FONE ZONE GROUP LIMITED
ABN 62 113 178 519

APPENDIX 4D

Half-Year Report
For the six months ended 31 December 2005

Results for announcement to the market

Extracts of the Fone Zone Group Limited results for the half year ended 31 December 2005.

	Half-year ended 31 December 2005 $	Half-year ended 31 December 2004 $	Growth %
Total operating revenue	87,898,753	67,147,518	30.9%
Net profit for the period attributable to members	6,207,832	3,174,731	95.5%

Dividends

The company is not proposing to pay dividends for the period.

Other information

Net tangible asset backing	$0.324 per share (2004: $0.269 per share)

Business Combinations

On 1 July 2005 One Zero Communications Pty Ltd acquired 100% ownership of One Zero Suncoast Pty Ltd.

On 2 November 2005 Fone Zone Group Limited acquired 100% ownership of Fone Zone Pty Ltd.

Fone Zone Group Limited

ABN 62 113 178 519

Half-Year Financial Report 31 December 2005

Contents

Directors' Report

Your directors submit their report for the half-year ended 31 December 2005.

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.

- David Lawrence McMahon
- Maxine Joan Horne
- John William Murphy
- Gregory James Robertson
- Thomas Brian Finn
- Louis Peter Wilkinson
- Richard Anthony Simpson (appointed 22 September 2005)

REVIEW AND RESULTS OF OPERATIONS

The Group recorded an increase in both revenue and profits during the half-year. Sales revenue for the half-year was $87,898,753 (2004: $67,147,518) representing an increase of 31% which was driven mainly through the acquisition and subsequent successful integration of One Zero Communications into the Fone Zone Group's business activity. The integration process was completed during the half-year.

Consolidated net profit after income tax for the half-year was $6,207,832 (2004: $3,174,731) representing an increase of 96% on the corresponding half-year, reflecting the revenue growth and a lower operational cost structure.

These results were achieved in a highly competitive market and they underline the Group's ability to provide attractive and differentiated products and services to consumers.

A major milestone for the Group was the successful listing on the Australian Stock Exchange on 2 November 2005.

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: 9 March 2006

ERNST & YOUNG

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Australia

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Auditor's Independence Declaration
To the Directors of Fone Zone Group Ltd

In relation to our review of the financial report of Fone Zone Group Ltd for the half-year ended 31 December 2005, 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 Irschitz
Partner
Brisbane
Date: 9 March 2006

Condensed Income Statement

FOR THE HALF-YEAR ENDED 31 DECEMBER 2005

	Notes	Consolidated 2005 $	Consolidated 2004 $
Revenue	2	87,898,753	67,147,518
Cost of sales		(44,325,477)	(35,508,759)
Gross profit		**43,573,276**	**31,638,759**
Other income	2	2,101,051	2,296,991
Employment expenses	2	(23,121,922)	(17,271,417)
Marketing and advertising expenses		(2,202,936)	(2,706,338)
Depreciation and amortisation expenses	2	(2,139,075)	(1,438,630)
Operating lease rental expense		(5,461,911)	(4,547,964)
Other expenses from ordinary activities	2	(4,119,727)	(3,065,716)
Profit from operations before tax and finance costs		**8,628,756**	**4,905,685**
Finance costs		(450,905)	(142,459)
Profit before income tax		**8,177,851**	**4,763,226**
Income tax expense		(1,970,019)	(1,588,495)
Net profit attributable to members of parent		**6,207,832**	**3,174,731**
Earnings per share (cents per share)			
- basic for profit for the half-year		4.97	2.54
- diluted for profit for the half-year		4.97	2.54
Dividends paid per share	3	-	32.92

Condensed Balance Sheet

AS AT 31 DECEMBER 2005

	Notes	Consolidated	
		As at 31 December 2005 $	As at 30 June 2005 $
ASSETS			
Current Assets			
Cash and cash equivalents	9	9,758,834	3,656,539
Trade and other receivables		8,742,507	10,453,012
Inventories		7,571,072	6,367,634
Income tax receivable		201,511	-
Loans to shareholders		-	292,237
Prepayments		202,824	793,829
Total Current Assets		**26,476,748**	**21,563,251**
Non-current Assets			
Interest bearing deposits		560,959	546,420
Investments		2,236	2,236
Deferred income tax asset		3,060,454	2,135,885
Plant and equipment		10,468,400	9,398,697
Intangible assets		16,632,719	17,013,905
Total Non-current Assets		**30,724,768**	**29,097,143**
TOTAL ASSETS		**57,201,516**	**50,660,394**
LIABILITIES			
Current Liabilities			
Trade and other payables		17,077,187	15,106,125
Interest bearing loans and borrowings		2,725,873	2,682,631
Income tax payable		-	454,549
Provisions		3,078,456	2,558,788
Total Current Liabilities		**22,881,516**	**20,802,093**
Non-current Liabilities			
Trade and other payables		659,154	672,024
Interest bearing loans and borrowings		10,105,335	10,570,661
Deferred income tax liabilities		1,118,117	1,545,745
Provisions		1,578,445	1,415,641
Total Non-current Liabilities		**13,461,051**	**14,204,071**
TOTAL LIABILITIES		**36,342,567**	**35,006,164**
NET ASSETS		**20,858,949**	**15,654,230**
EQUITY			
Issued capital	4	2,885,444	4,128,002
Retained earnings		17,734,060	11,526,228
Other reserve		239,445	-
TOTAL EQUITY		**20,858,949**	**15,654,230**

