



Group Limited

Chairman's Report

The Chairman's Report to accompany the Dec 31st 2006 Financial Reports for On Q Group Limited (On Q).

This report provides background to the current and targeted status and strategic positioning of On Q. On Q is the owner of the EBMS (Electronic Business Management System) and founder and major shareholder of Bill EXPRESS Limited.

Key Performance Indicators

	31 December 2006 \$'000	31 December 2005 \$'000	Percentage Gain	31 December 2004 \$'000
Revenue	510,112	356,310	43%	230,992
EBITDA	14,202	8,094	75%	7,150
NPAT	1,807	1,468	23%	1,684

The results reported at December 31st 2006 are a parent entity loss of \$640,000, and consolidated EBITDA of \$14.2M profit, and group profit after tax of \$1.8M. These results are not considered satisfactory for any stakeholders and actions to redress this are explained following.

In the past two (2) years there has been substantial restructuring including the 'spin off and IPO' of Bill EXPRESS Limited, the development and commercialisation of EBMS internationally, and the 'sell off' of the Australian Pure Fruits (APF) food and beverage (F&B) division. Per note 18: of the 30 June 2006 accounts, the F&B Division negatively impacted the P&L and cash flow to the amount of \$9.6M over the past two years and in the process caused substantial impediment to On Q's internationalisation plans.

As a result, the primary objectives of the Board and the Company (now renamed On Q from APF) were to simplify the focus of the Company, to cease de-focus arising from the F&B division, and to remove the management and board fragmentation arising. After droughts and other one off factors were considered, no feasible resolution except divestment of the F&B division was acceptable.

The initiatives and work in progress aimed to return On Q to its core direction and to profit are explained as follows:

Operational Initiatives:

Vietnam:

- a) Deployment and execution of EBMS in Vietnam. The status is that initial roll out has commenced and that some contracts with the required key operational partners, suppliers have been entered into. Further key contracts are in advanced stage of negotiation and shall be announced when executed. Vietnam is a rapidly growing country in need of the technical and operation benefits that EBMS, card systems and electronic billing and payment systems can provide. Vietnam is a significant market opportunity for On Q with a population around 80 million.



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Canada:

- b) On Q holds a 'Call Option' to purchase Ezipin Canada (EC) later in 2007 at six (6) times earnings (there is also a Put option at 4 times earnings). Canada being an English based market makes the convergence of both company's technologies readily achievable. Refer www.ezipin.ca for further background. EC has approximately 5,000 installed sites (including Canada Post) and is on a rapid growth curve. Like businesses are achieving public PE ratios from 12 times to 30 times making this Call Option at a PE of 6 times earnings a valuable asset for both capital and operational reasons. A final purchase deal has not yet been constructed with Ezipin.

R & D and Smarter International Commercialisation Methods:

- c) **Own & Operate Model:** On Q's approach to international commercialisation has involved it developing products based on the EBMS and employing resources in overseas markets to commercialise those markets. This has been a capital and resource intensive process.
- d) **License & Facilitate Model:** Moving forward the Board of OnQ has endorsed a less capital and resource intensive model whereby partners or distributors in overseas markets are to be sourced with OnQ's contribution being focussed more on licensing and facilitating rather than owning and operating.

The option of this extended, lower cost capability is already expanding the number of countries that the Company can consider with lesser resources.

Cash Flow:

- e) Key cash flow initiatives for the medium term include:
 - a. Collection of Loan payments due of \$2.8M
 - b. Management negotiating License Fee contracts in international markets designed to bring cash forward
 - c. Turning other international negotiations into live projects

In summary, On Q has valuable international assets and capabilities and will be focussed upon crystallizing this value and protecting its position while the international opportunities are available and market readiness is favourable.

Sincerely

**Hal Christiansen
Chairman**