

# LONGREACH GROUP LIMITED

## CHAIRMAN'S ADDRESS

**Ladies & Gentlemen**

### **Operating and financial review**

During the 2008 financial year there were a number of significant corporate events that have impacted the Group's composition and the financial results and position of its continuing operations. The most significant corporate events were:

- Appointment of Voluntary Administrators to LongReach Communications Pty Ltd and its controlled entities (the "LRC sub-group") on 3 July 2007. The operations of the LRC sub-group were subsequently wound down and a Deed of Company Arrangement was entered into;
- The completion of a rights issue offer on 5 February 2008 where 25,391,515 shares were accepted and issued with gross capital proceeds of \$569,813 received;
- The disposal of ServicePoint Australia Pty Ltd, as approved by the Group's shareholders on 26 February 2008 which was completed on 29 February 2008 for a cash consideration which after loan repayments and working capital adjustments based on the net asset value of ServicePoint Australia Pty Ltd at date of completion amounted to approximately \$8.6million; and
- The on-market buy back of the Group's convertible notes during the year with the remainder of the

original \$5.4million of notes being repaid at the end of October 2008.

## **Results**

The consolidated results of the economic entity, after providing for income tax amounted to a profit of \$6,210,762 for the year ended 30 June 2008 (2007: \$17,935,838 loss).

This consolidated result comprised:

- a loss after tax from continuing operations of \$2,127,400 (2007: loss of \$90,662); and
- a profit after tax from discontinued operations of \$8,338,162 (2007: loss of \$17,845,176).

## **Continuing Operations**

The revenues from continuing operations of \$9,848,500 (2007: \$5,939,106) comprised:

- a) the sale of goods and services of \$9,516,977 (2007: \$2,994,386) being an increase of 218% over the corresponding period last year;
- b) interest received of \$223,537 (2007: \$267,773) and other revenue of \$107,986 (2007: \$9,320); and;
- c) a non-recurring discount (being the excess of fair value of the net assets acquired over the cost of acquisition) in the prior corresponding period of \$2,667,627 arising on the acquisition of C4i Pty Ltd.

The expenses from continuing operations of \$12,210,519 (2007: \$6,142,484) represents a 99% increase over the corresponding period last year. The increase in expenses was mainly attributable to the current period being comprised of a full year of operations for C4i Pty Ltd compared to 7 months in the prior period. Other significant items which are of a non-recurring nature include a write down of \$778,406 for the impairment of C4i Pty Ltd's intangible assets (2007: \$ nil).

Borrowing costs of \$527,477 (2007: \$322,837) are included in these total expenses from continuing operations.

In FY2008 C4i successfully worked with and delivered systems in ten countries around the world. C4I's recent contract wins confirm its strong standing in the mission critical command and control systems market and it is continuing to market and deliver systems to its growing international customer base.

### **Discontinued Operations**

During the year ended 30 June 2008, LongReach Group Limited discontinued or disposed of:

#### ***ServicePoint Australia Pty Ltd***

The Group received an offer for the sale of this business unit and decided in favour of disposing of this subsidiary. On 9 January a share sale agreement was concluded with LongReach Group Limited agreeing to the sale which was approved by the Group's shareholders at a general meeting held on 26 February 2008 and the sale was completed on 29 February 2008.

The final sale price was subject to an adjustment to the extent that the net assets of ServicePoint Australia Pty Ltd as per its final Completion Accounts varied from a \$2.1 million net asset value.

The sale of ServicePoint Australia Pty Ltd was accounted for in this annual financial report on the basis of the Completion Accounts.

The results for ServicePoint Australia Pty Ltd up to the date of sale, has been accounted for as discontinued operations. The net profit after tax from discontinued operations includes a net profit on the sale of ServicePoint Australia Pty Ltd of \$6,383,496 and a loss of \$371,801 in respect of its trading operations for the period up to the date of sale on 29 February 2008. The prior period loss from discontinued operations includes an operating trading profit of \$2,252,950 and an impairment of

\$2,105,559 in respect of the voice facilities management services business that was transferred to ServicePoint Australia Pty Ltd.