Condensed Cash Flow Statement

FOR THE HALF-YEAR ENDED 31 DECEMBER 2005

	Notes	Consolidated 2005 $	2004 $
Cash flows from operating activities			
Receipts from customers		100,292,617	77,501,730
Payments to suppliers and employees		(82,834,853)	(69,499,063)
Interest received		358,470	606,884
Finance costs		(450,905)	(142,459)
Income tax paid		(3,357,479)	(6,877,257)
Net GST remitted		(2,674,169)	(2,916,795)
Net cash flows from operating activities		**11,333,681**	**(1,326,960)**
Cash flows from investing activities			
Proceeds from sale of plant and equipment		90,269	4,000
Purchase of plant and equipment		(1,768,026)	(380,805)
Purchase of intangibles		(185,024)	(45,228)
Acquisition of subsidiary, net of cash acquired	6	78,690	-
Purchase of interest bearing deposits		(14,539)	(4,461,380)
Net cash flows used in investing activities		**(1,798,630)**	**(4,883,413)**
Cash flows from financing activities			
IPO Costs		(2,043,654)	-
Proceeds from borrowings		343,781	1,863
Repayment of borrowings		(1,732,883)	(1,296,155)
Dividends paid on ordinary shares		-	(6,000,000)
Net cash flows from financing activities		**(3,432,756)**	**(7,294,292)**
Net increase/(decrease) in cash and cash equivalents		6,102,295	(13,504,665)
Cash and cash equivalents at beginning of period		3,656,539	23,926,254
Cash and cash equivalents at end of period	9	**9,758,834**	**10,421,589**

Condensed Statement of Changes in Equity

FOR THE HALF-YEAR ENDED 31 DECEMBER 2005

Consolidated	Attributable to equity holders of the parent			
	Issued capital	Retained earnings	Employee equity benefits reserve	Total equity
	$	$	$	$
At 1 July 2004	**4,078,002**	**12,974,702**	-	**17,052,704**
Total income / expense for the period recognised directly in equity	-	-	-	-
Profit for the period	-	3,174,731	-	3,174,731
Total income / expense for the period	-	3,174,731	-	3,174,731
Equity dividends	-	(6,000,000)	-	(6,000,000)
At 31 December 2004	**4,078,002**	**10,149,433**	-	**14,227,435**
At 1 July 2005	**4,128,002**	**11,526,228**	-	**15,654,230**
Cost of public issue (net of tax)	(1,430,558)	-	-	(1,430,558)
Total income / expense for the period recognised directly in equity	(1,430,558)	-	-	(1,430,558)
Profit for the period	-	6,207,832	-	6,207,832
Total income / expense for the period	-	6,207,832	-	6,207,832
Ordinary shares issued to the public	61,910,966	-	-	61,910,966
Cash distributed to vendors on reverse acquisition	(61,910,966)	-	-	(61,910,966)
Ordinary shares issued to the employees under the "Employee Share Plan"	188,000	-	-	188,000
Cost of share-based payment	-	-	239,445	239,445
At 31 December 2005	**2,885,444**	**17,734,060**	**239,445**	**20,858,949**

Notes to the Half-Year Financial Statements

FOR THE HALF-YEAR ENDED 31 DECEMBER 2005

1. BASIS OF PREPARATION OF THE HALF-YEAR FINANCIAL REPORT

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 Pty Ltd as at 30 June 2005, which was prepared based on Australian Accounting Standards applicable before 1 January 2005 ('AGAAP'). Fone Zone Pty Ltd was deemed to have acquired Fone Zone Group Limited on 2 November 2005 through a reverse takeover, and accordingly the consolidated financial statements of Fone Zone Group Limited represent a continuation of the Fone Zone Pty Ltd consolidated group. Therefore the consolidated accounts include the results of Fone Zone Pty Ltd from 1 July 2005 and the results of Fone Zone Group Limited from 2 November 2005. The comparative financial statements are those of Fone Zone Pty Ltd

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 2005 in accordance with the continuous disclosure obligations arising under the Corporations Act 2001.

(a) Basis of Accounting

The half-year 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.

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

(b) Statement of compliance

The half-year financial report complies with Australian Accounting Standards, which include Australian equivalents to International Financial Reporting Standards ('AIFRS'). Compliance with AIFRS ensures that the half-year financial report, comprising the financial statements and notes thereto, complies with International Financial Reporting Standards ('IFRS').

This is the first half-year financial report prepared based on AIFRS and comparatives for the half-year ended 31 December 2004 and full-year ended 30 June 2005 have been restated accordingly. A summary of the significant accounting policies of the Group under AIFRS are disclosed in Note 1(c) below.

Reconciliations of:
- AIFRS equity as at 1 July 2004, 31 December 2004 and 30 June 2005; and
- AIFRS profit for the half-year ended 31 December 2004 and full year 30 June 2005,

to the balances reported in the 31 December 2004 half-year report and 30 June 2005 full year financial report prepared under AGAAP are detailed in Note 1 (e) below.

