FONE ZONE GROUP LIMITED
ABN 62 113 178 519

APPENDIX 4D

Half-Year Report
For the six months ended 31 December 2006

Results for announcement to the market

Extracts of the Fone Zone Group Limited results for the half year ended 31 December 2006.

	Half-year ended 31 December 2006 $	Half-year ended 31 December 2005 $	Growth %
Total operating revenue	99,130,818	87,898,753	13%
Gross operating margin	42,575,130	43,573,276	(2)%
Earnings before interest, taxation, depreciation and amortisation	6,096,791	10,409,358	(41)%
Earnings before interest and taxation	3,264,007	8,270,283	(61)%
Net profit for the period attributable to members	1,940,354	6,207,832	(69)%
Earnings per share (cents)	1.55 cents	4.97 cents	(69)%

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 to149 at 31 December 2006.

The drop in EBITDA relative to the prior corresponding six months principally resulted 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 NextG 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.

FONE ZONE GROUP LIMITED
ABN 62 113 178 519

APPENDIX 4D

Half-Year Report
For the six months ended 31 December 2006

Results for announcement to the market (continued)

Dividends

The company has resolved to pay a fully franked dividend of 1 cent per share.

The dividend will be payable on 2 April 2007 and the record date for determining entitlements to the final ordinary dividend payable is 12 March 2007.

Other information

Net tangible asset backing	2.5 cents per share (2005: 3.4 cents per share)

Business Combinations

On 31 August 2006 Fone Zone Group Limited acquired 100% ownership of Communique Holdings Pty Ltd.

From the date of acquisition, Communique Holdings Pty Ltd has contributed $415,925 to the net profit after tax of the group.

Fone Zone Group Limited

ABN 62 113 178 519

Half-Year Financial Report 31 December 2006

Contents

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 (Chief Executive)
M. J. Horne
J. W. Murphy (resigned 31 December 2006)
G. J. Robertson
R. A. Simpson
L. P. Wilkinson

Company Secretaries
G. A. Petterson
W. L. te Kloot

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
ASX Code: FZN

Solicitors
Minter Ellison Lawyers
Brisbane, Australia

Bankers
National Australia Bank Limited
Brisbane, Australia

Auditors
Ernst & Young
Brisbane, Australia

Directors' Report

Your directors submit their report for the half-year ended 31 December 2006.

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
- Maxine Joan Horne
- David Lawrence McMahon
- John William Murphy (resigned 31 December 2006)
- Gregory James Robertson
- Richard Anthony Simpson
- Louis Peter Wilkinson

REVIEW AND RESULTS OF OPERATIONS

	Half-year ended 31 December 2006 $	Half-year ended 31 December 2005 $	Growth %
Total operating revenue	99,130,818	87,898,753	13%
Gross operating margin	42,575,130	43,573,276	(2)%
Earnings before interest, taxation, depreciation and amortisation	6,096,791	10,409,358	(41)%
Earnings before interest and taxation	3,264,007	8,270,283	(61)%
Net profit for the period attributable to members	1,940,354	6,207,832	(69)%
Earnings per share (cents)	1.55 cents	4.97 cents	(69)%

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 drop in EBITDA relative to the prior corresponding six months principally resulted from a decline in gross operation 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.

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: 27 February 2007

ERNST & YOUNG

1 Eagle Street
Brisbane QLD 4000
Australia

PO Box 7878
Waterfront Place
Brisbane QLD 4001

Tel 61 7 3011 3333
Fax 61 7 3011 3100

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 2006, 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

Ernst & Young

Winna Brown
Partner
27 February 2007

Condensed Income Statement

FOR THE HALF-YEAR ENDED 31 DECEMBER 2006

	Notes	Consolidated	
		2006 $'000	2005 $'000
Revenue	4	99,131	87,899
Cost of sales		(56,556)	(44,326)
Gross profit		**42,575**	**43,573**
Other income	4	2,227	2,101
Employment expenses	4	(24,543)	(23,122)
Marketing and advertising expenses		(1,620)	(2,203)
Depreciation and amortisation expenses	4	(2,833)	(2,139)
Operating lease rental expense		(6,488)	(5,462)
Other expenses from ordinary activities	4	(5,786)	(4,119)
Profit before tax and finance costs		**3,532**	**8,629**
Finance costs	4	(405)	(451)
Profit before income tax		**3,127**	**8,178**
Income tax expense	5	(1,187)	(1,970)
Net profit attributable to members of parent		**1,940**	**6,208**
Earnings per share (cents per share)			
- basic for profit for the half-year		1.55	4.97
- diluted for profit for the half-year		1.54	4.97
Dividends paid per share (cents per share)	7	4.00	-

