

On Q Group Limited
(In Voluntary Administration)

Formerly
Australian Pure Fruits Limited

Date of Meeting:
23 December 2008

Worrells Solvency and Forensic Accountants
Contact the Melbourne Office
ABN 72 945 540 327

Our Reference - 952
Contact Person: Gyan Tse
P (03) 9613 5514
E gyan.tse@worrells.net.au

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The Australian Securities & Investments Commission and the Insolvency Practitioners Association have jointly released several fact sheets that may be of assistance to directors, shareholders, creditors and employees of companies in liquidation. The following pamphlets can be found on the Fact Sheets page of our website:

Liquidation: a guide for creditors

Liquidation: a guide for employees

Insolvency: a guide for shareholders

Insolvency: a guide for directors

Insolvency: a glossary of terms

It is suggested that when creditors are considering any resolutions for the approval of any remuneration they should review the information contained within the 'Creditor Information Sheet'. This document is located within the 'IPA & ASIC Guides' link on the web site.

We issue advices more frequently by email than by regular mail. To receive these email advices, ensure that you send your email address to us. This can be included on any Proof of Debt form, or emailed to us on rebecca.clifford@worrells.net.au quoting client code 952.

This is a **FREE** service offered by Worrells Solvency & Forensic Accountants.

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1. Introduction

This report to Creditors concerns the voluntary administration of On Q Group Limited.

PURPOSE

The purpose of the Report is to outline:

- The company's current financial position.
- The results of the realisation of the company's assets.
- The results of the trading during the administration.
- The administrators' investigations into the affairs of the company, including any insolvent transactions.
- Our recommendation for the most appropriate future for the company.
- The anticipated dividend to creditors.

ADMINISTRATORS

Information in this report is based on investigations and analysis by the administrators, Matthew Jess and Paul Burness, of Worrells Solvency and Forensic Accountants.

The appointment commenced on 28 July 2008. Our role since then has been to secure and realise any assets of the company, to secure the books and records of the company and to investigate the affairs of the company. Our findings are presented in this report.

The administrators confirm that they have had no previous dealings with the company or its directors. Neither the company nor its directors have been clients of the firm and we have not offered any professional advice to the company or its directors.

The Administrators are also Administrators of On Q Technologies Pty Ltd and liquidators of Motorlink Systems Pty Ltd, both of which are related companies of On Q Group Ltd. We also note that On Q Group Ltd is a creditor of both companies. In this regard, attached to this report is an updated Declaration of Independence, Relevant Relationships and Indemnities.

THE VOLUNTARY ADMINISTRATION PROCESS

A first meeting of creditors was held on 6 August 2008. The next step in the Voluntary Administration process is to convene a second meeting of the company's creditors to decide the future of the company. That meeting will be held on 23 December 2008. A Notice of Meeting and other relevant documents are included with this report.

2. Overview and Statutory Information

BACKGROUND

On Q is a publicly listed entity on the Australian Securities Exchange (ASX). On Q was previously named Australian Pure Fruits Limited (“APF”) and originally APF’s core business was in the food and beverage industry. In 2001, APF acquired the technology businesses that went on to become the core business of the group. In 2004, the Australian technology business DialTime Pty Ltd was separately listed as Bill Express Limited. APF changed its name to On Q Group Limited on 7 December 2005.

The company’s activities were closely related to a number of associated companies generally categorized into three (3) corporate groups referred to hereinafter as the On Q Group, the Bill Express Group, and the Technology Business Group (“TB Group”). The operational structure of these groups is discussed in further detail below. Creditors are advised that the majority of the companies comprising these groups have been placed into Voluntary Administration or Liquidation.

On Q did not actively trade any business operations. All trading activity was conducted via its subsidiaries which have now ceased trading. On Q derived its cash flow from the issuance of new shares, margin lending arrangements (secured against the company’s shares held in Bill Express Ltd), receipt of royalty payments payable from Bill Express Ltd to On Q Technologies and inter-company loans.

The main activities of On Q in recent times has been investment related in various associated entities, predominantly wholly owned subsidiaries, including as the Ultimate Holding Company of On Q Technologies Pty Ltd. On Q Technologies operated a technology business that developed an Electronic Business Management System (EBMS) that is capable of being modified to many different business applications. On Q Technologies owns the majority of the intellectual property (IP”) in respect to the operation of the business operated by the Bill Express Group. The Australian IP is licensed exclusively to Bill Express Ltd. On Q Technologies also license the IP internationally to third parties. After its listing in October 2004, Bill Express was required to pay a royalty fee to On Q Technologies Pty Ltd for the use of the EBMS software.

The Bill Express group operated an electronic network of approximately 14,000 terminals throughout Australia. The network provided the platform for the delivery of bill payment services, delivery and distribution of prepaid products, in-store digital media and advertising, and the provision of the BoPo reloadable Visa cards.

The future of the company was closely linked to the Bill Express Ltd and its group of companies, which were placed into Voluntary Administration on 8 July 2008 and subsequently liquidation on 12 August 2008. As a result of the cessation of trading by the Bill Express Group and a demand from Bill Express Ltd for repayment of loans of \$22 million by 29 July 2008 – the directors resolved to place the company into administration.

In or around December 2006, an independent Director was appointed to On Q Group Ltd for the purpose of negotiating a suitable merger of the Bill Express and On Q groups. Furthermore, in or around mid 2007, in order to facilitate the potential corporate restructure, it is our understanding that the company sought the services of a corporate advisory specialist however the proposed merger did not proceed.

On 5 May 2008 the On Q Group released an announcement on the ASX disclosing a Suspension from Official Quotation and we note that the suspension was still in place at the date of our appointment. The company had ceased trading at the date of our appointment.

CORPORATE STRUCTURE: THE BILL EXPRESS GROUP / THE ON Q GROUP / THE TB GROUP

As previously advised, the company operated as part of a large number of companies forming three distinct groups, the Bill Express Group, the On Q Group and the TB Group, most of which are in external administration. Following is a summary of the entities comprising each group:

BILL EXPRESS GROUP	ON Q GROUP	TB GROUP
Bill Express Ltd	On Q Group Limited	Technology Business International Pty Ltd
Mobile EFT Pty Ltd	Aussie Pure Fruits Pty Ltd	Loyalty Direct Pty Ltd
Mobile EFT Plus Pty Ltd	Australian Pure Fruits (South Australia) Pty Ltd	Express Payroll Solutions Pty Ltd
Bill Express Tech Pty Ltd	Cash4Biz Pty Ltd	Technology Call Centre Pty Ltd
Ezipin Group Pty Ltd	On Q Company Pty Ltd	Technology Business Systems Pty Ltd
Ezipin Australia Pty Ltd	Ozzie Pure Fruits Pty Ltd	
Express Pay Pty Ltd	Ozzie Juices Pty Ltd	
Express CRM Pty Ltd	A.C.N 088 202 082 (formerly MON Beverages Pty Ltd)	
XIP Media Pty Ltd	On Q Technologies Pty Ltd	
POD TV Pty Ltd	BoPo Cards (International) Pty Ltd	
Public Media Pty Ltd	Motorlink Systems Pty Ltd	
BoPo Cards (Australia) Pty Ltd	Chin Q Pty Ltd	
Cheque2Cash Pty Ltd		

The Bill Express group was responsible for the day to day operations of the primary business, that is, it was the provider of all services and products offered to relevant customers and merchants. Furthermore, the Bill Express group was the entity which entered into various supply contracts and financial agreements including agreements with numerous suppliers of pre-paid products (primarily telecommunication companies) and contracts with energy providers.

On Q Technologies Pty Ltd licensed the IP previously discussed to the Bill Express Group. The operations of the remaining entities in the On Q Group were either marginal or inactive.

It is our understanding that the primary business of the TB group was to provide support services outsourced to it by the Bill Express group. Services included provision of point of sale equipment, IT support, admin and marketing staff, operation of a call centre and the rental of the trading premises. Further to the above, it is our understanding that various entities currently forming part of the TB group previously undertook significant amounts of research and development relating to the EBMS software package.

AVAILABLE ASSETS AND LIABILITIES

The assets available to the company as at the date of our appointment and the known liabilities of the company are set out in detail in the body of this report. Creditors should note that the value of the realisable assets of the company is largely undetermined at this juncture. The reasons for our inability to obtain conclusive values in respect of the company's assets are primarily:

- i. The company is the Ultimate Holding company of a large number of companies collectively known as the On Q Group and further, its activities were conducted in connection to both the TB and Bill Express groups. The majority of companies within each of the groups have been placed into external administration.
- ii. The company's realisable asset base consists primarily of the following:
 - Outstanding loan account claim which is disputed and currently subject to proceedings in the Supreme Court of Victoria. Accordingly any recovery is uncertain;
 - Interests in overseas entities associated with the planned international expansion of the technology business, primarily in the Middle East, Vietnam and the Philippines which were not yet operational. Accordingly any recovery is uncertain;
 - Potential recoveries from voidable transactions which, if verified, would most likely involve litigation, Accordingly any recovery is uncertain;
 - Potential recoveries from associated entities – many of which are also subject to external administration and the quantum and likelihood of recovery is uncertain.