(c) Summary of significant accounting policies

(i) Basis of consolidation

The consolidated financial statements comprise the financial statements of Fone Zone Group Limited and its subsidiaries ('the Group').

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

Adjustments are made to bring into line any dissimilar accounting policies that may exist.

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.

Subsidiaries are consolidated from the date on which control is transferred to the Group and cease to be consolidated from the date on which control is transferred out of the Group.

Where there is loss of control of a subsidiary, the consolidated financial statements include the results for the part of the reporting period during which Fone Zone Group Limited has control.

Notes to the Half-Year Financial Statements

FOR THE HALF-YEAR ENDED 31 DECEMBER 2005

1. BASIS OF PREPARATION OF THE HALF-YEAR FINANCIAL REPORT (continued)

(c) Summary of significant accounting policies (continued)

(i) Basis of consolidation (continued)

One Zero Suncoast 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 One Zero Suncoast Pty Ltd for the six-month period from its acquisition on 1 July 2005. The purchase consideration has been allocated to the assets and liabilities on the basis of fair value at the date of acquisition.

(ii) Plant and equipment

Plant and equipment is stated at cost less accumulated depreciation and any impairment in value.

Depreciation is calculated on a straight-line basis over the estimated useful life of the asset as follows:

Plant and equipment – over 4 to 5 years

Impairment

The carrying values of plant and equipment are reviewed for impairment when events or changes in circumstances indicate the carrying value may not be recoverable.

The recoverable amount of plant and equipment is the higher of fair value less cost to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to assets.

For an asset that does not generate largely independent cash inflows, the recoverable amount is determined for the cash-generating unit to which the asset belongs.

If any such indication exists and where the carrying values exceed the estimated recoverable amount, the assets or cash-generating units are written down to their recoverable amount.

An item of plant and equipment is derecognised upon disposal or when no future economic benefits are expected to arise from the continued use of the asset.

Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the item) is included in the income statement in the period the item is derecognised.

(iii) Finance costs

Finance costs are recognised as an expense when incurred.

(iv) Goodwill

Goodwill on acquisition is initially measured at cost being the excess of the cost of the business combination over the acquirer's interest in the net fair value of the identifiable assets, liabilities and contingent liabilities.

Following initial recognition, goodwill is measured at cost less any accumulated impairment losses.

Goodwill is not amortised.

Goodwill is reviewed for impairment, annually or more frequently if events or changes in circumstances indicate that the carrying value may be impaired.

As at the acquisition date, any goodwill acquired is allocated to each of the cash-generating units that are expected to benefit from the combination's synergies.

Impairment is determined by assessing the recoverable amount of the cash-generating unit to which the goodwill relates.

Where the recoverable amount of the cash-generating unit is less than the carrying amount, an impairment loss is recognised.

Notes to the Half-Year Financial Statements
FOR THE HALF-YEAR ENDED 31 DECEMBER 2005

1. BASIS OF PREPARATION OF THE HALF-YEAR FINANCIAL REPORT (continued)

(c) Summary of significant accounting policies (continued)

(iv) Goodwill (continued)
Where goodwill forms part of a cash-generating unit and part of the operation within that unit is disposed of, the goodwill associated with the operation disposed of is included in the carrying amount of the operation when determining the gain or loss on disposal of the operation.

Goodwill disposed of in this circumstance is measured on the basis of the relative values of the operation disposed of and the portion of the cash-generating unit retained.

(v) Intangible assets
Acquired both separately and from a business combination
Intangible assets acquired separately are capitalised at cost and from a business combination are capitalised at fair value as at the date of acquisition. Following initial recognition, the cost model is applied to the class of intangible assets.

The useful lives of these intangible assets are assessed to be either finite or indefinite.

Where amortisation is charged on assets with finite lives, this expense is taken to the income statement in the expense category 'Depreciation and amortisation'.

Intangible assets created within the business are not capitalised and expenditure is charged against profits in the period in which the expenditure is incurred.

Intangible assets are tested for impairment where an indicator of impairment exists, and in the case of indefinite life intangibles annually, either individually or at the cash-generating unit level. Useful lives are also examined on an annual basis and adjustments, where applicable, are made on a prospective basis.

A summary of the policies applied to the Group's intangible assets is as follows:

	Customer Database	Software
Useful lives	Finite	Finite
Method used	2 years – straight line	2 ½ years – straight line
Internally generated / Acquired	Acquired	Acquired
Impairment test / Recoverable amount testing	Annually and where an indicator of impairment exists	Annually and where an indicator of impairment exists

Gains or losses arising from the derecognition of an intangible asset are measured as the difference between the net disposal proceeds and the carrying amount of the asset and are recognised in the income statement when the asset is derecognised.

(vi) Recoverable amount of assets
At each reporting date, the Group assesses whether there is an indication that an asset may be impaired. Where an indicator of impairment exists, the Group makes a formal estimate of recoverable amount. Where the carrying amount of an asset exceeds its recoverable amount the asset is considered impaired and is written down to its recoverable amount.

