



Group Limited

## CHAIRMAN'S REPORT As at 30 June 2006

The aim of this report is to enable shareholders to understand why Directors are adopting the stance taken within the 05/06 year end financial reports.

The material items which cause the reported results in order of impact are:

1) International Licences	\$16.5M	(Written down as Work In Progress)
2) Fruit & Beverage DIV	\$ 8.2M	(Trading and sale losses)
3) Taxi Project	\$ 2.8M	(Written down as Work In Progress)
4) Canadian Project	\$ 2.5M	(Written down as Work In Progress)
5) Taxation Expense	\$ 1.7M	(\$900,000 needs explanation)

The majority of these items are non cash items in this half year 05/06.

### ITEM 1:

A number of International Licences were struck during the 05/06 year, which are at various stages of progression. Of these, three (3) Licences totalling in excess of \$16M were finalised and contracted by one party that provide the ability to recognise revenue in 05/06. The location and project details are not disclosed to protect the Client's competitive position. The Client had established payment expectations in the August / September period 2006 which have not been received at this time. The lagged payment terms were for the purpose of enabling the Client with rights and time to negotiate with their Suppliers, Partners and Investors before they were required to pay. On Q's EBMS system is a sophisticated system and the augmentation stage in any location requires substantial work to be done. The contract also covers the supply and installation of server systems (\$1.5M USD value) on top of the Licence. After tracking the current status of the underlying work effort by the Client the directors have taken the decision to put a provision against the unpaid revenue in this project, and effectively push revenue recognition out of the 05/06 period. There is no reason at this stage to expect that the project will not complete in due course but on the other hand there is inadequate certainty, and to book the revenue at this stage might be misleading and would not be conservative.

### ITEM 2:

As previously announced, the Company has been negotiating to offload the fruit and beverage assets and has finally quit all of the major assets a few days ago on the 5<sup>th</sup> Sept 06. There are some remaining assets which may eventually be sold for a profit. In the meantime, however, the Directors have taken the decision to write down, and have taken provisions to report a conservative position.

### ITEM 3:

The Taxi project is under continued negotiation. EBMS and the various On Q products have strong application to the taxi industry.



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The directors will continue to pursue this matter to achieve a positive outcome. The directors have taken the decision to write down the deposit paid to Raywood until such time as a further and new agreement is executed.

ITEM 4:

The Canadian project is a 2007/08 project when an option to purchase an existing Canadian prepaid business crystallises. However, with current International accounting standards and impairment testing requirements, the decision has been made to write off the joint ventured R&D components conducted with the Australian owners of the Canadian venture and to thereby report a conservative position. With respect to the Canadian venture, the Canadian market is about the same size as Australia and the primary Client is the Canadian Post with 7,000+ outlets which provide a strong foundation for the deployment of On Q products and the Company expects it can develop a similar result to its Australian Licensee.

ITEM 5:

The adoption of international accounting standards amongst other things has reduced the R&D concession benefits to the Company by \$900,000, the benefit of which will be seen in future years.

OTHER ISSUES:

Shares within and royalties from the Australian Licensee are major assets of On Q. The Licensee was floated and listed from within the On Q Group 1 year 11 months ago and has had stellar growth. Despite revenue growth, its profit in the last year was subdued and is as per the previous year. Three (3) key contributing issues have occurred. (1) The build out of its network to enable new incomes to be pursued (media, and new products and sales capabilities) has resulted in depreciation and R&D write downs of \$13.7M, and substantially above the previous year which would have otherwise gone to the bottom line. (2) In the next year incomes from the capability created should progressively offset the 'non cash R&D and depreciation write downs'. (3) The 3<sup>rd</sup> item is that during this acquisitions and aggregations of two (2) key assets within POD TV and Ezipin assets and network have been achieved. Aggregation and integration costs have been covered in the 05/06 year. Therefore the On Q directors are confident that its Australian Investment and Licensee will progress well in 06/07 and that this asset itself exceeds the current capitalised value of On Q.

Sincerely,

**Hal Christiansen**  
Chairman