COMPANY (AND GROUP) BOOKS AND RECORDS

Since the date of our appointment, we have collected the books and records of the company. We note that these books and records were stored at various locations in both paper and electronic formats. At this juncture, we have collected the paper based records from the company's former trading premises and further, from the trading premises of an entity known as Australian Private Networks Pty Ltd ("APN"). Furthermore, we note that the Administrators of both the Bill Express and TB Groups have also collected large volumes of paper based records from these locations. It is apparent that the various records of each company in the group overlap between the entities.

In addition to the above, we note that the various groups' electronic records, maintained on its End-to-End accounting software, were held at its server storage facility in Richmond, Victoria. The Australian Securities and Investments Commission ("ASIC") began to make an image of the financial records stored on these servers on or around the date of our appointment. In this regard, the electronic financial records obtained by ASIC have been made available to us. As the records contain information for companies in the On Q Group, Bill Express Group and TB Group, the respective external administrators have reached an agreement to mutually allow access to all information held so as to facilitate the separate investigations in respect of each group, and any relevant entity therein.

DIRECTORS REASONS FOR FAILURE OF THE COMPANY

The directors have advised that the reason for the insolvency of the company is:

Inadequate Working Capital	<input checked="" type="checkbox"/>
Non-Collection of Trade Debtors	<input checked="" type="checkbox"/>
Adverse Legal Actions	<input checked="" type="checkbox"/>
Downturn in Industry/Economy	<input checked="" type="checkbox"/>
Other	<input checked="" type="checkbox"/>

Further to the above, the company's Directors have advised that a major factor contributing to the company's insolvency was an inappropriate corporate structure, that is, the three separate corporate groups which handled different functions of the Bill Express Ltd business. The Directors have advised that the current corporate structure impeded the company's ability to raise capital, secure debt and prevented dealings with various key partners.

The directors have provided a statement as to the causes of the failure of the company, in a questionnaire submitted to my office. This statement and a diagram of the corporate structure (as extracted from the company's records) are enclosed at Annexure C.

We believe the group has failed as a result of inadequate financial controls, a cumbersome and in ineffective corporate structure, poor business judgment and undercapitalisation.

GENERAL INVESTIGATIONS

Part of our role is to conduct the preliminary investigations into various matters. This report is partly to advise creditors on whether we believe that there would be amounts recovered in respect of Insolvent Trading, Preferential Payments or other voidable transactions should the company be wound up.

These matters have been examined as far as time will allow in the Administration period and the results of all of these examinations are set out in detail in the "Investigations and Insolvent Transactions" section of the report. These investigations have been also limited due to the fact that no deed of company arrangement has been proposed and therefore no comparison to that alternate course of action can be made.

We are also required to examine whether there were any offences committed by the directors of the company and report our findings to the ASIC. The results of these examinations are also set out in this Report.

	Unknown	Yes	No
Have we found any potential Void Transactions?	<input type="checkbox"/>	<input checked="" type="checkbox"/>	<input type="checkbox"/>
Have we found a potential Insolvent Trading claim?	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Have we found any potential offences committed by officers of the company?	<input type="checkbox"/>	<input checked="" type="checkbox"/>	<input type="checkbox"/>

FUTURE OF COMPANY

As previously advised, we have received expressions of interest from a number of parties who were considering proposing a Deed of Company Arrangement for On Q Group. On 17 October 2008 the Court made an order extending the convening period for the second meeting of creditors to 16 December 2008. The further extension was sought to enable us to finalise our investigations into the company's affairs, and to finalise negotiations for a proposed Deed of Company Arrangement. We anticipated that a Deed of Company Arrangement may provide a more favourable outcome to creditors within a shorter timeframe and with greater certainty than in a liquidation scenario.

Since that time we have continued negotiations with the interested parties. However due to the uncertainty and volatility in the stockmarket the initial expressions of interest have been materially reduced and we have been unable to negotiate a satisfactory proposal in the interests of creditors.

Accordingly, as no party has proposed a Deed of Company Arrangement. This limits the alternatives available to creditors to:

- (a) Winding up the company; or
- (b) Handing the company back to the directors.

DIVIDEND

At this juncture, the likelihood of a dividend to creditors is uncertain for the reasons set out above.

RECOMMENDATION

We recommend that creditors vote to wind up the company. Creditors should read the body of this report before attending the next meeting.



Matthew Jess
Administrator

Statutory Information

Company Name:	On Q Group Limited ("the company") ("On Q")
Former Name:	Australian Pure Fruits Limited
Directors:	Julian Edward Forsyth Little Appointed: 18/03/2001 to current Ian Douglas Christiansen Appointed: 08/07/2003 to current Harold Edward Christiansen (Deceased) Appointed: 18/03/2001 Stephen Fitzgerald Appointed: 30/11/2006 Resigned: 28/04/2008 Peter McDouball Appointed: 30/07/1999 Resigned: 29/11/2007 Dugal McDougall Appointed: 30/07/1999 Resigned: 30/11/2006 Tristan Fischer Appointed: 08/07/2003 Resigned: 14/10/2005 William Johan Anderson Appointed: 16/02/2003 Resigned: 08/07/2003 Siegrad Kotz Appointed: 01/02/2000 Resigned: 09/07/2001 Hugh Falconer Appointed: 27/09/2000 Resigned: 09/07/2001 Saul Spigler Appointed: 06/08/1988 Resigned: 16/02/2000
Secretary:	Harold Edward Christiansen (Deceased)
Shareholders:	Publicly listed companies (73,950,146 shares on issue) Refer Annexure D for a listing of the largest 20 shareholders of ONQ
Date of Incorporation:	25 July 1984
Registered Office:	677 The Boulevard, Eaglemont VIC 3084
Principal Place of Business:	677 The Boulevard, Eaglemont VIC 3084
Registered Charges:	N/A

Appointment Details

Administrators:	Matthew Jess Paul Burness
Date of Appointment:	28 July 2008
Date First Meeting held:	6 August 2008

3. Notice of Meeting of Creditors

FORM 529

Corporations Act
Sub Regulation 5.6.12(12)

**NOTICE OF SECOND MEETING
OF CREDITORS OF**

**On Q Group Limited
(Administrators Appointed)
A.C.N. 009 104 330**

Notice is given that a meeting of the creditors of On Q Group Limited will be held at the **Meeting Room, Worrells**, Level 5 15 Queen Street, Melbourne Vic 3000 on 23 December 2008 at 10:00 AM.

AGENDA

1. To consider the Administrators' report to creditors.
2. To receive the report as to affairs of the administration from the Administrators.
3. Based on the information provided, to resolve on the company's future.
4. To resolve the basis of the Administrators' and the Liquidators' remuneration as appropriate.
5. To authorise the Liquidator to destroy the books and records of the company within a period of 5 years after deregistration of the company, subject to obtaining prior approval of the Australian Securities and Investments Commission.
6. If the company is wound up, to consider the appointment of a Committee of Inspection.
7. At the meeting, creditors may also, by resolution, vote to appoint someone else as Liquidator of the company.
8. Any other business that may be considered with the foregoing.

15 December 2008.



Matthew Jess
Voluntary Administrator

c/- Worrells
Solvency and Forensic Accountants,
Level 5 15 Queen Street, Melbourne Vic 3000

Please Note

- You will need to lodge a **Proof of Debt** if you are not on the attached list.
- You will need to file a **Proxy** form if you are not attending in person.
- The provisions of the Corporations Act do not allow the Chairman or a person associated with this office to use a proxy to vote for the Liquidation or the Acceptance of the Deed of Company Arrangement or on Remuneration resolutions.

Minutes of the Meeting shall be posted to our web page.

4. Financial Position Summary

The following tables summarise the results of our preliminary investigations into the financial position of the company. A potential dividend is set out at the end of the financial position statement table.

4.1 Financial Position Statement

ASSETS & RESOURCES AVAILABLE TO THE ADMINISTRATION

These are the assets of the company, less any security on those assets, plus other contributions or amounts potential recovery actions. These will form the resources available in a liquidation of the company. We have estimated the Worst and Best case of each item where possible.