### ***LongReach Communications sub-group placed into Voluntary Administration***

LongReach Communications Pty Ltd and its controlled entities ("LRC sub-group") were placed into Voluntary Administration on 3 July 2007. The operations of the LRC sub-group were subsequently wound down and the sub group entered into a Deed of Company Arrangement. The Deed of Company Arrangement is still in effect, but is expected to be completed in the near future.

The Group had no liability for the LRC sub-group's net liabilities outside of the contributions agreed to in the Deed of Company Arrangement and as a consequence the shortfall between the LRC sub-group's assets and liabilities as recorded in the Group balance sheet as at 30 June 2007 has been eliminated, resulting in a net profit after tax of \$2,309,692 from these discontinued operations in the year ended 30 June 2008.

### **Mergers and Acquisitions**

There were no other mergers, acquisitions or disposals in the current period.

### **Issues of Shares**

On 12 February 2008 LongReach Group Ltd issued 25,391,515 fully paid ordinary shares with gross capital proceeds of \$569,813. These ordinary shares were issued following a non-renounceable rights issue offer announced on 9 January 2008, offering 3 fully paid ordinary shares for every 4 shares held at an issue price of 2.25 cents per share. Total ordinary shares on issue at 30 June 2008 were 136,154,962.

During the period 1 July 2006 to 30 June 2007 the company issued 12,100,000 options to key management

personnel of the consolidated group. Certain of these options have now lapsed or been cancelled before the end of the financial year and as at 30 June 2008 there remained 6,847,364 (2007: 9,183,477) issued share options.

### **Convertible Notes**

On 21 November 2006 the company issued 15,110,604 (\$5,439,842 face value) new Convertible Notes as part of the merger scheme of arrangement referred to above.

The Group announced an on market buy back of its listed convertible notes on 11 March 2008. During the period to 30 June 2008 the Group bought back 5,740,049 convertible notes for a total gross consideration of \$2,028,216. The convertible notes remaining notes were redeemed in cash on the 31 October 2008 maturity date.

### **Continuing Activities and Outlook**

The only remaining business carried on by the Group is the voice and data communication systems business of our C4i Pty Limited subsidiary which continues to support the defence, aerospace, transport and utilities markets.

This business will now be the focus of the Company's attention as it is considered that there are a number of opportunities for growth available to the Company in short to medium term.

On 10<sup>th</sup> November C4i was awarded a contract by Airservices Australia (AsA) for the turn key supply of its Alarmon product at all major airports across Australia and a number of key regional airports (a total of 20 sites).

The AirServices Australia contract will run initially for five years with systems being incrementally delivered over a three year period, commencing mid 2009 with the support phase running for the balance. The Switchplus Alarmon product is based on IP technologies – supporting fusion of analogue, digital and IP telephony and radios, along with

integrated alarm control and monitoring, and asset management into one system. The system will provide truly integrated functionality capable of being used from any of the AirServices Australia sites in Australia.

On 17<sup>th</sup> November 2008 LongReach Group announced a 1:1 rights issue to provide working capital to fund its existing operations and working capital requirements arising from this contract and other contracts that have over recent months, been awarded to the operating subsidiary C4I Pty Limited.

### **Staff and Directors**

In conclusion and on behalf of the directors I would like to express my appreciation to the staff of the Group for the efforts during the past twelve months, particularly, Peter Harrison, who has lead the C4i team well under somewhat difficult conditions.

I would also like to thank Larry Case, Don Millard and Willy Masson for contributions.

Finally Stephe Wilks and I will be standing down following today's AGM and I would like to express my sincere gratitude to Stephe for all the efforts he has contributed to the Group through some very difficult times and that leaves me only to wish the Group every success in the future and you all a healthy, happy and safe festive season.

Allan Farrar

Chairman

28<sup>th</sup> November 2008