Recoverable amount is the greater of fair value less costs to sell and value in use. It is determined for an individual asset, unless the asset's value in use cannot be estimated to be close to its fair value less costs to sell and it does not generate cash inflows that are largely independent of those from other assets or groups of assets, in which case, the recoverable amount is determined for the cash-generating unit to which the asset belongs.

In assessing value in use, the estimated cash flows are discounted to their present value using a pre tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset.

Notes to the Half-Year Financial Statements

FOR THE HALF-YEAR ENDED 31 DECEMBER 2005

1. **BASIS OF PREPARATION OF THE HALF-YEAR FINANCIAL REPORT (continued)**

(c) **Summary of significant accounting policies (continued)**

(vii) Investments

Financial assets in the scope of AASB 139 *Financial instruments: Recognition and Measurement* are classified as either financial assets at fair value through profit and loss, loans and receivables, held-to-maturity investments, or available-for-sale investments, as appropriate. When financial assets are recognised initially, they are measured at fair value, plus, in the case of investments not at fair value through profit and loss, directly attributable transactions costs. The Group determines the classification of its financial assets after initial recognition and, when allowed and appropriate, re-evaluates this designation at each financial year-end.

Available-for-sale investments

Available-for-sale investments are those non-derivative financial assets that are designated as available-for-sale. After initial recognition available-for-sale investments are measured at fair value with gains or losses being recognised as a separate component of equity until the investment is derecognised or until the investment is determined to be impaired, at which time the cumulative gain or loss previously reported in equity is recognised in profit and loss.

The fair value of investments that are actively traded in organised financial markets is determined by reference to quoted market bid prices at the close of business on the balance sheet date.

(viii) Inventories

Inventories are valued at the lower of cost and net realisable value.

Costs incurred in bringing each product to its present location and condition are accounted for as follows:

Finished goods – purchase cost on a first in, first out basis.

Net realisable value is the estimated selling price in the ordinary course of business, less the estimated costs necessary to make the sale.

(ix) Trade and other receivables

Trade receivables, which generally have 30-90 day terms, are recognised and carried at original invoice amount less an allowance for any uncollectible amounts.

An allowance for doubtful debts is made when there is objective evidence that the Group will no longer be able to collect the debts. Bad debts are written off when identified.

(x) Cash and cash equivalents

Cash and short term deposits in the balance sheet comprise cash at bank and in hand and short-term deposits with an original maturity of three months or less.

For the purpose of the Cash Flow Statement, cash and cash equivalents consist of cash and cash equivalents as defined above, net of outstanding bank overdrafts.

(xi) Interest-bearing loans and borrowings

All loans and borrowings are initially recognised at cost, being the fair value of the consideration received net of issue costs associated with the borrowing.

After initial recognition, interest-bearing loans and borrowings are subsequently measured at amortised cost using the effective interest method. Amortised cost is calculated by taking into account any issue costs, and any discount or premium on settlement.

Gains and losses are recognised in the income statement when the liabilities are derecognised and as well as through the amortisation process.

Notes to the Half-Year Financial Statements

FOR THE HALF-YEAR ENDED 31 DECEMBER 2005

1. BASIS OF PREPARATION OF THE HALF-YEAR FINANCIAL REPORT (continued)

(c) Summary of significant accounting policies (continued)

(xii) Provisions

Provisions are recognised when the Group has a present obligation (legal or constructive) as a result of a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation.

Where the Group expects some or all of a provision to be reimbursed, for example under an insurance contract, the reimbursement is recognised as a separate asset but only when the reimbursement is virtually certain. The expense relating to any provision is presented in the income statement net of any reimbursement.

If the effect of the time value of money is material, provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and, where appropriate, the risks specific to the liability.

Where discounting is used, the increase in the provision due to the passage of time is recognised as a finance cost.

(xiii) Share-based payment transactions

The Group provides benefits to employees of the Group in the form of share-based payment transactions, whereby employees render services in exchange for shares or rights over shares ('equity-settled transactions').

There is currently the Employee Share Option Plan ('ESOP') in place to provide these benefits to senior executives.

The cost of these equity-settled transactions with employees is measured by reference to the fair value at the date at which they are granted. The fair value is determined by an external valuer using a binomial model.

In valuing equity-settled transactions, no account is taken of any performance conditions, other than conditions linked to the price of the shares of Fone Zone Group Limited ('market conditions').

The cost of equity-settled transactions is recognised, together with a corresponding increase in equity, over the period in which the performance conditions are fulfilled, ending on the date on which the relevant employees become fully entitled to the award ('vesting date').

The cumulative expense recognised for equity-settled transactions at each reporting date until vesting date reflects
(i) the extent to which the vesting period has expired and
(ii) the number of awards that, in the opinion of the directors of the Group, will ultimately vest.
This opinion is formed based on the best available information at balance date. No adjustment is made for the likelihood of market performance conditions being met as the effect of these conditions is included in the determination of fair value at grant date.

No expense is recognised for awards that do not ultimately vest, except for awards where vesting is conditional upon a market condition.

Where the terms of an equity-settled award are modified, as a minimum an expense is recognised as if the terms had not been modified. In addition, an expense is recognised for any increase in the value of the transaction as a result of the modification, as measured at the date of modification.