Directors Report as to Affairs			Administrator's	Administrator's
Valuation	ERV		Estimate (Worst Case)	Estimate (Best Case)
		Tangible Assets		
3,987	3,987	Available Cash	3,965	3,965
-	-	Trade Debtors	-	-
-	-	Stock on Hand	-	-
-	-	Real Property (Equity)	-	-
-	-	Furniture and Equipment	-	-
-	-	Motor Vehicles (Equity)	-	-
10,820,028	2,650,000	Loans – Assets	191,678	2,988,371
26,018,146	-	Other Assets	100,000	150,000 plus
36,842,161	2,653,987	Total Tangible Assets	295,643	3,122,358
-	-	Less: Floating Securities	-	-
36,842,161	2,653,987	Balance of Assets	295,643	3,122,358
		Potential Recoveries		
Not Applicable	Not Applicable	Preferential Payments	Unknown	Unknown
Not Applicable	Not Applicable	Insolvent Trading	Unknown	Unknown
Not Applicable	Not Applicable	Other Void Transactions	Unknown	Unknown
36,842,161	2,653,987	Total Resources Available	295,643	3,122,358

PRIORITY OF CLAIMS

These items are the claims that may be made against the resources available. They are dissected into priority (employee claims) and non-priority claims. Where those claims may vary, we have estimated the highest and lowest amount of each debt.

Directors Report as to Affairs			Administrator's	Administrator's
Valuation	ERV		Estimate (Worst Case)	Estimate (Best Case)
86,814	86,814	Priority Creditors		
		Employee Entitlements	244,115	86,814
20,195,170	20,195,170	Non Priority Creditors	68,923,954	68,923,954
20,281,984	20,281,984	Total Liabilities	69,168,069	69,010,768
16,560,177	17,627,997	Estimated Surplus/(Deficiency)	68,872,426	65,888,410

POSSIBLE OUTCOMES AND DISTRIBUTION

Using the amounts of available resources and the claims shown above, we have calculated the range of results in the liquidation. We have calculated a Worst Case (the worst case of resources and the highest amount of claims) and the Best Case (the best case of resources and the lowest amount of claims) and the potential dividend in each case.

			Administrator's Estimate (Worst Case)	Administrator's Estimate (Best Case)
36,842,161	2,653,987	Total Resources Available	295,643	3,122,358
		Cost of Administration	127,500	130,000
		Cost of Liquidation	200,000	250,000
		Legal Costs	80,000	150,000
		Disbursements	50,000	50,000
		Available for Distribution	-	2,742,358
		Priority Creditors	244,115	86,814
		Available for Non-Priority Creditors	-	2,655,544
		Estimated Time Period	3 years	2 years
		Potential Dividend to non-priority creditors	-	0.0385

4.2 Financial Position Notes

AVAILABLE CASH

The company had the following bank accounts and Funds on Hand at the date of our appointment:

Bank	Amount
Bank West	\$2,950.19
St George Bank	\$1,036.47
Total	\$3,986.66

A total of \$3,965 has been recovered from this source.

We are also aware that the company operated an account with the Australia and New Zealand Banking Group Ltd ("ANZ"), the balance of which was \$80,077 in debit (overdraft) at the date of appointment.

REAL PROPERTY

A search conducted with the Victorian Land Titles Office has not identified any property of which the company is the registered proprietor in the state of Victoria. There will be no recovery from this source.

MOTOR VEHICLES

A search conducted with Vic Roads has confirmed that the company is not the registered operator of any motor vehicles in Victoria. There will be no recovery from this source.

The directors of the company have advised that the company maintained a lease agreement with Esanda Finance in respect to a Subaru Liberty TCM 133. As there was no equity in the vehicle we have disclaimed the company's interest in the lease.

PLANT AND EQUIPMENT

Refrigeration Equipment

The directors disclosed that the company owns a quantity of Refrigeration Equipment which is subject to finance with Capital Finance. We understand that the equipment is related to the company's former business in the food and beverage industry. We have received a copy of the lease contract from Capital Finance which discloses that a lease of 500 Skope SK720 Standard Specification glass Door Refrigeration Display Units ("Refrigeration Units") was taken out in the company's name in or around December 2004 with a current balance of approximately \$435,715. The former CFO has provided a detailed listing of the description of the equipment together with locations of all the equipment. We note that the 500 units are located in various locations through-out Victoria and New South Wales. The former CFO of the company has also advised that approximately 5 Refrigeration Units were sold by the company prior to our appointment. We have not sighted documentation to confirm same.

We obtained a valuation of the Fridges and taking into account the amount outstanding to Capital Finance together with estimated costs of realisation (including transport, freight, agent's commissions and our remuneration), we determined that there was no commercial benefit in realising the assets. Therefore, we have disclaimed the company's interest in this contract. The finance shortfall has not yet been determined at this time. There will be no recovery from this source.

Telephone Equipment

The directors disclosed that the company owns Telephone Equipment which is subject to finance with Enterprise Finance Solutions. As there was no equity in the vehicle we have disclaimed the company's interest in the lease.

LOANS - ASSETS

The directors disclosed the following loan accounts outstanding as at the date of our appointment. We are in the process of verifying the loan accounts.

Name	Associated?	RATA	ERV
On Q Technologies Pty Ltd (Administrators Appointed)	Yes	\$6,692,319	Nil
Motorlink Systems Pty Ltd (In Liquidation)	Yes	\$1,008,833	\$191,678 to \$373,268
Australian Pure Fruits (SA) Pty Ltd	Yes	\$ 455,233	Nil
Cash4Biz Pty Ltd	Yes	\$ 13,643	Nil
Peter McDougall	Yes	\$2,650,000	\$Nil to \$2,615,103 (plus interest)

In addition to the above, the company's records disclose that Technology Business Systems Pty Ltd (In Liquidation) and ACN 088 202 082 Pty Ltd (In Liquidation) (Formerly Known as M.O.N. Beverages Pty Ltd) are debtors of the company for the amounts of \$1,570,120 and \$7,591,900 respectively. We have not verified these amounts and note that both companies are in liquidation. No recoveries are expected from this source.

On Q Technologies Pty Ltd and Motorlink Systems Pty Ltd

As noted previously, we have also been appointed Administrators of On Q Technologies Pty Ltd and liquidators of Motorlink Systems Pty Ltd. At this juncture it is not expected that there will be a return to creditors in On Q Technologies Pty Ltd. A return in the range of 19 to 37 cents in the dollar has been estimated for creditors of Motorlink Systems Pty Ltd. It is intended that an alternate insolvency practitioner be engaged to assess the validity and quantum of On Q Group Ltd's claims against both On Q Technologies Pty Ltd and Motorlink Systems Pty Ltd, and if appropriate an application for directions will be sought from the court prior to admitting the claims for dividend purposes.

Australian Pure Fruits (SA) Pty Ltd

We have issued a letter of demand on Australian Pure Fruits (SA) Pty Ltd to which no response has been received at this time. We understand that Australian Pure Fruits (SA) Pty Ltd was part of the former food and beverage business conducted by On Q through its subsidiaries, which was sold off a number of years ago. We note that the loan has been carried in the company's financial statements for some time. Given the age of the debt, and as Australian Pure Fruits (SA) Pty Ltd is a wholly owned subsidiary of On Q Group Ltd (and operations of the group have effectively ceased), we do not expect any recoveries from this source.

Cash4Biz Pty Ltd

Cash4Biz Pty Ltd is a wholly owned subsidiary of On Q. We have issued a letter of demand on Cash4Biz to which no response has been received. We understand that Cash4Biz operated a loyalty rewards program and ceased trading in July 2008 together with other operations in the On Q group. The directors have advised us that Cash4Biz is insolvent and that they intend to place Cash4Biz into external administration. We do not expect any recoveries from this source.

Peter McDougall

The directors of the company have disclosed that as at the date of our appointment, a former director; Peter McDougall and various entities associated with Mr McDougall, are indebted to the company in the amount of \$2,650,000. The financial statements of the company as at 31 December 2007, disclose that the amount outstanding represents the balance of the former director's loan account that has been consolidated and made subject to a loan agreement on 15 October 2005, which is fully repayable over 5 years and subject to interest at 8% per annum. The loan is secured by a guarantee from a related entity of Mr McDougall (Kinarra Pty Ltd) and escrow of Kinarra's shares in On Q Group Limited (which hold no value).

The above amount has been disputed by Mr McDougall who has stated that it should be reduced by amounts claimed to be owing to him or entitled related to him. The directors of the company do not agree with Mr McDougall's claims and believe that the amount is fully recoverable as it is subject to an enforceable loan agreement.

