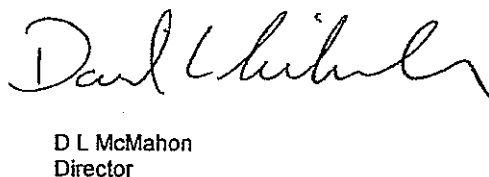
In the opinion of the directors:

- (a) the financial statements and notes of the consolidated entity are in accordance with the *Corporations Act 2001*, including:
 - (i) giving a true and fair view of the financial position as at 31 December 2007 and the performance for the half-year ended on that date of the consolidated entity; and
 - (ii) comply with Accounting Standard AASB 134 *Interim Financial Reporting* and the Corporations Regulations 2001; and
- (b) there are reasonable grounds to believe that the company will be able to pay its debts as and when they become due and payable.

On behalf of the Board



T B Finn AO
Chairman



D L McMahon
Director

Brisbane,
Date: 25 February 2008

To the members of Fone Zone Group Limited

Report on the Half-Year Financial Report

We have reviewed the accompanying half-year financial report of Fone Zone Group Limited ('Fone Zone') and the entities it controlled during the half-year, which comprises the balance sheet as at 31 December 2007, and the income statement, statement of changes in equity and cash flow statement for the half-year ended on that date, a summary of significant accounting policies, other explanatory notes and the directors' declaration. The consolidated entity comprises the company and the entities it controlled at 31 December 2007 or from time to time during the half-year ended on that date.

Directors' Responsibility for the Half-Year Financial Report

The directors of the company are responsible for the preparation and fair presentation of the half-year 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 controls relevant to the preparation and fair presentation of the half-year 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.

Auditor's Responsibility

Our responsibility is to express a conclusion on the half-year financial report based on our review. We conducted our review in accordance with Auditing Standard on Review Engagements ASRE 2410 *Review of an Interim Financial Report Performed by the Independent Auditor of the Entity*, in order to state whether, on the basis of the procedures described, we have become aware of any matter that makes us believe that the financial report is not in accordance with the *Corporations Act 2001* including: giving a true and fair view of the consolidated entity's financial position as at 31 December 2007 and its performance for the half-year ended on that date; and complying with Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001* and other mandatory financial reporting requirements in Australia. As the auditor of Fone Zone Group Limited and the entities it controlled during the half-year, ASRE 2410 requires that we comply with the ethical requirements relevant to the audit of the annual financial report.

A review of a half-year financial report consists of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Australian Auditing Standards and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

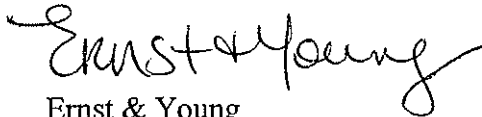
Independence

In conducting our review, we have complied with the independence requirements of the *Corporations Act 2001*. We have given to the directors of the company a written Auditor's Independence Declaration, a copy of which is included in the Directors' Report.

Conclusion

Based on our review, which is not an audit, we have not become aware of any matter that makes us believe that the interim financial report of Fone Zone Group Limited is not in accordance with the *Corporations Act 2001*, including:

- (i) giving a true and fair view of the consolidated entity's financial position as at 31 December 2007 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*.



Ernst & Young



Winna Brown

Partner

Brisbane

25 February 2008