Where an equity-settled award is cancelled, it is treated as if it had vested on the date of cancellation, and any expense not yet recognised for the award is recognised immediately. However, if a new award is substituted for the cancelled award, and designated as a replacement award on the date that it is granted, the cancelled and new award are treated as if they were a modification of the original award, as described in the previous paragraph.

The dilutive effect, if any, of outstanding options is reflected as additional share dilution in the computation of earnings per share.

Notes to the Half-Year Financial Statements

FOR THE HALF-YEAR ENDED 31 DECEMBER 2005

1. **BASIS OF PREPARATION OF THE HALF-YEAR FINANCIAL REPORT (continued)**

(d) Summary of significant accounting policies (continued)

(xiv) Leases

Finance leases, which transfer to the Group substantially all the risks and benefits incidental to ownership of the leased item, are capitalised at the inception of the lease at the fair value of the leased property or, if lower, at the present value of the minimum lease payments.

Lease payments are apportioned between the finance charges and reduction of the lease liability so as to achieve a constant rate of interest on the remaining balance of the liability. Finance charges are charged directly against income.

Capitalised leased assets are amortised over the shorter of the estimated useful life of the asset or the lease term.

Leases where the lessor retains substantially all the risks and benefits of ownership of the asset are classified as operating leases. Initial direct costs incurred in negotiating an operating lease are added to the carrying amount of the leased asset and recognised over the lease term on the same basis as the lease income.

Operating lease payments are recognised as an expense in the income statement on a straight-line basis over the lease term.

(xv) Revenue

Revenue is recognised to the extent that it is probable that the economic benefits will flow to the Group and the revenue can be reliably measured. The following specific recognition criteria must also be met before revenue is recognised:

Sale of goods

Revenue is recognised when the significant risks and rewards of ownership of the goods have passed to the buyer and can be measured reliably. Risks and rewards are considered passed to the buyer at the time of delivery of the goods to the customer.

Commissions

Revenue is recognised when the significant risks and rewards of the commissionable activity have passed to the buyer and can be measured reliably. Risks and rewards are considered passed to the buyer at the time of the buyer's customer's acceptance of his billing for the commissionable activity as specified in their individual contracts.

Cooperative Advertising

Revenue is recognised when the significant risks and rewards of the cooperative advertising activity have passed to the buyer and can be measured reliably. Risks and rewards are considered passed to the buyer at the time of acceptance of the activity by the customer.

Interest

Revenue is recognised as the interest accrues to the net carrying amount of the financial asset.

Dividends

Revenue is recognised when the shareholders' right to receive the payment is established.

(xvi) Income tax

Deferred income tax is provided on all temporary differences at the balance sheet date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

Deferred income tax liabilities are recognised for all taxable temporary differences:

- except where the deferred income tax liability arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and

- in respect of taxable temporary differences associated with investments in subsidiaries except where the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

Notes to the Half-Year Financial Statements

FOR THE HALF-YEAR ENDED 31 DECEMBER 2005

1. BASIS OF PREPARATION OF THE HALF-YEAR FINANCIAL REPORT (continued)

(c) Summary of significant accounting policies (continued)

(xvi) Income tax (continued)

Deferred income tax assets are recognised for all deductible temporary differences, carry-forward of unused tax assets and unused tax losses, to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, and the carry-forward of unused tax assets and unused tax losses can be utilised:

- except where the deferred income tax asset relating to the deductible temporary difference arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and
- in respect of deductible temporary differences associated with investments in subsidiaries and interests in joint ventures, deferred tax assets are only recognised to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilised.

The carrying amount of deferred income tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred income tax asset to be utilised.

Deferred income tax assets and liabilities are measured at the tax rates that are expected to apply to the year when the asset is realised or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted at the balance sheet date.

Income taxes relating to items recognised directly in equity are recognised in equity and not in the income statement.

(xvii) Other taxes

Revenues, 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, and payable to, the taxation authority is included as part of receivables or payables in the balance sheet.

Cash flows are included in the Cash Flow Statement 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.

Commitments and contingencies are disclosed net of the amount of GST recoverable from, or payable to, the taxation authority.

(xviii) Derecognition of financial instruments

The derecognition of a financial instrument takes place when the Group no longer controls the contractual rights to that comprise the financial instrument, which is normally the case when the instrument is sold, or all the cash flows attributable to the instrument are passed through to an independent third party.

(xix) Employee leave benefits

(i) Wages, salaries, annual leave and sick leave

Liabilities for wages and salaries, including non-monetary benefits, annual leave and accumulated sick leave expected to be settled within 12 months of the reporting period are recognised in provision for employee benefits in respect of employees' services up to the reporting date. They are measured at the amounts expected to be paid when the liabilities are settled. Liabilities for non-accumulated sick leave are recognised when the leave is taken are measured at the rates paid or payable.

(ii) Long service leave

Liabilities for long service leave is recognised in the provision for employee benefits and measured at the present value of expected future payments to be made in respect of services provided by the employees up to the reporting date using the projected unit credit method. Consideration is given to the expected future wage and salary levels, experience of employee departures, and periods of service. Expected future payments are discounted using market yields at the reporting date on national government bonds with terms to maturity and currencies that match, as closely as possible, the estimated future cash outflows.