The company commenced Supreme Court proceedings prior to our appointment to recover the loan pursuant to the loan agreement and creditors should note that Mr McDougall has lodged a counter claim against the company seeking payment of \$7,109,500. The parties to the proceedings are:

Parties

ON Q GROUP LIMITED	Plaintiff
PETER MCDOUGALL	Firstnamed Defendant
KINARRA PTY LTD	Secondnamed Defendant
JULIAN EDWARD FORSYTH LITTLE	Firstnamed Defendant by Counterclaim
IAN DOUGLAS CHRISTIANSEN	Secondnamed Defendant by Counterclaim
HAROLD EDWARD CHRISTIANSEN	Thirdnamed Defendant by Counterclaim
PETER COUPER	Fourthnamed Defendant by Counterclaim
PETER MCDOUGALL	Firstnamed Plaintiff by Counterclaim
KINARRA PTY LTD	Secondnamed Plaintiff by Counterclaim
ON Q GROUP LIMITED	Firstnamed Defendant by Counterclaim
AUSTRALIAN PURE FRUITS (SOUTH AUSTRALIA) PTY LTD (ACN 063 269 812)	Secondnamed Defendant by Counterclaim
ACN 088 202 082 PTY LTD (INLIQUIDATION) (FORMERLY KNOWN AS MON	
BEVERAGES PTY LTD (ACN 088 202 082)	Thirdnamed Defendant by Counterclaim
MURRAY PARK FARM PTY LTD (ACN 088 002 475)	Fourthnamed Defendant by Counterclaim
MURRAY PARK DAIRY PTY LTD (ACN 088 408 075)	Fifthnamed Defendant by Counterclaim
BLOOMS OF MELBOURNE PTY LTD (ACN 008 651 527)	Sixthnamed Defendant by Counterclaim
AUSTRALIAN FRESH JUICES PTY LTD (ACN 094 839 031)	Seventhnamed Defendant by Counterclaim
AULDWOOD PTY LTD (ACN 051 427 608)	Eighthnamed Defendant by Counterclaim

We have sought advice from the solicitors representing the company as to the merits of the claim. Based on this advice we have formed the opinion that there are reasonable prospects that the Court will find that the agreement of 15 October 2005 is enforceable. A summary of the claim and proposed future course of action is detailed below. We also advise that the proceedings have been adjourned until 6 February 2009.

The basis of the claim is with respect to transactions between On Q and various related parties, including Peter McDougall and entities associated with him. The transactions include transactions which did not satisfy the procedural and legal requirements under the Corporations Act (2001) for a public company (discussed further below). The parties entered into a Deed of Rescission, Termination and Release on 15 October 2005, and on this same date Mr McDougall executed a loan agreement with On Q (guaranteed by Kinarra) in the amount of \$3,724,969.03. On Q received payment of \$1,400,000 in partial reduction of the loan; the balance has not been received.

Mr McDougall was until November 2007 a director of On Q Group Limited. The Second Defendant, Kinarra (of which Mr McDougall is the secretary) is sued as guarantor.

The defences to the claim are largely based upon pre-contractual statements and an alleged collateral contract which is said by Mr McDougall to have imposed additional steps in the process before the loan amount was confirmed, and alleged duress exerted in the execution of the loan agreement and associated documents. In their amended defence and counterclaim, dated 27 August 2007, the defendants assert, among other things:

- a) that Mr McDougall is not indebted to On Q relying upon an alleged reconstruction of the McDougall Interests Loan Account with On Q ("Schedule 1 transactions");
- b) that the affairs of On Q have been conducted in an oppressive manner contrary to the interests of all members and in breach of sections 260A, 232 and 233 of the Corporations Act (2001) (paragraphs 50 and 51) ("Oppression Claims");

As Paul Burness and myself have been appointed administrators to On Q, it has been submitted that the Oppression Claim should be struck out. In our view, there is no purpose to be served by the Oppression Claim continuing in this context where the company is in external administration.

Mr McDougall's counterclaim was stayed pursuant to the operation of section 440D(1) of the *Corporations Act*, which provides that during the administration of a company a proceeding in a Court against the Company or in relation to any of its property cannot be begun or proceeded with except:

- (a) with the Administrator's written consent; or
- (b) with the leave of the Court in accordance with such terms (if any) as the Court imposes.

The Court also ordered on 7 August 2008, that "Schedule 1" of McDougall's amended defence and amended counterclaim dated 27 August 2007, being the reconstruction of his loan account with On Q, in which McDougall claims an indebtedness of \$7,190,500 as at 30 June 2007, be struck out.

If this matter proceeds, the defendants have informed the Court that they will seek an order to amend their defence and counterclaim.

On Q has submitted that the "Schedule 1" transactions McDougall and Kinarra rely upon in their defence and counterclaim were entered into in contravention of the "related party financial benefits" statutory provisions under the Corporations Act (2001). On Q asserts that the party seeking to rely on exemption of the statutory provisions (pursuant to Section 210 of the Corporations Act (2001)) bears the burden of proof and has the onus of demonstrating that the giving of the financial benefit would have been reasonable in the circumstances if the parties were dealing at arm's length. Section 210 provides that shareholder approval is not needed to give financial benefit to a related party where:

- the terms of the agreement would be reasonable in the circumstances if the public company and the related entity were dealing at arm's length; or
- are less favourable to the related party than if they were dealing at arm's length.

The defendants have not as yet filed any material which addresses the burden of proof issues arising under section 210 of the Corporations Act (2001). We understand that the defendants further amended defence and counterclaim will deal with the above issues.

To date, the defendants have also ignored the earlier rejection of the amounts claimed in "Schedule 1", by both the directors of On Q and McGrath Nicol (retained as an expert for the express purposes of considering whether the transactions satisfied the exemptions set out in section 210) prior to the defendants' entry into the Loan Agreement.

Given the findings of the independent report provided by McGrath Nicol in October 2004, concerning the related party transactions which form the backdrop to the loan agreement between Mr McDougall and On Q, we are of the view that the defendants will face difficulties overcoming this statutory burden.

The defendants also have an outstanding application for security for costs; this application has been adjourned. His Honour noted that his decision in relation to the security for costs application would depend, in part, on whether McDougall proceeded with his counterclaim.

Due to the complexity and magnitude of the above claim, significant work and legal expenses would be required in order to pursue this claim. It is also expected that the claim will be vigorously defended by the defendants. The company's solicitor has estimated that legal costs associated with pursuing the claim to trial will be in the range of \$77,550 to \$126,250, reconciled as follows. In addition we estimate our costs would be in the range of \$70,000 to \$100,000:

Estimate of Costs (Legal Professional Fees)	Low	High
Directions hearing on 12 September 2008 (2 hours) and hearing of defendants' application for security for costs	\$ 1,000.00	\$ 2,000.00
Review witness statement of Dugal McDougall (which has not yet been served by the defendants)	\$ 1,000.00	\$ 2,000.00
Prepare witness statements in reply to defendants' witness statements	\$ 5,000.00	\$ 5,000.00
Prepare chronology of relevant facts	\$ 1,000.00	\$ 1,000.00
Prepare written outlines of opening	\$ 2,000.00	\$ 2,000.00
Prepare court book and reviewing discovery for documents to be tendered, including copying and pagination by LitSupport	\$ 5,000.00	\$ 5,000.00
General preparation for trial	\$ 20,000.00	\$ 20,000.00
Trial - estimated 5 - 7 days	\$ 30,000.00	\$ 75,000.00
Trial Transcript	\$ 7,000.00	\$ 7,000.00
Court fees		
Trial - estimated 5 - 7 days	\$ 4,250.00	\$ 5,950.00
Setting down for Trial fee	\$ 1,300.00	\$ 1,300.00
Total	\$ 77,550.00	\$ 126,250.00

As the administration is currently without funds, we are seeking an indemnity from creditors to pursue the above claim. I would also require an indemnity for any adverse costs order. It is possible for any such indemnifying creditor to receive an advantage over other creditors from the proceeds recovered, pursuant to Section 564 of the Corporations Act. Any creditor that is prepared to provide an indemnity is requested to contact my office in writing within 30 days hereof.

We have also approached litigation funders with a view to obtaining funding proposals to enable the above claim to be pursued. Litigation funding arrangements generally work on the basis of a percentage return of the claim in consideration for providing funding for costs associated with pursuing the claim together with an indemnity for an adverse costs order.

We note that we have also received a proposal from a third party to take an assignment of the above claim. The proposed terms of the assignment are that the company will assign its right, title and interest in the debt to the buyer for an upfront payment and a percentage return of the net proceeds ultimately recovered. In the absence of an indemnity from creditors or not being able to secure litigation funding on acceptable terms, it may be that this proposal is beneficial to the company.

We are currently reviewing the available options as discussed above to enable the claim to be pursued, and will provide creditors with an update in due course. We note that it will be necessary to obtain to the approval of creditors to enter into a litigation funding agreement or to assign the claim. Creditors will be advised of any developments in due course.

