Multi Channel Solutions

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The Manager
Company Announcements Office
Australian Stock Exchange Limited
10th Floor, 20 Bond Street
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Dear Sir / Madam

AGREEMENT SIGNED FOR THE JOINT MARKETING AND DISTRIBUTION OF SELECTED PRODUCTS IN USA

Leading Australian based direct and electronic marketer of consumer products, Multi Channel Solutions Limited (ASX: MUT) is pleased to advise that it has signed an Agreement with Harvest Direct LLP ("Harvest Direct") for the joint financing, marketing and development of selected consumer products in the United States.

Harvest Direct is a leading consumer products company in the USA specializing in direct response merchandise. Harvest utilizes the power of direct response TV to create powerful brand and product awareness at the retail level. Harvest Direct's products can be found at Wal-Mart, Target, Walgreens, Bed Bath & Beyond, and many other major retailers across the USA. Some of Harvest Direct's #1 direct response hits in the United States include, The One Touch Can Opener, the Smart Spin storage system, Pasta Pro, and Perfect Pancake.

This Agreement is to take effect immediately and has an initial term of 2 years with automatic 12 month renewal clauses. Up to 5 products have already been identified for marketing and distribution under this Agreement. The first of these products has been secured and is currently being prepared for DRTV testing and roll out.

In summary, the Agreement outlines that both parties will work jointly to market and distribute selected products in the US$250 billion USA electronic retailing industry. This agreement is exclusive between Multi Channel and Harvest Direct for the products selected and each party will be entitled to 50% of the Net Profit generated from the marketing and distribution of the selected products.

In commenting on the signing of this Agreement, Multi Channel Solutions Executive Director, Mr Clive Barrett said,

"We are very excited about working with Harvest Direct in the United States. Harvest Direct have a proven track record in successfully launching and distributing a variety of products in the USA on a large scale. The ability of Harvest Direct to provide the necessary working capital required for the successful launch of products in the USA is invaluable to Multi Channel as it will, to a large degree, remove the need for the Company to be continually seeking working capital to fund the roll out of multiple products".

Mr Simon George, President of Harvest Direct says "In Multi Channel Solutions we see a company with enormous potential. We are highly impressed with their product sourcing capabilities and their industry knowledge and expertise. We see them as the perfect partner to expand our product base."

Under the Agreement, Multi Channel will primarily be responsible for sourcing and securing product rights, sourcing and securing related upsell products, co-management of all creative and operational aspects of the Direct Response Television (DRTV) marketing program and all necessary product development from conception through to the test marketing of the product prior to commercial launch.

Harvest Direct will primarily be responsible for the provision of working capital for the development and commercial launch of all products, sharing their various factory/product manufacturing relationships for the optimum product sourcing/pricing, the provision of all related accounting and management documentation, the control and management of product retail rollout including inventory management, fulfilment and customer service management and the coordination of the retail roll out with the DRTV program to properly synchronize the campaigns.

MUT has invested the majority of its human and financial resources into the establishment of its USA operations. The directors are of the opinion that this Agreement with Harvest Direct and any other similar agreements the Company may enter into, will provide the financial and additional management resources necessary to successfully penetrate the market on the scale required to generate profitability.

The establishment of a green fields USA based operation is working capital intensive and time consuming. Since the commencement of its USA operations in December 2005, the Company has spent approximately $2.0 million in the set up and initial running of its operation in the USA. It is expected that this set up and early establishment phase of its USA operations will be completed by 31 December 2006. Accordingly, the results for the 6 months ending 31 December 2006 will be impacted by the completion of this phase and the costs incurred in the transition of the business to be in a position to commence these joint arrangements as outlined above.