Condensed Balance Sheet
AS AT 31 DECEMBER 2006

	Notes	Consolidated	
		As at 31 December 2006 $'000	As at 30 June 2006 $'000
ASSETS			
Current Assets			
Cash and cash equivalents		8,220	12,038
Trade and other receivables		10,853	13,040
Income tax receivable		24	-
Inventories	8	9,917	7,050
Prepayments		270	1,009
Total Current Assets		29,284	33,137
Non-current Assets			
Other financial assets		607	576
Deferred tax asset		2,935	2,514
Plant and equipment	9	13,789	11,614
Intangible assets and goodwill		21,546	16,184
Total Non-current Assets		38,877	30,888
TOTAL ASSETS		68,161	64,025
LIABILITIES			
Current Liabilities			
Trade and other payables		23,419	17,765
Interest bearing loans and borrowings	10	3,043	2,601
Income tax payable		-	1,807
Provisions		3,048	2,716
Total Current Liabilities		29,510	24,889
Non-current Liabilities			
Trade and other payables		619	565
Interest bearing loans and borrowings	10	9,543	8,807
Deferred tax liabilities		1,619	1,170
Provisions		2,134	1,750
Total Non-current Liabilities		13,915	12,292
TOTAL LIABILITIES		43,425	37,181
NET ASSETS		24,736	26,844
EQUITY			
Contributed equity	11	2,885	2,885
Retained earnings		19,201	22,267
Reserve		2,650	1,692
TOTAL EQUITY		24,736	26,844

Condensed Cash Flow Statement

FOR THE HALF-YEAR ENDED 31 DECEMBER 2006

	Notes	Consolidated	
		2006 $'000	2005 $'000
Cash flows from operating activities			
Receipts from customers		111,270	100,293
Payments to suppliers and employees		(95,053)	(82,835)
Interest received		268	358
Finance costs		(405)	(451)
Income tax paid		(3,578)	(3,357)
Net GST remitted		(2,655)	(2,674)
Net cash flows from operating activities		**9,847**	**11,334**
Cash flows from investing activities			
Proceeds from sale of plant and equipment	9	7	90
Purchase of plant and equipment	9	(1,709)	(1,769)
Purchase of intangibles		(277)	(185)
Acquisition of subsidiary, net of cash acquired	12	(5,471)	79
Purchase of interest bearing deposits		6	(14)
Net cash flows used in investing activities		**(7,444)**	**(1,799)**
Cash flows from financing activities			
IPO Costs		-	(2,044)
Proceeds from borrowings		33	344
Repayment of borrowings		(429)	-
Repayment of finance lease principal		(819)	(1,733)
Dividends paid on ordinary shares	7	(5,006)	-
Net cash flows from financing activities		**(6,221)**	**(3,433)**
Net increase/(decrease) in cash and cash equivalents		(3,818)	6,102
Cash and cash equivalents at beginning of period		12,038	3,657
Cash and cash equivalents at end of period	6	**8,220**	**9,759**

Condensed Statement of Changes in Equity

FOR THE HALF-YEAR ENDED 31 DECEMBER 2006

Consolidated	Attributable to equity holders of the parent			
	Issued capital $'000	Retained earnings $'000	Employee equity benefits reserve $'000	Total equity $'000
At 1 July 2005	4,128	11,526	-	15,654
Cost of public issue (net of tax)	(1,431)	-	-	(1,431)
Total income / expense for the period recognised directly in equity	(1,431)	-	-	(1,431)
Profit for the period	-	6,208	-	6,208
Total income / expense for the period	-	6,208	-	6,208
Ordinary shares issued to the public	61,911	-	-	61,911
Cash distributed to vendors on reverse acquisition	(61,911)	-	-	(61,911)
Ordinary shares issued to the employees under the "Employee Share Plan"	188	-	-	188
Cost of share-based payment	-	-	239	239
At 31 December 2005	2,885	17,734	239	20,858
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

Notes to the Half-Year Financial Statements

FOR THE HALF-YEAR ENDED 31 DECEMBER 2006

1. CORPORATE INFORMATION

The financial report of Fone Zone Group Limited (the Company) for the half-year ended 31 December 2006 was authorised for issue in accordance with a resolution of directors on 27 February 2007.