Creditors are also advised that on 6 March 2008, the Court ordered the defendants to pay the plaintiff's costs, on an indemnity basis, in relation to a subpoena. A bill of costs in the amount of \$115,426.41 was served on the defendants' solicitors, Minter Ellison, in April 2008. This bill will be taxed (i.e. is reviewed by the Court) shortly. On 18 July 2008, the Court ordered that the defendants pay the plaintiffs' costs of and incidental to that day. A bill of costs in the sum of \$4,256.00 has been prepared and served on the defendants' solicitors. On 7 August 2008, the Court ordered that the defendants pay the plaintiffs' costs in relation to its objections of claims of privilege concerning documents produced. It is estimated the bill of costs in this matter will total approximately \$10,000 - \$13,000. Accordingly it is estimated that the company is entitled to costs in the order of \$130,000 less any reduction after the bills of cost are taxed.

OTHER ASSETS

The directors disclosed that the company held an interest in subsidiaries with a combined book value of \$26,018,146. The directors have estimated there is no realisable value in the subsidiaries. We have not been provided with a detailed reconciliation of this amount and/or the subsidiaries concerned, however understand that they relate to the companies in the On Q group structure as set out earlier in this report. We also understand that the majority of the book value is associated with the IP owned by On Q Technologies Pty Ltd. As the subsidiaries are either dormant or in external administration, we do not

expect any recoveries from the company's shareholdings in same. On Q also has a substantial shareholding in Bill Express Ltd, for which no return is expected.

The company had also worked to generate other income from licensing of the technology owned by its subsidiary, On Q Technologies Pty Ltd, in Vietnam, Philippines and the Middle East. The company had entered into contractual arrangements including heads of agreement, joint venture agreements and taken shareholdings in companies which were established to commence operations in the relevant locations. We note that the only interest disclosed by the directors on the Report as to Affairs was the company's 22% shareholding in Ipay ME & A Pte Ltd, which is involved with the Middle East venture. On Q Technologies Pty Ltd has licensed its IP to Ipay ME & A Pte Ltd. The value of On Q's shareholding was disclosed as unknown.

We have been advised that none of the overseas operations were functional at the time of our appointment, however our investigations are continuing to determine whether there may be any amounts recoverable from this source. We note that we do not appear to be in possession of all executed agreements in this regard and we will provide creditors with a further update in due course.

As noted above, the company has cost orders in its favour for approximately \$130,000 in relation to the Peter McDougall proceedings. The costs need to be taxed by the Court. We estimate that between \$100,000 and \$130,000 will be recovered from this source.

The company's former CFO has advised that the company is entitled to a GST refund, which will be refundable once outstanding lodgements are completed. This was not disclosed on the Report as to Affairs. We have reconciled the outstanding lodgements with the assistance of the former CFO and quantified an estimated refund in the amount of \$20,000. We are finalising our assessment of this claim prior to completing the lodgements. We also note that the company was registered on an accruals basis, therefore it is not certain that there will be any recovery from this source.

PREFERENTIAL PAYMENTS

The results of our examinations are set out in the Investigations and Insolvent Transactions area of this report. Any amount recovered from a creditor as a preferential payment will be able to be claimed by that creditor in the winding up.

INSOLVENT TRADING

The results of our examinations are set out in the Investigations and Insolvent Transactions area of this report.

VOID TRANSACTIONS

The results of our examinations are set out in the Investigations and Insolvent Transactions area of this report.

PRIORITY EMPLOYEE ENTITLEMENTS

The provisions of the Corporations Act provide for priority to be given to the various entitlements due to employees of the company. The statutory priority afforded to employee entitlements may be set out as follows:

1. Wages and salaries
2. Holiday pay and long service leave
3. Retrenchment entitlements

We note that the directors disclosed the following outstanding employee entitlements:

Type of Entitlement	Priority Amount
Superannuation	\$ 1,453
Wages / Salaries	\$ 8,077
Leave Entitlements	\$64,858
Long Service Leave	\$12,426
Notice in Lieu	\$ 0.00
Retrenchment Entitlements	<u>\$ 0.00</u>
TOTAL	\$86,814

Creditors should note that pursuant to Section 556 of the Corporations Act, priority claims extending to employees who are 'excluded employees' of the company are restricted. An excluded employee is defined as a director, a spouse or a relative of the director of the company. Section 556 states that excluded creditors are entitled to claim a maximum of \$2,000 in respect of wages and superannuation and \$1,500 in respect of annual leave as a priority payment. Under Section 556, the directors and related persons are specifically excluded from obtaining statutory priority for retrenchment entitlements.

The directors have not disclosed any employee entitlements outstanding to them, therefore the statutory limitations has been applied in the above analysis.

We have received a claim from an employee claiming an amount outstanding to him in the amount of approximately \$162,956.98, which is made up of unpaid salary, superannuation, unpaid bonuses, travel allowance and expense claims. This claim is being verified.

General Employee Entitlements and Redundancy Scheme (GEERS)

If it is expected that insufficient funds will be recovered to enable a full distribution to employees, the government GEERS system may be of assistance to those employees. In this regard, all employees with outstanding entitlements should contact the GEERS office to lodge a claim for those entitlements. Below are the contact details:

Address: GPO Box 9879
Canberra Act 2601
Phone: 1300 135 040
Fax: (02) 6276 8717
E-Mail: eeb@dewr.gov.au

This government body specialises in assisting employees with outstanding entitlements that become due because of employers becoming insolvent. The scheme provides assistance with regard to the following employee entitlements:

- All unpaid wages;
- All accrued annual leave;
- All payment in lieu of notice;
- All long service leave; and
- Up to 8 weeks redundancy (*where a legal entitlement exists*).

Please contact that office for future assistance regarding same. In that event, we will be liaising with GEERS to enable that distribution to be made to employees. In the interim, employees should contact us with details of their outstanding entitlements.

ORDINARY UNSECURED CREDITORS

The directors disclosed ordinary unsecured creditors totalling \$20,195,170 on the Report as to Affairs. We estimate that total claims by creditors are approximately \$68,936,055. A listing of the known creditors and Proofs of Debt received to date is included at the back of this report. We have not verified proofs of debt received at this time. The major creditors are:

Vodafone Pty Limited - \$36,242,530

Vodafone Australia is a creditor of Bill Express Ltd. Vodafone Australia has lodged a proof of debt pursuant to a guarantee provided by On Q. This claim was not disclosed on the Report as to Affairs.

Bill Express Ltd - \$21,586,727

We note that we have received a Proof of Debt from the Liquidator of Bill Express Limited in the amount of \$21,586,727. The directors disclosed the debt to Bill Express Ltd on the Report as to Affairs for the amount of \$12,658,086. We have not reconciled the loan account at this time.

A.C.N 082 202 082 Pty Ltd (In Liquidation) - \$2,789,956

We have received a proof of debt from the Liquidators' of ACN 088 202 082 Pty Ltd (In Liquidation) (Formerly Known as M.O.N. Beverages Pty Ltd) ("MON") in the amount of \$2,789,955.91. On Q is the holding company of ACN 088 202 082 Pty Ltd. The liquidators claim is made pursuant to Section 588V of the Corporations Act (2001), which provides that a holding company can be held liable for insolvent trading of its subsidiary, and a liquidator may recover from the corporation, as a debt due to the company, an amount equal to the amount of loss or damage. The claim is in respect the total debts of ACN 088 202 082 Pty Ltd (excluding related party claims). This claim was not disclosed on the Report as to Affairs.

Primebroker Securities Limited (In Liquidation) (Receivers & Managers Appointed) - \$4,127,767

This debt relates to a margin loan facility, whereby On Q used its shares in Bill Express Ltd as security for margin loan facilities. The company also had margin loan facilities with Tricom Equity and Opes Prime on the same basis.

We will verify all creditors claims should there be sufficient funds to enable a dividend to be paid to creditors.

5. Investigations and Insolvent Transactions

There are detailed investigations required to be undertaken in relation to the activities of the company prior to our appointment. It is noted that the financial records of the company for the period 1 January 2008 to the date of our appointment have not been accessible until recently, due to the closure of operations for the On Q, Bill Express and TB Groups. This resulted in difficulties in accessing the servers upon which the financial data is stored. We also note that the company's financial records are inter-mingled with the financial records of the Bill Express and TB Groups. Based on our investigations to date, we note that there are inconsistencies in relation to financial records between the On Q, Bill Express and TB Groups.

As previously advised, the ASIC has taken an image of the data and has made the image available to us. We further note that the electronic records can only be accessed using proprietary software, and requires a large server to be able to load and run the software and data.

Our investigations are continuing with respect to insolvent trading and voidable transactions, which will only be available to creditors should the company be placed into liquidation. Our preliminary investigations are detailed below.

5.1 Financial Statement Examination

Financial Statements

On Q and its controlled entities prepared consolidated audited accounts. Statutory accounts were prepared for the financial year ended 30 June 2007 and for the half year ended 31 December 2007. We summarise below the results for On Q Group Ltd for the periods ending 30 June 2006, 30 June 2007, 31 December 2007 and estimates for 30 June 2008 (unaudited) respectively. The company's asset base primarily is comprised of its shareholding in controlled entities.

