



Group Limited

Chairman's Report

Australian Pure Fruits Limited was renamed On Q Group Limited in December 2005 to reflect the prime focus of the business going forward. It is anticipated that the full-year results will be profitable. However, the results at 31st December 2005 are negative after taking a conservative position with respect to both business divisions. The consolidated after tax loss of \$1.468M for the group arises from the loss in Food & Beverage and POD TV divisions of \$3.8M while there was a profit in the Electronic Sales & Distributions Division of \$4.6M.

Food & Beverage Division

As previously announced the directors have resolved to sell off the F&B division and it is anticipated that a sale agreement will be finalised prior to the end of March 2006. Assets have been written down in anticipation of balance sheet losses and these write downs swell the reported losses but clean up the position for the next half-year.

Electronic Sales & Distribution Division

On Q formed and floated Bill Express Limited (BXP) as a separate public company in late 2004, and established BXP as the exclusive licensee of On Q products in Australia. On Q sought to create an Australian stand alone, self managing entity, protected from international risk. This has been successfully achieved with BXP moving toward \$800M revenue on an annualised basis. On Q in return has undertaken not to compete with BXP and has focussed its efforts internationally with key executives spending the past 18 months in a constant travel cycle. In most instances travel and development of product precede sales. The On Q strategy is to establish country specific companies partially owned by On Q with strong local equity partners. The management team have track record and experience in creating transaction networks to generate profit and equity value to the ultimate holding company On Q Group Limited.

The product set that is being deployed internationally is the product set that is operating and being rolled out in Australia. The underlying product has been developed to cater for the intended countries and regions where banking systems (upon which electronic bill payments and eCommerce rely) are less developed than in Australia and credit card penetration is very low by western standards. In these targeted overseas countries with less developed banking systems the core strategy is to roll out the **bopo** (buy online pay offline) prepaid Visa payment card with a network of retail top-up locations across the country. The retail top-up locations will sell prepaid mobile and other prepaid products. The card is an instant-issue electronic commerce method so that consumers can put value on the card and then transfer money to other card holders or pay bills by SMS. In many of these countries the uptake of SMS in the culture is in advance of Australia.

The Board sees that with the right local partners in each country this is a very scaleable and profitable business with few or no established prepaid Visa card competitors, significant first mover advantage and proven technology already operating in Australia.

The international focus requires time to bear fruit; however, based on negotiations in progress, results are imminent. Heads of Agreement have been achieved in two (2) locations in the Middle East as announced to the ASX and currently a merger is occurring between these two (2) separate parties into one (1) holding company based in Dubai with execution of all deal documentation including capital injection expected within the next 60 days.

The local partners are financially strong with good business acumen, and deep local experience and credibility. The appointed CEO Zia Usmani is a Sigma 6 management



Group Limited

specialist, with strong project management skills and local language and culture knowledge as well as many years working in western cultures at a high management level. Importantly for growth, appropriate and separate infrastructure is being created with the skill to handle the scale of the business in progress. Negotiations are already advancing with local bank and telecoms in five (5) countries in the Gulf Coast Countries and the Middle East and North Africa region. The holding company being formed in Dubai will act as the umbrella corporate vehicle for separate 'in country operating companies' often with further local investors and working partners. In this case Arabic versions of key systems have been completed and substantial business development work has been undertaken.

To give shareholders a feel for the scale of the business in progress in countries where agreements are being formed our view is that progress toward a business 300% larger than the BXP Australia business is already well started. Whilst no outcome can ever be assured until it is achieved, the Directors of On Q have 15+ years experience in this industry and are confident that the business plan unfolding has a very good prospect of success in countries of larger population bases. The nature of the On Q business is that significant per transaction cost savings arise from scale and volume. The standard of living and local financial capability to make the infrastructure investments in the middle east region is very good. Whilst we have not yet achieved a business outcome in Saudi Arabia, as an indicator of the strength of the region, the Saudi telecoms report mobile phone RPU (revenue per user) amongst the highest in the world with a high propensity for prepaid mobile usage (versus legacy fixed line).

It is intended that the first substantial revenues by way of license fees will be booked in this financial year against the Middle Eastern projects. Other projects in advanced stages of negotiation are also in progress in Asia. Announcements will be made as the transactions described above progress to a point where the revenue can be booked. It is the intention that that there will be a portion of both cash and equity in the revenues being achieved internationally. The aim with respect to the 'in-country operational entities' is that they are well funded with strong local partners and the progress toward this outcome is well on track.

The change of focus of the business has already laid the foundation for a rapidly growing international business and we look forward to demonstrating this during 2006. On behalf of the directors, management team and staff, I thank shareholders sincerely for their support.

Sincerely

Hal Christiansen
Acting Chairman