Fone Zone Group Limited is a company and limited by shares 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 2006.

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 2006 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 98/0010. 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 2006, except for the adoption of amending standards mandatory for annual periods beginning on or after 1 July 2006, 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 2006 ('the Group').

Communique 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 Communique Holdings Pty Ltd for the four-month period from its acquisition on 31 August 2006. The purchase consideration has been allocated to the assets and liabilities on the basis of fair value at the date of acquisition.

Notes to the Half-Year Financial Statements
FOR THE HALF-YEAR ENDED 31 DECEMBER 2006

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(d) Changes in accounting policies

Australian Accounting Standards and UIG Interpretations that have recently been amended and are effective from 1 July 2006 are outlined in the table below.

Reference	Title	Summary	Application date of standard	Impact on Group Accounting Policies	Application Date
AASB 2005-1	Amendments to Australian Accounting Standard	Amendment to AASB 139 to allow the foreign currency risk of a highly probable intra-group forecast transaction to qualify as the hedged item in certain circumstances.	For annual reporting periods beginning on or after 1 January 2006.	These requirements are consistent with the Group's existing accounting policies or relate to transactions that the Group has not entered into and therefore there has been no impact.	1 July 2006
AASB 2005-4	Amendments to Australian Accounting Standards [AASB 139, AASB 132, AASB 1, AASB 1023 & AASB 1038]	Amendments relate to the restriction on designating financial instruments at fair value through profit and loss.	For annual reporting periods beginning on or after 1 January 2006.	These requirements are consistent with the Group's existing accounting policies or relate to transactions that the Group has not entered into and therefore there has been no impact.	1 July 2006
AASB 2005-5	Amendments to Australian Accounting Standards [AASB 1 & AASB 139]	Consequential amendments made to AASB 1 due to the issue of UIG Interpretations 4 *Determining whether an Arrangement contains a Lease*. Consequential amendments made to AASB 139 due to the issue of UIG Interpretation 5 *Rights to Interest arising from Decommissioning, Restoration and Environmental Rehabilitation Funds*.	For annual reporting periods beginning on or after 1 January 2006.	These requirements are consistent with the Group's existing accounting policies or relate to transactions that the Group has not entered into and therefore there has been no impact.	1 July 2006
AASB 2005-6	Amendments to Australian Accounting Standard [AASB 3]	The definition of 'contribution by owners' is removed and the AASB 3 scope exclusion for business combinations involving entities or businesses under common control is adopted.	For annual reporting periods beginning on or after 1 January 2006.	These requirements are consistent with the Group's existing accounting policies or relate to transactions that the Group has not entered into and therefore there has been no impact.	1 July 2006
AASB 2005-9	Amendments to Australian Accounting Standards [AASB 4, AASB 1023, AASB 139 & AASB 132]	The amendments to all four standards provide guidance as to which standard applies to financial guarantee contracts under certain circumstances.	For annual reporting periods beginning on or after 1 January 2006.	All financial guarantees given from the parent to its subsidiaries will be required to be accounted for under AASBs 132 & 139 (as they were not previously accounted for as insurance contracts). The financial impact of this change in policy has not yet been determined.	1 July 2006
AASB 2006-1	Amendments to Australian Accounting Standard [AASB 121]	The amendment clarifies the requirements relating to an entity's investment in foreign operations and assists the financial reporting of entities with investments in operations that have a different functional currency.	For annual reporting periods ending on or after 31 December 2006.	These requirements are consistent with the Group's existing accounting policies or relate to transactions that the Group has not entered into and therefore there has been no impact.	1 July 2006

Notes to the Half-Year Financial Statements

FOR THE HALF-YEAR ENDED 31 DECEMBER 2006

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(d) Changes in accounting policies (continued)