BALANCE SHEET SUMMARY

	Year Ended 30-Jun-08 Draft Financials	Year Ended 31-Dec-07	Year Ended 30-Jun-07	Year Ended 30-Jun-06
	\$	\$	\$	\$
Current Assets	2,950	12,182,000	6,173,000	11,668,000
Non-Current Assets	12,890,542	27,518,000	27,518,000	26,253,000
Total Assets	12,893,492	39,700,000	33,691,000	37,921,000
<u>Less:</u>				
Current Liabilities	1,310,512	20,361,000	10,778,000	2,278,000
Non-Current Liabilities	11,637,641	2,887,000	3,059,000	12,396,000
Total Liabilities	12,948,154	23,248,000	13,837,000	14,674,000
NET ASSETS	- 54,662	16,452,000	19,854,000	23,247,000

PROFIT AND LOSS STATEMENT SUMMARY

	Year Ended 30-Jun-08 Draft Financials	Year Ended 31-Dec-07	Year Ended 30-Jun-07	Year Ended 30-Jun-06
	\$	\$	\$	\$
Income	197,161	121,000	263,000	179,000
Gross Profit	197,161	121,000	263,000	179,000
<u>Less:</u>				
Expenses	4,269,898	3,523,000	4,753,000	14,088,000
NET PROFIT/(LOSS) before Income Tax	- 4,072,737	- 3,402,000	- 4,490,000	- 13,909,000

5.2 Adequacy of Books and Records

We have made enquiries with the directors about the types of records kept by the company and made a preliminary assessment of their adequacy.

	Unknown	Yes	No
Adequate Trading Budgets and Cash Budgets	<input type="checkbox"/>	<input checked="" type="checkbox"/>	<input type="checkbox"/>
Regular Internal Management Statements	<input type="checkbox"/>	<input checked="" type="checkbox"/>	<input type="checkbox"/>
Preparation of Quarterly Financial Statements	<input type="checkbox"/>	<input checked="" type="checkbox"/>	<input type="checkbox"/>
Detail Aged Trade Debtors Ledger Maintained	<input type="checkbox"/>	<input checked="" type="checkbox"/>	<input type="checkbox"/>
Detail Aged Trade Creditors Ledger Maintained	<input type="checkbox"/>	<input checked="" type="checkbox"/>	<input type="checkbox"/>
Use of External Accountant	<input type="checkbox"/>	<input checked="" type="checkbox"/>	<input type="checkbox"/>
Dedicated Internal Accountant	<input type="checkbox"/>	<input checked="" type="checkbox"/>	<input type="checkbox"/>

Failure to maintain proper books and records in accordance with section 286 of the *Corporations Act 2001* provides a rebuttable presumption of insolvency. A liquidator can rely upon this presumption in an application for compensation for insolvent trading. Our investigations are continuing to determine whether breaches of the *Corporations Act* have occurred in relation to the maintenance of proper books and records.

Our review of company's records has identified a number of transactions and/or matters which we are currently unable to adequately explain, and further, to date, we have not received an acceptable explanation or sufficient documentation from the company's Directors. Those transactions and matters are:

- Significant expenditure on legal expenses which have been expensed by On Q. Given the limited nature of On Q's activities we expect that some of this expenditure may have been made by On Q on behalf of other entities, and may give rise to loan accounts with respect to same. However as the majority of companies associated with On Q are inactive or have been placed into external administration any potential recovery is uncertain;
- Significant expenditure to overseas based consultants which has been poorly documented and for which On Q appears to have received no material benefit;
- Purchase of shares in Bill Express Ltd at a time when the directors may have had reasons to suspect insolvency;
- Significant inter-company loan transactions comprised of both cash transfers and journal entries. Based on available supporting documentation, the reasons for such transactions are not immediately clear. Further investigations and analysis of the loan accounts will be required so as to determine an accurate balance in respect of same, and to verify the transactions. We have not sighted working papers that support many of the entries in the accounts, many of which are stored electronically;
- Advances to third parties that were made not in the ordinary course of business.

We are currently seeking further clarification and information in respect of the above and will provide creditors with an update in due course.

Pitcher Partners acted as auditors for the On Q Group until 30 June 2006. From this time Moore Stephens have acted as the groups auditors. We note that Moor Stephens provided a qualified audit report for the 6 months ending 31 December 2007, expressing significant uncertainty as a going concern. We have been provided with Moore Stephens working papers to gain a full understanding of the work completed. We have also contacted the previous auditors, Pitcher Partners, with a view to understanding some of the historical transactions and the carrying value of assets reflected in the accounts.

5.3 Solvency Examination

Corporations Act Section 95A

Part of our role as Administrators is to conduct a preliminary examination of the company's solvency to determine whether the company is currently solvent, whether the company may be able to return to solvency and when the company first became insolvent. This examination is preliminary and based on the best information available at this time.

Our investigations suggest that the company began experiencing financial difficulties around 30 June 2007. We note that our analysis has been based on the company's audited financial records for the period 30 June 2006 to 31 December 2007. We note that we have been provided with the company's internal financial records for the company as at 30 June 2008, which have not been audited.

A summary of our examinations is provided below:

TECHNICAL SOLVENCY

The financial statements of the company indicate that the company had a surplus of assets to liabilities to 30 June 2006 and 30 June 2007, however the position from at least 31 December 2007 to 30 June 2008 discloses a significant deficiency:

Technical Insolvency:

Date	Total Assets	Total Liabilities	Deficiency
30-Jun-06	37,921,000	14,674,000	23,247,000
30-Jun-07	39,700,000	23,420,000	16,280,000
31-Dec-07	12,087,028	13,688,197	- 1,601,169
30-Jun-08*	12,893,492	12,948,154	- 54,662

* Draft Financials

WORKING CAPITAL DEFICIENCY

The company had a significant working capital deficiency position as at 30 June 2007 to 30 June 2008:

Working Capital Deficiency:

Date	Current Assets	Current Liabilities	Deficiency
30-Jun-06	11,668,000	2,278,000	9,390,000
30-Jun-07	12,182,000	20,361,000	- 8,179,000
31-Dec-07	35,228	2,050,555	- 2,015,327
30-Jun-08*	2,950	1,310,512	- 1,307,562

* Draft Financials

COMMERCIAL SOLVENCY

As a general accounting rule a company with a liquidity ratio of 1 or greater is said to have sufficient liquid assets to meet its due and payable liabilities. Throughout the period analysed from 30 June 2007 to 30 June 2008 the company was significantly lacking liquidity with which to meet its obligations, and was under capitalised at all points in time. For the period 30 June 2007 there was only 60cents of assets available to cover each dollar of liabilities in the time frame which they were expected to be paid. This position significantly declined as at 31 December 2007 to 2 cents. This indicates that the company had a significant liquidity problem from at least 30 June 2007 and the company remained commercially insolvent up until the date of our appointment.

Further to the above, it should be noted that the company's solvency position may likely be directly correlated to the operations of Bill Express Ltd. This is discussed further below.

As such the company may have been commercially insolvent for some time. Further detailed analysis of the company's financial position will be undertaken should the company be placed into liquidation.

Quick Asset Ratio

Date	Current
	Assets
30-Jun-06	5.12
30-Jun-07	0.60
31-Dec-07	0.02
30-Jun-08*	0.00

* Draft Financials

PROFIT AND LOSS

As part of our investigations we have also reviewed the company profit and loss statements. The profit and loss statements indicate that the company suffered a significant loss before tax for each period under review from 30 June 2006 to 30 June 2008.

Profit and Loss

Date	Income	Expenses	Profit/-Loss
30-Jun-06	179,000	14,088,000	- 13,909,000
30-Jun-07	263,000	4,753,000	- 4,490,000
31/12/2007	121,000	3,523,000	- 3,402,000
30-Jun-08*	197,161	4,269,898	- 4,072,737

* Draft Financials

CONCLUSION AS TO INSOLVENT TRADING

	Yes	No
Is the company currently solvent?	<input type="checkbox"/>	<input checked="" type="checkbox"/>
Will creditors be paid in full with the sale of the company's assets?	<input type="checkbox"/>	<input checked="" type="checkbox"/>

The directors have advised that they first realised the company may have to go into external administration in July 2008 after the cessation of royalties from Bill Express Ltd and the appointment of administrators to that company.

The majority of On Q's liabilities are related party loan accounts, liabilities under guarantees, shortfalls under finance/leasing/margin lending arrangements and other contingent claims (i.e. claim pursuant to Section 588V of the Corporations Act for insolvent trading by holding company). These liabilities account for \$68,444,976 of the total estimated indebtedness of On Q in the amount of \$69,168,069, and it is arguable that none of the liabilities were immediately due and payable provided that the terms of the agreements were being complied with. The remaining liabilities total approximately \$479,000 (excluding employee claims), all of which were not also due and payable and/or creditors were not seeking to enforce repayment.