Notes to the Half-Year Financial Statements

FOR THE HALF-YEAR ENDED 31 DECEMBER 2005

1. BASIS OF PREPARATION OF THE HALF-YEAR FINANCIAL REPORT (continued)

(c) Summary of significant accounting policies (continued)

(xix) Earnings per share

Basic earnings per share is calculated as net profit attributable to members of the parent, adjusted to exclude any costs of servicing equity (other than dividends) divided by the weighted average number of ordinary shares, adjusted for any bonus element.

Diluted earnings per share is calculated as net profit attributable to members of the parent, adjusted for:
- Costs of servicing equity (other than dividends);
- The after tax effect of dividends and interest associated with dilutive potential ordinary shares that have been recognised as expenses; and
- Other non-discretionary changes in revenue or expense during the period that would result from the dilution of potential ordinary shares;

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

(d) AASB 1 Transitional exemptions

The Group has made its election in relation to the transitional exemptions allowed by AASB 1 *First-time Adoption of Australian Equivalents to International Financial Reporting Standards* as follows:

Business combinations
AASB 3 *Business Combinations* was not applied retrospectively to past business combinations (i.e. business combinations that occurred before the date of transition to AIFRS).

Share-based payment transactions
AASB 2 *Share-based Payments* is applied only to equity instruments granted after 7 November 2002 that had not vested on or before 1 January 2005.

Exemption from the requirements to restate comparative information for AASB 132 and AASB 139
The Group has elected to adopt this exemption and has not applied AASB 132 *Financial Instruments: Presentation and Disclosure* and AASB 139 *Financial Instruments: Recognition and Measurement* to its comparative information.

Notes to the Half-Year Financial Statements

FOR THE HALF-YEAR ENDED 31 DECEMBER 2005

1. **BASIS OF PREPARATION OF THE HALF-YEAR FINANCIAL REPORT (continued)**

(c) **Summary of significant accounting policies (continued)**

(e) **Impact of adoption of AIFRS**

The impacts of adopting AIFRS on the total equity and profit after tax as reported under Australian Accounting Standards applicable before 1 January 2005 ('AGAAP') are illustrated below.

(i) **Reconciliation of total equity as presented under AGAAP to that under AIFRS**

	CONSOLIDATED		
	30-Jun-05 $	31-Dec-04 $	01-Jul-04 $
Total equity under AGAAP	16,103,280	14,804,672	17,519,391
Adjustments to equity:			
Write-back of goodwill amortisation (A)	542,820	-	-
Amortisation of intangible asset (B)	(312,498)	-	-
Impairment of assets (C)	(293,396)	(153,217)	(153,217)
Additional costs for operating lease (D)	(663,665)	(598,969)	(509,136)
Additional cost for lease make good (E)	(242,346)	(147,955)	(107,774)
Write-back of amortisation and depreciation on impaired assets (F)	38,926	19,464	-
Change in valuation of goodwill (G)	607,826	-	-
Tax effect on the above adjustments (H)	(126,717)	303,440	303,440
Total equity under AIFRS	15,654,230	14,227,435	17,052,704

(e) **Impact of adoption of AIFRS (continued)**

(i) **Reconciliation of total equity as presented under AGAAP to that under AIFRS (continued)**

(A) Goodwill is not amortised under AASB 3 *Business Combinations*, but was amortised under AGAAP.
(B) Amortisation of finite intangible asset under AASB 138 *Intangible Assets*.
(C) Under AASB 136 *Impairment of Assets*, the recoverable amount of an asset is determined as the higher of its fair value less costs to sell and value in use. The Group's assets were tested for impairment as part of the cash generating unit to which they belong and impairment losses were recognised under AIFRS.
(D) The additional operating lease cost required to recognise the total lease cost on a straight line basis over the term of the lease under AASB 117 *Leases*.
(E) Depreciation of the "make good" asset required under AASB 137 *Provisions, Contingent Liabilities & Contingent Assets*.
(F) As noted in (C) above, under AASB 136 *Impairment of Assets*, impairment losses were recognised on the Group's assets. As a result the Group has to reverse the amortisation and depreciation charges that were calculated on these impaired assets.
(G) Under AASB 3 *Business Combinations*, the value of the net assets acquired has increased as a result of the restatement of their completion balance sheets under AIFRS.
(H) The tax effect of the adjustments above (note (A) to (G)) led to an increase in the deferred income tax asset.

There was no material impact on the financial statements on adopting AASB 132 *Financial Instruments: Presentation and Disclosure* and AASB 139 *Financial Instruments: Recognition and Measurement* at 1 January 2005.

