Operational Review continues

- ServicePoint and Redflex Communications Systems
  - ServicePoint expected to exceed budget for the 2007 financial year
    - Expected FY2007 EBITDA of approximately $1.8m
  - RCS successfully integrated into the LongReach Group
    - Expected FY2007 EBITDA of $0.5m (since date of acquisition)

- LongReach Communications ("**LRC**")
  - Previously anticipated revenues not realised
    - substantially deferred, reduced in value, with increased uncertainty
  - St George Bank's $2.7m facility remains outstanding
    - limited to LRC sub-group only
  - Unacceptable ongoing cost to the Group as a whole
    - ***LRC Board resolved to appoint an Administrator to LRC***

- Significant impact on Group financial accounts for the 2007 Financial Year
  - Book value of LRC to the Group is of the order of $16m
    - will be substantially impaired
  - Substantial negative impact on FY2007 reported earnings

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3 July 2007: In the course of its continuing operational review of LongReach Group Limited, the Board today announced that two of the three operating business units are performing at acceptable levels. However, changes in the requirements of the third business unit's major customer and anticipated delays in the closure of sales opportunities with this customer mean that the Group is no longer in a position to continue to fund the business, as to do so would adversely impact other group subsidiaries.

Consequently, the Board of LRC – following a meeting with St George Bank – has resolved to appoint an Administrator to the LRC sub-group, to determine the most appropriate way forward for that business.

The appointment is limited to the sub-group companies only, and does not impact the operations of LongReach Group itself or its other subsidiaries.

ServicePoint Australia

The ServicePoint business continues to perform well, and the Board anticipates that the company will complete the 2007 financial year ahead of budget, with EBITDA of approximately $1.8 million and with revenue expected to increase substantially over that of the previous financial year.

Brett Waldock, the newly appointed CEO of the business, has taken on the challenge of continuing to grow the business from its already strong and established base. The Board is confident that Brett will build on the successes of the past, and provide a strong future for the company.

Redflex Communications Systems

Peter Harrison, as General Manager of the Redflex Communications Systems (RCS) business unit, has now successfully taken the company through the transition period of integration with the larger LongReach Group. RCS is performing at acceptable levels following the recently awarded international defence contracts (as announced on 26 April 2007). The Board anticipates that RCS will have achieved an EBITDA of approximately $0.5 million for the period since acquisition to the end of the 2007 financial year.

Peter and his team move into the new financial year with a strong order book, and a positive outlook on future sales and earnings.

LongReach Communications

Following a meeting with St George Bank yesterday in connection with the outstanding LRC $2.7m facility, the LRC Board has resolved to appoint an Administrator to LRC.

LRC is the Group's third operating division (essentially, the businesses comprising LongReach Networks, LongReach Wireless and the investment in Startronics). As foreshadowed in the Group's Half Year Results announcement on 28 February 2007, the Group anticipated offshore sales opportunities for LRC to be realised only in the second half of the 2007 calendar year and accordingly expected that it would have to fund negative operating cash flows for LRC, given the limited conversion of offshore sales opportunities to revenue in the 2007 financial year.

Sales to Ericsson, the major offshore customer of LRC, slowed in the 2007 financial year, and the Board no longer anticipates that significant revenues will be achieved in the 2008 financial year. Neither LRC's management, nor management of LRC's major customers were able to forecast this change in circumstances. In addition to some orders simply being delayed, the business has been substantially affected by:

- the ongoing consolidation in the telco sector, with one end customer having now been through three separate mergers in the period in which a product solution has been developed for it;

- recent changes in the architectural requirements required by Ericsson (and its customers) for the LRC product set, which had the effect of reducing the future potential revenues available, and substantially altering the nature of those revenues (from product based revenues to potential royalty streams).

As a consequence, LRC expects a significant shift in the nature of its future revenues and further substantial delays in achieving those revenues. In addition, the nature and quantum of these revenues has become increasingly uncertain.

The change in the revenue mix and timing of sales to Ericsson materially impacts the basis on which the Company had chosen to continue to cross-subsidise LRC. The Board considers it is no longer reasonable to continue to fund LRC as to do so would adversely impact the Group and its other subsidiaries without a sufficiently clear benefit.

In light of the Group's decision to restrict further funding to LRC, the Board of LRC resolved to appoint an Administrator to the LRC group of companies.

This appointment is limited to the assets of the LRC sub-group, and not the broader assets of the Group companies. Similarly, the outstanding St George Bank facility is also limited to the LRC sub-group, and not the broader assets of the Group or its other subsidiaries.

The Administrator will review the current position of LRC, and determine the most appropriate way forward for that company, its creditors and its current and prospective customers.

LongReach Group Limited's investment in and operating loans to LRC and its controlled entities amount to approximately $16 million. The Board anticipates that this book value will be substantially impaired. This impairment will negatively impact the reported earnings for the 2007 financial year.

Continuing review of operations and structure

The Board is mindful of the fact that the Company will be obliged to make a second (and final) payment of acquisition consideration for the Redflex Communications Systems business in September of this year. Based on the earnings formula in the acquisition agreement, the Board considers that the Group will have sufficient cash on hand to meet the anticipated reduced RCS second payment.

The Board will continue to review whether additional capital may be necessary for other Group requirements, and continues to assess further capital raising alternatives.

About LongReach Group

LongReach Group Limited (ASX Code: LRG) is a leading ASX-listed provider of integrated information and communications technology based products and services to the defence, security and intelligence sectors, as well as to government, telecommunications and corporate customers.