Further to the above, it should be noted that the company's solvency position would be directly correlated to the operations of Bill Express Ltd. As noted earlier in this report, in recent years On Q derived its cash flow from the issuance of new shares, margin lending arrangements (secured against the company's shares held in Bill Express Ltd), receipt of royalty payments payable from Bill Express Ltd to On Q Technologies and inter-company loans. It is our understanding that royalty payments from Bill Express Ltd (which were remitted to On Q Group Ltd pursuant to inter-company loan accounts, and were its primary source of recurring cash flow) ceased on or around 28 April 2008. The liquidators of Bill Express Ltd have not yet reached a conclusive determination as to the point in time that Bill Express Ltd became insolvent (and admittedly this would ultimately be a matter determined by a Court), and we note that this information may be critical to determining the date of On Q's insolvency. We note that the preliminary

investigation by the liquidators of Bill Express Ltd indicates that Bill Express Ltd may have been insolvent since January 2008, if the steps taken to recapitalise the On Q and Bill Express Groups were unsuccessful or proven not to be reasonably based.

The pursuit of a claim for insolvent trading would involve litigation, and it is expected such a claim would be defended. There are also a number of statutory defences available to the directors pursuant to Section 588H of the Corporations Act. The decision to pursue a claim for insolvent trading will also, amongst other things, take into consideration the financial capacity of the directors to satisfy any claim made against them. In this regard we understand that the current directors of the company have significant exposure in relation to the failure of the group.

In the event the company is placed into liquidation, any creditor that is prepared to provide funding to pursue further investigations of the potential insolvent trading claim or other potential recovery actions set out in the next section of this report, should contact our office in writing within 30 days hereof.

5.4 Insolvent Transactions

PREFERENTIAL PAYMENTS *Corporations Act Section 588FA*

The provisions of the Corporations Act allow certain transactions with creditors within the 6 months before the commencement of the winding up (the original date of the appointment of the Administrator) to be recovered by a Liquidator, should those transactions prove to be "preferential" to the recipients.

A payment is preferential if:

- It gives the recipient more than they would have received if the debt had been proved in the liquidation; and
- Payment was made at a time that the company was insolvent.

Other provisions of the Act relate to preferential payments made to associated parties of the company. These transactions can be recovered if made within a four year period of the company's winding up.

We have considered whether certain transactions entered into by the company may be preferential. These views are preliminary.

- **Findings**

	Yes	No
Have we located any payments that appear "suspicious"?	<input checked="" type="checkbox"/>	<input type="checkbox"/>
Do we have sufficient information to determine if they are preferential?	<input type="checkbox"/>	<input checked="" type="checkbox"/>

In order for a preference to be recovered from a creditor of the company it must be shown that:

- The payments were made by the company to a creditor.
- The payments were from the funds of the company
- The payments gave the creditor a higher return than they would have received by way of a dividend in the liquidation
- The creditor was unsecured against the company
- The company was insolvent at the time of the payments
- The payments were made within the 6 months before the winding up

The major evidentiary hurdle in regard to claiming a preferential payment has been made is in proving that the creditor that received the payment knew that the company was insolvent. Knowledge of insolvency is generally proven by:

- Creditor is chasing payment as the debt is significantly overdue
- Creditor has entered into a payment agreement with company
- Creditor has not entered into a payment agreement with company but is receiving part payments for the amount outstanding

- Creditor has issued a statutory demand against the company
- Creditor has threatened winding up proceedings against the company
- Creditor will cease supply unless all payments are made up to date

Given the above, at this time we have been unable to quantify whether any of the suspicious payments identified may be preferential. Our investigations are continuing and creditors will be provided with an update in the event of any significant developments.

UNCOMMERCIAL TRANSACTIONS
Corporations Act Section 588FB

The provisions of the Corporations Act allow certain transactions within the 2 years before the commencement of the winding up (the original date of the appointment of the Administrator) to be recovered by a Liquidator, if it may be expected that a reasonable person in the company's circumstances would not have entered into the transaction, having regard to:

- The benefits (if any) to the company of entering into the transaction;
- The detriment to the company of entering into the transactions;
- The respective benefits to other parties of the transactions; and
- Any other relevant matter.

Other provisions of the Act relate to uncommercial transactions with associated parties of the company. These transactions can be recovered if made within a four year period of the company's winding up.

Our preliminary investigations have identified transactions totalling approximately \$1m that warrant further investigation to determine whether they may be uncommercial transactions. These views are preliminary and creditors will be provided with a further update in due course.

We have also identified a number of transactions involving substantial sums of money being paid to entities outside the On Q Group which may be uncommercial in nature. However these entities are in external administration and therefore any recovery is unlikely.

INSOLVENT TRADING BY DIRECTORS
Corporations Act Sections 588G

Creditors may be aware of the concept that Directors may be held liable for company debts incurred at a time when the Directors (or holding company) knew, or should have known that the company was insolvent. Under those circumstances, sections 588M and 588W give the Liquidator the right to recover compensation from Directors or holding company respectively for debts incurred.

The initial part of our investigation lies with proving the date of insolvency. This has been set out earlier in this report. The second part of that preliminary assessment is to determine what unpaid debts were incurred after the date of insolvency.

- **Findings**

Date of suspected Insolvency – **Unknown– potentially 1 January 2008**

Amount of unpaid debt incurred after date of suspected Insolvency – **Unknown**

We note that the following parties acted as directors for the periods set out below. Any claim for insolvent trading can only be made on a director for debts incurred during the period of time they were in office, which remain outstanding:

Director Name	Appointment Date	Resignation Date
Julian Edward Forsyth Little	18/03/2001	-
Ian Douglas Christiansen	8/07/2003	-
Harold Edward Christiansen (Deceased)	18/03/2001	-
Stephen Fitzgerald	30/11/2006	28/04/2008
Peter McDouball	30/07/1999	29/11/2007
Dugal McDougall	30/07/1999	30/11/2006
Tristan Fischer	8/07/2003	14/10/2005
William Johan Anderson	16/02/2003	8/07/2003
Siegrad Kotz	1/02/2000	9/07/2001
Hugh Falconer	27/09/2000	9/07/2001
Saul Spigler	6/08/1988	16/02/2000

• **DIRECTORS' POTENTIAL TO SATISFY CLAIM**

We have also attempted to determine whether the directors would have the capacity to meet such a demand if one was made upon them. We are only able to conduct limited investigations in this regard due to the Privacy Act, accordingly we have not made a detailed assessment of the Directors' ability to satisfy any insolvent trading claim should one be made. Our searches reveal that one of the Directors is the registered proprietor of a property. The Directors' personal financial position will be investigated further, if necessary, should the company be wound up.

OFFENCES UNDER THE CORPORATIONS ACT

Under the provisions of the Corporations Act, we must investigate any potential offences and report those offences to the ASIC for its consideration. Our preliminary investigations have shown the following potential offences:

	Yes	No
Good Faith, Use of Position and Information (s180 to 1844)	<input checked="" type="checkbox"/>	<input type="checkbox"/>
Knowingly receiving property (s590(5))	<input type="checkbox"/>	<input checked="" type="checkbox"/>
False information (s1309)	<input type="checkbox"/>	<input checked="" type="checkbox"/>
Dishonest Insolvent Trading (s588G(3))	<input type="checkbox"/>	<input checked="" type="checkbox"/>
Frauds by Officers (s596)	<input type="checkbox"/>	<input checked="" type="checkbox"/>
Falsification of books (s1307)	<input type="checkbox"/>	<input checked="" type="checkbox"/>
False or Misleading Statement (s1308)	<input type="checkbox"/>	<input checked="" type="checkbox"/>
Non-Disclosure, misrepresentation on certain matters (s590(1))	<input type="checkbox"/>	<input checked="" type="checkbox"/>

OTHER POTENTIAL VOID TRANSACTIONS AND RECOVERIES

We have examined the records of the company in order to determine whether there are any other transactions (other than the ones already mentioned) that could be considered void if a Liquidator was appointed to the company. These are listed as follows:

	Yes	No
Suspected Void Floating Charge (s588FJ)	<input type="checkbox"/>	<input checked="" type="checkbox"/>
Suspected Unfair Loans (s588FD)	<input type="checkbox"/>	<input checked="" type="checkbox"/>
Suspected Guarantor Preferences (s588FH)	<input type="checkbox"/>	<input checked="" type="checkbox"/>

6. Voting Option and Recommendation

6.1 Proposal for Deed of Company Arrangement

There is no proposal for a Deed of Company Arrangement.

6.2 Potential Resolutions

Corporations Act Section 439C

To Accept the Deed of Company Arrangement

There is no proposal for a Deed of Company Arrangement.