Reference	Title	Summary	Application date of standard	Impact on Group Accounting Policies	Application Date
UIG 4	Determining whether an Arrangement contains a Lease	Specifies criteria for determining whether an arrangement is, or contains, a lease.	For annual reporting periods ending on or after 1 January 2006.	These requirements are consistent with the Group's existing accounting policies or relate to transactions that the Group has not entered into and therefore there has been no impact.	1 July 2006
AASB2005-10	Amendments to Australian Accounting Standards [AASB 132, AASB 101, AASB 114, AASB 117, AASB 133, AASB 139, AASB 1, AASB 4, AASB 1023 & AASB 1038]	Amendments arise from the release in August 2005 of AASB 7 *Financial Instruments: Disclosures*	1 January 2007	AASB 7 is a disclosure standard so will have no direct impact on the amounts included in the Group's financial statements. However, the amendments will result in changes to the financial instrument disclosures included in the Group's financial report.	1 July 2006
AASB 7	*Financial Instruments: Disclosures*	New standard replacing disclosure requirements of AASB 132	1 January 2007	As above.	1 July 2006
UIG 7	Applying the Restatement Approach under AASB 129 *Financial Reporting in Hyperinflationary Economies*	Addresses the requirement in AASB 129 for financial statements to be stated in terms of the measuring unit current at the reporting date when reporting in the currency of a hyperinflationary economy.	1 March 2006	As the Group has no investment in foreign operations operating in hyperinflationary economies, these amendments are not expected to have any impact on the Group's financial report.	1 July 2006
UIG 8	Scope of AASB 2 *Share-based payment*	Clarifies that the scope of AASB 2 includes transactions in which the entity cannot identify specifically some or all of the goods or services received as consideration for the equity instruments of the entity or other share-based payment.	1 May 2006	Unless the Group enters into share-based payment arrangement unrelated to employee services in future reporting periods, these amendments are not expected to have any impact on the Group's financial report.	1 July 2006
UIG 9	Reassessment of Embedded Derivatives	Clarifies that an entity reassesses whether an embedded derivative contained in a host contract must be separated from the host and accounted for as a derivative under AASB 139 only when there is a change in the terms of the contract that significantly modifies the cash flows that otherwise would be required.	1 June 2006	Unless the Group enters into arrangements containing embedded derivatives in future reporting periods, these amendments are not expected to have any impact on the Group's financial report.	1 July 2006

Notes to the Half-Year Financial Statements

FOR THE HALF-YEAR ENDED 31 DECEMBER 2006

3. SEGMENT REPORTING

The company operates predominately in the communications retail and service industry in Australia.

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	
	2006 $'000	2005 $'000
(i) Revenue		
Sale of goods	87,527	77,242
Commissions	11,604	10,657
	99,131	87,899
(ii) Other Income		
Finance income	268	358
Cooperative advertising income	1,678	1,452
Other sundry income	281	291
	2,227	2,101
Breakdown of finance income:		
Bank interest	268	358
(iii) Depreciation and amortisation		
Depreciation of plant and equipment	1,180	744
Amortisation of plant and equipment	724	772
Amortisation of intangibles	883	572
Depreciation of lease make good	46	51
	2,833	2,139
(iv) Employment expense		
Salaries and other employment costs	23,585	22,883
Expense of share-based payments	958	239
	24,543	23,122
(v) Finance costs		
Bank loans	236	236
Finance charges under finance leases	142	176
Finance charges under hire purchase contracts	27	28
Other interest	-	11
	405	451
(vi) Other expenses		
(Gain) / Loss on disposal of plant and equipment	126	106
Provision for doubtful debts	677	(144)
Other sundry expenses	4,983	4,157
	5,786	4,119

Notes to the Half-Year Financial Statements

FOR THE HALF-YEAR ENDED 31 DECEMBER 2006

5. INCOME TAX

The major components of income tax expense for the half-year ended 31 December 2006 and 31 December 2005 are:

	Consolidated	
Consolidated Income Statement	**2006 $'000**	**2005 $'000**
Current Income Tax		
Current income tax charge	1,334	2,729
Deferred Income Tax		
Relating to origination and reversal of temporary differences	(147)	(759)
Income tax expense reported in the consolidated income statement	1,187	1,970

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	**3,127**	**8,178**
At the Group's statutory income tax rate of 30% (2005: 30%)	938	2,453
Adjustment in respect of current income tax of previous years	(237)	(435)
Amortisation of intangibles not allowable for income tax purposes	177	141
Share-based payment expense not allowable for income tax purposes	288	72
Effect of income tax consolidation on the group resulting in items becoming not allowable for income tax purposes	67	(271)
Other expenditure not allowable for income tax purposes	(46)	10
Income tax expense reported in the consolidated income statement	**1,187**	**1,970**

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	1,500	1,870
Short-term deposits	6,720	7,889
	8,220	9,759

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 2006: 4 cents per share (2005: nil cents per share)	5,006	-

Notes to the Half-Year Financial Statements
FOR THE HALF-YEAR ENDED 31 DECEMBER 2006

8. INVENTORIES

During the half-year ended 31 December 2006 inventory write back/(down) recognised as income/(expense) totalled $71,373 (2005: ($258,254)) for the Group. This income/(expense) is included in the cost of sales line item as a cost of inventories.