Notes to the Half-Year Financial Statements

FOR THE HALF-YEAR ENDED 31 DECEMBER 2005

1. BASIS OF PREPARATION OF THE HALF-YEAR FINANCIAL REPORT (continued)

(e) Impact of adoption of AIFRS (continued)

(ii) Reconciliation of profit after tax under AGAAP to that under AIFRS

	CONSOLIDATED	
	Year ended 30-Jun-05 $	Half-year ended 31-Dec-04 $
Profit after tax as previously reported	8,533,889	3,285,281
Write-back of goodwill amortisation (A)	542,820	-
Amortisation of intangible assets (B)	(312,498)	-
Impairment of asset (C)	(140,179)	-
Additional costs for operating lease (D)	(102,746)	(89,833)
Additional cost for lease make good (E)	(103,842)	(40,179)
Write-back of amortisation and depreciation on impaired assets (F)	38,926	19,462
Tax effect on the above adjustments (G)	95,158	-
Profit after tax under AIFRS	8,551,528	3,174,731

(A) Goodwill is not amortised under AASB 3 *Business Combinations*, but was amortised under AGAAP.
(B) Amortisation of finite intangible asset under AASB 138 *Intangible Assets*.
(C) Under AASB 136 *Impairment of Assets*, the recoverable amount of an asset is determined as the higher of its fair value less costs to sell and value in use. The Group's assets were tested for impairment as part of the cash generating unit to which they belong and impairment losses were recognised under AIFRS.
(D) The additional operating lease cost required to recognise the total lease cost on a straight line basis over the term of the lease under AASB 117 *Leases*.
(E) Depreciation of the "make good" asset required under AASB 137 *Provisions, Contingent Liabilities & Contingent Assets*.
(F) As noted in (C) above, under AASB 136 *Impairment of Assets*, impairment losses were recognised on the Group's assets. As a result the Group has to reverse the amortisation and depreciation charges that were calculated on these impaired assets.
(G) The tax effect of the adjustments above (note (A) to (F)) led to an increase in the deferred income tax asset.

(iii) Explanation of material adjustments to the cash flow statements

There are no material differences between the cash flow statements presented under AIFRS and those presented under AGAAP.

Notes to the Half-Year Financial Statements

FOR THE HALF-YEAR ENDED 31 DECEMBER 2005

1. BASIS OF PREPARATION OF THE HALF-YEAR FINANCIAL REPORT (continued)

(f) Significant accounting judgements, estimates and assumptions

(i) Significant accounting judgements

In the process of applying the Group's accounting policies, management has made no judgements, apart from those involving estimations, which have a significant effect on the amounts recognised in the financial statements.

(ii) Significant accounting estimates and assumptions

The carrying amount of certain assets and liabilities are often determined based on estimates and assumptions of future events. The key estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of certain assets and liabilities within the next annual reporting period are:

Impairment of goodwill

The Group determines whether goodwill is impaired on an annual basis. This requires an estimation of the recoverable amount of the cash-generating units to which the goodwill is allocated.

Impairment of intangible with finite life

The Group determines whether the intangible with finite life is impaired on an annual basis. This requires an estimation of the recoverable amount of the cash-generating units to which the intangible with finite life is allocated.

Share-based payment transactions

The Group measures the cost of equity-settled transactions with employees by reference to the fair value of the equity instruments at the date at which they are granted. The fair value is determined by an external valuer using the binomial model.

Lease-make good

The Group estimates its liability to provide for the restoration of leased premises by reference to historical data and by specific estimates on a premise by premise basis.

Notes to the Half-Year Financial Statements

FOR THE HALF-YEAR ENDED 31 DECEMBER 2005

2. 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	
	2005 $	2004 $
(i) Revenue		
Sale of goods	77,242,012	56,892,464
Commissions	10,656,741	10,255,054
	87,898,753	67,147,518
(ii) Other income		
Finance income	358,470	606,884
Cooperative advertising income	1,452,232	1,417,220
Other sundry income	290,349	272,887
	2,101,051	2,296,991
(iii) Depreciation and amortisation		
Depreciation of plant and equipment	743,988	579,720
Amortisation of plant and equipment	771,700	739,896
Amortisation of intangibles	571,669	93,781
Depreciation of lease make good	51,718	25,233
	2,139,075	1,438,630
(iv) Employment expense		
Salaries and other employment costs	22,882,477	17,271,417
Expense of share-based payments	239,445	-
	23,121,922	17,271,417
(v) Other expenses		
(Gain) / Loss on disposal of plant and equpment	(90,326)	31,380
Bad debts	1,041	341,756
Provision for doubtful debts	(144,242)	(616,756)
Other sundry expenses	4,353,254	3,309,336
	4,119,727	3,065,716

3. 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 2005: $nil (2004: $32.92 per share)	-	6,000,000

Notes to the Half-Year Financial Statements
FOR THE HALF-YEAR ENDED 31 DECEMBER 2005

4. ISSUED CAPITAL

	Notes	31 December 2005 $	30 June 2005 $
Ordinary shares			
Issued and fully paid		2,885,444	4,128,002

	31 December 2005 Number of shares	31 December 2005 $
Movements in ordinary shares on issue		
At 1 July 2005	182,637	4,128,002
Transactions relating to reverse takeover:		
Effective 'conversion' to shares in Fone Zone Group Limited arising from reverse acquisition	62,866,197	-
	63,048,834	4,128,002
Ordinary shares issued to the public	61,910,966	61,910,966
Cash distributed to vendors on reverse acquisition	-	(61,910,966)
Ordinary shares issued to the employees under the "Employee Share Plan"	188,000	188,000
Costs of public issue (net of tax)	-	(1,430,558)
	125,147,800	2,885,444