As an incentive to Harvest Direct, the Company has agreed to grant, subject to any required approvals, the following Options and Performance Shares to Harvest Direct or its shareholders, based on the achievement of pre defined performance criteria and profit targets. In summary these are:

<u>Performance Shares</u>

- 5 million performance shares will be issued if an annual net profit of the joint arrangement of US$10 million is achieved in any of the 2 financial years ending 30 June 2007 and 30 June 2008.
- 9 million performance shares will be issued if an annual net profit of the joint arrangement of US$15 million is achieved in any of the 2 financial years ending 30 June 2007 and 30 June 2008.
- 14 million performance shares will be issued if an annual net profit of the joint arrangement of US$20 million is achieved in any of the 2 financial years ending 30 June 2007 and 30 June 2008.

Options

- 3.33 million Options with an exercise price of $0.07, with an expiry date of 30 October 2009;
- 3.33 million Options with an exercise price of $0.10, with an expiry date of 30 October 2009. These options will vest if consolidated MUT revenue reaches a minimum of A$15 million in a single financial year;
- 3.33 million Options with an exercise price of $0.15, with an expiry date of 30 October 2009. These options will vest if consolidated MUT net profit after tax reaches a minimum of A$2 million in a single financial year;

MyGym Fitness System

As previously announced to the market, MUT has been marketing and distributing the MyGym Fitness System in the USA for the last 8 months. The Agreement with Harvest Direct allows for the MyGym Fitness System to be marketed and distributed under the new joint arrangement.

However, due to the increased costs being experienced in the manufacturing of the product and a comparatively higher commission structure associated with this product (i.e. when compared to other products in the pipeline), a decision will be made, in the near future by MUT and Harvest Direct whether to continue with the marketing and distribution of the MyGym Fitness System. The Company is currently negotiating with the owner of MyGym for a reduction in the commission structure payable by MUT.

The decision whether to proceed with MyGym or not will be based on the ability to achieve the gross margin required to substantiate the investment in management time and working capital by the Company. As the first product marketed and distributed by the Company in the USA, the MyGym Fitness System has allowed MUT to successfully commence operations in the USA, build the critical relationships required for success in the US$250 billion USA electronic retailing market and achieve credibility with key service providers.

The signing of the Agreement with Harvest Direct and the recently announced appointment of Denise Kovac as the head of its USA operations are a result of the achievements made with the distribution of MyGym.

Abtech Update

The Company is pleased to announce that good progress is being made with the international distribution of Abtech. A number of countries have now either ordered Abtech units for testing in their respective markets, have signed distribution agreements for their respective markets or have committed to testing the product in their respective markets.

These countries include Mexico, South Africa, Japan, the United Kingdom, Germany, Argentina, Switzerland, Russia and Austria. It is expected that agreements will also be reached with a number of additional countries in the medium term.

Each appointed party will conduct their own media and market testing of the product to assess the economics of undertaking a full scale product launch in their respective market.

Placement

In order to strengthen its working capital positio n until Net Revenue distributions are received from the joint marketing and distribution activities pursuant to the Agreement, the Company will seek to undertake a placement of its Shares to raise approximately $1 million for working capital purposes. The Company will inform the market in relation to this placement in due course.

About Multi Channel Solutions Limited (ASX: MUT)

Multi Channel Solutions is a direct and electronic marketing business with its principle operations in the US. The company uses direct, electronic and other alternative media as well as traditional retail channels to market an expanding range of mass-appeal consumer products. Multi Channel Solutions is building a pipeline of products in proven market segments including health and fitness, beauty and personal care, household and self-help.

The very large electronic retailing industry in the US generated sales in 2005 of more than US$250 billion of which Direct Response TV (DRTV) contributed US$182 billion. DRTV sales have grown between 8% and 9% per annum over the past few years. DRTV combines the power of television with the precision of direct marketing techniques. The key elements of DRTV are product selection; production and broadcasting of an infomercial; order taking, fulfilment and customer support.

Multi Channel Solutions, through carefully planned product selection and consistent delivery of the fulfilment cycle, is now an established participant in the direct and electronic marketing market and intends to become one of its leaders.

For further information, please contact:

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