At 31 December 2006, in addition to the inventory value, the company has committed to purchase inventory, which was in transit with a value of $722,436 (2005: $682,538). 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 2006, the Group acquired assets with a cost of $3,371,855, leased $1,661,885 and owned $1,709,970 (2005: $2,767,189, leased $999,163, owned $1,768,026).

Assets with a net book value of $132,775 were disposed of by the Group during the half-year ended 31 December 2006 (2005: $195,851), resulting in a loss on disposal of $125,850 (2005: $105,525).

10. INTEREST-BEARING LOANS AND BORROWINGS

During the half-year ended 31 December 2006 the Group has entered into new loans of $1,658,439, acquired loans of $767,614 and made repayments of $1,248,044. This has resulted in a net position of $12,585,750 (2005: $11,407,741).

11. CONTRIBUTED EQUITY

	31 December 2006 $'000	30 June 2006 $'000
Ordinary shares		
Issued and fully paid	2,885	2,885

	31 December 2006	
	Number of shares	$'000
Movements in ordinary shares on issue		
At 1 July 2006	125,147,800	2,885
Ordinary shares issued to the public	-	-
	125,147,800	2,885

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.

Notes to the Half-Year Financial Statements

FOR THE HALF-YEAR ENDED 31 DECEMBER 2006

12. BUSINESS COMBINATIONS

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.

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

	Recognised on acquisition $	Carrying value $
Cash and cash equivalents	338,600	338,600
Trade and other receivables	675,018	675,018
Inventories	658,830	658,830
Other financial assets	36,366	36,366
Deferred income tax asset	95,483	95,483
Plant and equipment	885,680	885,680
Intangible assets	764,537	44,537
Total assets	3,454,514	2,734,514
Trade and other payables	1,140,409	1,140,409
Interest bearing loans and borrowings	767,614	767,614
Income tax payable	413,613	413,613
Deferred income tax liabilities	270,459	54,459
Provisions	256,965	256,965
Total liabilities	2,849,060	2,633,060
Fair Value of net assets	605,454	101,454
Goodwill arising on acquisition	5,203,757	
	5,809,211	
The cash outflow on acquisition is as follows:		
Net cash acquired with subsidiary	338,600	
Cash paid	(5,809,211)	
	(5,470,611)	

From the date of acquisition, Communique Holdings Pty Ltd has contributed $415,925 to the net profit after tax of the group.

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

If the combination had taken place at the beginning of the year, the profit for the Group would have been $1,956,000 and revenue from continuing operations would have been $101,205,000.

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

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.

Notes to the Half-Year Financial Statements

FOR THE HALF-YEAR ENDED 31 DECEMBER 2006

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.

15. COMMITMENTS & CONTINGENCIES

There are no commitments and contingences as at the reporting date.

16. RELATED PARTY DISCLOSURES

For the half-year ended 31 December 2006, director's fees for John Murphy and Gregory Robertson of $27,250 (2005: $23,000) each were paid to Investec Wentworth Private Equity Pty Ltd, a company associated with John Murphy and Gregory Robertson.

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) give a true and fair view of the financial position as at 31 December 2006 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: 27 February 2007

ERNST & YOUNG

1 Eagle Street
Brisbane QLD 4000
Australia

PO Box 7878
Waterfront Place
Brisbane QLD 4001

Tel 61 7 3011 3333
Fax 61 7 3011 3100

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 and the entities it controlled during the half-year, which comprises the condensed balance sheet as at 31 December 2006, and the condensed income statement, condensed statement of changes in equity and condensed cash flow statement for the half-year ended on that date, a statement of accounting policies, other selected explanatory notes and the directors' declaration.

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 designing, implementing 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 2006 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.

ERNST & YOUNG

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 and the entities it controlled during the half-year, 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 and of its performance for the six months ended on that date; and

  (ii) complying with Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*; and

(b) other mandatory financial reporting requirements in Australia.

Ernst & Young

Winna Brown
Partner
Brisbane
27 February 2007