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 2005

5. SEGMENT REPORTING

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

6. CHANGE IN COMPOSITION OF ENTITY

On 1 July 2005, One Zero Communications Pty Ltd acquired 100% of the voting shares of One Zero Suncoast 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 One Zero Suncoast Pty Ltd as at the date of acquisition were:

	Recognised on acquisition $	Carrying value $
Cash and cash equivalents	78,890	78,890
Trade and other receivables	29,385	29,385
Inventories	24,319	24,319
Deferred income tax asset	8,612	8,612
Plant and equipment	65,681	65,681
Intangible assets	1,080	1,080
Total assets	**207,967**	**207,967**
Trade and other payables	127,323	127,323
Interest bearing loans and borrowings	66,146	66,146
Income tax payable	907	907
Deferred income tax liabilities	4	4
Provisions	17,766	17,766
Total liabilities	**212,146**	**212,146**
Fair Value of net liabilities	**(4,179)**	**(4,179)**
Goodwill arising on acquisition	**4,379**	
Cash consideration	**200**	
The cash outflow on acquisition is as follows:		
Net cash acquired with subsidiary	78,890	
Cash paid	(200)	
	78,690	

On 2 November 2005, Fone Zone Group Limited acquired 100% of the voting shares of Fone Zone Pty Ltd, an unlisted company based in Australia specialising in the communications retail and service industry.

AASB 3 *Business Combinations* requires an acquirer in a business combination to be identified. With respect to the acquisition of Fone Zone Pty Ltd by Fone Zone Group Limited, Fone Zone Pty Ltd has been identified as the acquirer given the following factors:

- the economic substance of the transaction;
- Fone Zone Group Limited was established solely for the purposes of acquiring Fone Zone Pty Ltd;
- Fone Zone Group Limited has no business activity;
- the transaction was driven by Fone Zone Pty Ltd, not Fone Zone Group Limited; and
- the existing management of Fone Zone Pty Ltd will manage Fone Zone Group Limited.

As Fone Zone Pty Ltd has been identified as the acquirer, the concept of "reverse acquisition accounting" has been applied to this transaction and accordingly there is no requirement to "fair value" the asset values of the subsidiary or to recognise goodwill based on the fair value of the purchase consideration.

At the date of acquisition, Fone Zone Group Limited was a non-operating company that had a net asset value of $6.

Notes to the Half-Year Financial Statements

FOR THE HALF-YEAR ENDED 31 DECEMBER 2005

7. CONTINGENT ASSETS AND LIABILITIES

There are no material contingent assets or contingent liabilities at reporting date.

8. 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.

9. ADDITIONAL INFORMATION

Reconciliation of Cash

For the purposes of the Condensed Cash Flow Statement, cash and cash equivalents comprise the following at 31 December:

	CONSOLIDATED	
	2005 $	2004 $
Cash at bank and in hand	1,869,681	975,527
Short-term deposits	7,889,153	9,446,062
	9,758,834	10,421,589

Inventory

At 31 December 2005, in addition to the inventory value, the company has committed to purchase inventory, which was in transit with a value of $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.

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:

  (i) give a true and fair view of the financial position as at 31 December 2005 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: 9 March 2006

ERNST & YOUNG

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Independent review report to members of Fone Zone Group Limited

Scope

The financial report and directors' responsibility

The financial report comprises the balance sheet, income statement, cash flow statement, statement of changes in equity and accompanying notes to the financial statements for the consolidated entity comprising both Fone Zone Group Limited (the company) and the entities it controlled during the half-year, and the directors' declaration for the company, for the period ended 31 December 2005.

The directors of the company are responsible for preparing a financial report that gives a true and fair view of the financial position and performance of the consolidated entity, and that complies with Accounting Standard AASB 134 *Interim Financial Reporting*, in accordance with the *Corporations Act 2001*. This includes responsibility for the maintenance of adequate accounting records and internal controls that are designed to prevent and detect fraud and error, and for the accounting policies and accounting estimates inherent in the financial report.

Review approach

We conducted an independent review of the financial report in order to make a statement about it to the members of the company, 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 was conducted in accordance with Australian Auditing Standards applicable to review engagements, 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 the *Corporations Act 2001*, Accounting Standard AASB 134 *Interim Financial Reporting* and other mandatory financial reporting requirements in Australia, so as to present a view which is consistent with our understanding of the consolidated entity's financial position, and of its performance as represented by the results of its operations and cash flows.

A review is limited primarily to inquiries of company 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 is less than given in an audit. We have not performed an audit and, accordingly, we do not express an audit opinion.

Independence

We are independent of the company, and have met the independence requirements of Australian professional ethical pronouncements and 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. In addition to our review of the financial report, we were engaged to undertake other non-audit services. The provision of these services has not impaired our independence.

Statement

Based on our review, which is not an audit, we have not become aware of any matter that makes us believe that the financial report of the consolidated entity, comprising 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 financial position of the consolidated entity 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 financial reporting requirements in Australia.

Ernst & Young

Ernst & Young

Winna Irschitz

Partner

Brisbane

Date: 9 March 2006