FONE ZONE

Retailer of the Year 2005

TELSTRA'S NATIONAL DEALER OF THE YEAR 2005/2006

2 April 2007

Dear Shareholder

HALF YEAR ENDED 31 DECEMBER 2006

In late February, Fone Zone announced its results for the six months to 31 December 2006.

The company reported earnings before interest, taxation and depreciation (EBITDA) of $6.1 million, a 41% drop on the prior corresponding six months and consistent with the Trading Update issued by the company on 18 December 2006.

Total operating revenue for the six months was $99.1 million, a 13% increase from $87.9 million for the prior corresponding six months. Revenue growth was driven by continued growth in connections and new stores. The 15 Communiqué stores acquired in September 2006 have been fully integrated and are all trading above expectations. Fone Zone also opened a further five stores and closed one to bring total store numbers to 149 at 31 December 2006.

The table below summarises the Group's financial performance.

	Six months to December 2006 ($M)	**Six months to December 2005 ($M)**	***Change (%)***
Total operating revenue	99.1	87.9	*13*
Gross operating margin ^	42.6	43.6	*(2)*
Gross operating %	43%	50%	*(7)*
EBITDA	6.1	10.4	*(41)*
EBIT	3.3	8.3	*(60)*
Net profit after tax	1.9	6.2	*(69)*
Earnings per share (cents)	1.55	4.97	*(69)*

^ Gross Operating Margin includes gross profit on handset sales plus Telstra incentives and commissions, and other revenue

The drop in EBITDA relative to the prior corresponding six months resulted principally from a decline in gross operating margin, as a percentage of total operating revenue, from 50% to 43%; an increase in operating costs as a result of the increase in store numbers; and an increase of $700,000 in the expense for share options.

The mix of handset sales between the MRO (mobile repayment option) model and sales subsidised by Telstra is a key driver of Fone Zone's gross operating margin.

The key contributors to the decline in gross operating margin for the six months were:

- The launch of the Telstra NextG network with only a limited range and supply of handsets available which constrained sales.
- Telstra's decision to promote the NextG network through the subsidy model which is less profitable to Fone Zone.
- The change in focus of dealer payments by Telstra onto NextG handsets, and reduced margins for other handsets.
- The reduction of the customer focused quality service payments (as previously advised).

Handsets promoted under the less profitable subsidy model for the six months to 31 December 2006 (primarily Next G in the period from October to December 2006) represented approximately 52% of Fone Zone handset sales, compared with 31% for the prior corresponding six months.

The mix of handset sales between MRO and the subsidy model in January 2007 has trended toward historical ratios, with subsidised handsets representing 44% of handset sales in January. With the range of NextG handsets set to expand progressively throughout 2007, Fone Zone expects this trend to continue.

The short-term issues experienced since the launch of NextG are being contained. The NextG network was launched much earlier than previously announced and the unexpected shift between subsidy and MRO was not anticipated. Consequently, we have reviewed our operating costs and are making the necessary adjustments to bring them into line with the current environment. We have re-focused our sales efforts on MRO handsets and these measures have allowed us to achieve some recovery in gross operating margin.

Cash flow from operations of $9.8 million was strong and enabled the company to fund most of the Communiqué acquisition ($5.8m) and the October 2006 dividend ($5.0m).

Fone Zone reported earnings per share of 1.55 cents compared with 4.97 cents in the first half of FY2006, and the Directors have declared a fully franked interim dividend of 1.0 cents per share payable to shareholders on 2 April 2007, with a record entitlement date of 13 March 2007.

Outlook

As stated in the market guidance in the Trading Update released to the market on 18 December 2006, Fone Zone expects to report an improved EBITDA in the second half to give a net EBITDA decline of around 25% for the full year to June 2007, compared with the corresponding period last year. (Fone Zone reported EBITDA of $10.4 million for the six months to December 2005 and $21.1 million for the year to June 2006.).

Consistent with the company's dividend policy, the Directors expect to declare total fully franked dividends for the year of 65% of net profit after tax.

Further Information

A full copy of the announcement to the ASX, and of the company's half year financial statements, is available on the company's website at http://www.fonezone.com.au/?p=87 and I encourage you to refer to the site for more information on the company's performance.

If you have not previously requested us to directly credit dividends to your bank, building society, or credit union account, a form for this purpose is enclosed. I encourage you to complete and return this form - the direct crediting of dividends is a more cost-effective method of payment.

Sincerely

Brian Finn

T B Finn AO
Chairman