To liquidate the company

Liquidating the company will place Liquidators into the company to wind up its affairs and, eventually, deregister the company. It will also allow for the recovery of various monies under the provisions of the Corporations Act. These potential recoveries are set out earlier in this report.

To end the administration

Ending the Administration will cause the control of the company to be passed back to the directors of the company. It will place the company back into the same position it had before the appointment of the Administrators. That will mean that the company will not be protected from recovery actions by creditors and there will be no formal process in place for the payment of creditors debts.

Voluntary Administrators' Remuneration

Creditors will be asked to consider a resolution for the approval of the Administrators remuneration. Creditors should refer to the Remuneration section of this report for details of that remuneration.

Liquidators' Remuneration

Creditors will be asked to consider a resolution for the remuneration of the Liquidators. Creditors should refer to the Remuneration section of this report for details of that remuneration.

Destruction of Records

Liquidators can seek approval for the destruction of the company's records six months after the finalisation of the liquidation and with the approval of the ASIC. We seek this resolution so that the liquidation does not need to pay for the storage of the records for the normal 5 years period.

Adjourning the Meeting

Creditors have the right to resolve that the meeting be adjourned for up to 45 business days to allow the Administrators more time to conduct investigations, or to allow the directors time to finalise formulating a Deed to propose to creditors.

6.3 Recommendation

The only options available to creditors are:

- (a) To wind up the company; or
- (b) To end the administration and hand the company back to its directors

Under Section 439A, Administrators must provide a recommendation to creditors based on the information available to them.

Recommendation: That the company be wound up.
--

Whether to liquidate the Company

In our view the company should be wound up.

The company is insolvent in that it has insufficient current assets to meet its commitments. Placing the company into liquidation will also provide the Liquidator with powers to conduct further investigations into the affairs of the company; look at the matter of Insolvent Trading; recover any Preferential Payments made to creditors; examine and recover any other Insolvent Transactions (if any); and examine the general affairs of the company.

- Benefits

	Unknown	Yes	No
Will there be a recovery of preferential payments?	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Will there be a claim for insolvent trading?	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Are there other void transactions to recover?	<input type="checkbox"/>	<input checked="" type="checkbox"/>	<input type="checkbox"/>
Will there be a dividend in a liquidation?	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Will we be issuing a report to the A.S.I.C?	<input type="checkbox"/>	<input checked="" type="checkbox"/>	<input type="checkbox"/>
Will the company be deregistered after the liquidation?	<input type="checkbox"/>	<input checked="" type="checkbox"/>	<input type="checkbox"/>

- Dividend Prospects

Prospective dividends are shown in the Financial Position Statement.

Whether to End the Administration

In our view it would not be in the interest of the creditors for the Administration to end. Should the company's creditors resolve that the Administration be ended, the control of the company would revert back to the directors. The company is insolvent and the affairs of the company should be formally resolved.

It is likely that a creditor would apply to have the company wound up shortly after the Administration is ended as the company is unable to pay its debts.

7. Remuneration

7.1 Solvency Management Rates

Our Solvency Management Rates are those used to calculate remuneration on solvency matters. These rates, as they currently stand, are set on a seven-tiered system. These now replace the previous rates published by the Insolvency Practitioners Association. All of these rates are shown inclusive and exclusive (rounded) of GST to avoid confusion. The GST inclusive rates are shown in brackets.

Our work practices ensure that staff at the appropriate level of experience does the appropriate work. Our quality control procedures ensure that appropriate time costing is billed for each work task. Descriptions of the levels of our staff are set out on the Rates page on our website.

These hourly rates currently are:

	QLD	NSW	VIC
Partner/Appointee	\$409.00 (450.00incl)	\$440.00 (485.00incl)	\$440.00 (485.00incl)
Manager	\$345.00 (380.00incl)	\$373.00 (410.00incl)	\$373.00 (410.00incl)
Supervisor	\$255.00 (280.00incl)	\$282.00 (310.00incl)	\$282.00 (310.00incl)
Senior File Accountant	\$191.00 (210.00incl)	\$227.00 (250.00incl)	\$227.00 (250.00incl)
File Accountant	\$155.00 (170.00incl)	\$168.00 (185.00incl)	\$168.00 (185.00incl)
Financial Assistant	\$118.00 (130.00incl)	\$136.00 (150.00incl)	\$136.00 (150.00incl)
Support Staff	\$55.00 (60.00incl)	\$63.00 (70.00incl)	\$63.00 (70.00incl)

All of these fees are expressed as GST inclusive.

The Worrells Solvency Management Rates, upon which our remuneration is based, are those approved by creditors from time to time. At the time of approval it is communicated to creditors that those Rates are subject to change. Our current Rates are always available on the firm's web site. Creditors are encouraged to review the firm's web site for any changes.

7.2 Administrators' Remuneration

Corporations Act Section 449E

We shall be asking that the creditors approve our remuneration as Administrators at the second meeting of creditors. Those fees are on a time basis calculated at the Solvency Management Rates published by the firm from time to time. Full details of the work performed to date and the remuneration calculation will be available at the meeting.

Fees at date of Report:	\$126,187.45
Estimated further fees to date of meeting:	\$ 4,000.00 (exact figures to be table at meeting)
Fee Approval being sought up to date of meeting:	\$130,187.45

The above amounts are inclusive of GST.

Work Performed

A full description of the work performed by task and staff member for all unapproved fees is set out in Annexure 'A' attached to this report.

7.3 Liquidators' Remuneration

Corporations Act Section 473

We shall be asking that an interim level for our remuneration as Liquidators be approved at the second meeting. Those fees are on a time basis calculated at the Solvency Management Rates published by the firm from time to time.

The amount of fees that we shall be requesting are based upon the budgeted fees as set out below. We shall be asking that these fees be set at an interim limit with further remuneration being approved by creditors at a later date, if required.

Interim fees Approval Limit (GST Inclusive) - \$250,000

Details of the work to be performed by Liquidators are set out in summary below

Task area	General Description	Detailed description
Assets \$150,000.00	Claim against Peter McDougall	Meetings with solicitor. Finalise proposals to fund pursuit of claim and obtain approval from creditors. Compile information and review of affidavit material, defence and counter claim. Attendance at trial. Internal meetings to discuss/review offers received. Instructions to solicitors.
	Loan Accounts	Review and reconcile/substantiate inter-company loan accounts.
	Other Assets	Tasks associated with identifying and realising other assets. Review of contractual agreements, interviews with directors, correspondence with overseas operations Investigation and verification of the purported GST refund.
Creditors \$20,000	Creditor Enquiries	Receive and follow up creditor enquiries via telephone. Maintaining creditor register. Review and prepare correspondence to creditors and their representatives via facsimile, email and post. Correspondence with committee of inspection members.
	Creditor Advices, Reports & Updates	Preparation of Advices, Reports and Updates to Creditors & Web Notes.
	Dealing with Proofs of Debt	Receipting, registering and filing POD's when not related to a dividend. Corresponding with OSR and ATO regarding POD's when not related to a dividend.
	Employee Claims	Review and reconcile employee claims, calculate entitlements Review of employee books and records
	Meeting of Creditors	Forward notice of meeting to all known creditors. Preparation of meeting file, including

		Agenda, Attendance & Observers Register, list of creditors, reports to creditors, advertisement of meeting, Chairmans Report, draft minutes of meeting and other meeting documents. Preparation and lodgement minutes of meetings.
Investigation \$70,000.00	Conducting Investigation	Collection of books and records. Correspondence with Regulatory Authority to receive assistance in obtaining books and records. Reviewing books and records & statutory forms. Conducting and summarising statutory searches. Preparation of comparative financial statements. Review of specific transactions and liaising with relevant parties regarding certain transactions. Conduct of investigations generally into the affairs of the relevant entity.
	Examinations	Preparing Brief to solicitor Liaising with solicitor(s) regarding examinations. Attendance at examination. Reviewing examination transcripts. Liaising with solicitor(s) regarding outcome of examinations and further actions available.
	Litigation / Recoveries	Internal meetings to discuss status of litigation. Further investigation, and if required, examination and litigation in relation to any potential Uncommercial Transactions pursuant to section 588FB of the Act. Completion of solvency analysis Preparing Brief to solicitors. Liaising with solicitors regarding recovery actions. Attending to negotiations. Attending to settlement matters.
	Regulatory Reporting	Lodgement of investigation Report with the relevant Regulatory Authority. Preparing statutory investigation reports. Liaising with relevant Regulatory Authority as required.
Administration \$10,000.00	Correspondence	General calls and correspondences.
	File Maintenance/Review	First month, then timely administration review. Filing of documents. File reviews.
	ATO & Other Statutory Reporting	Notification of appointment. Preparing and lodging BAS' Completing Group Certificates for employees.

	Finalisation	Notifying ATO of finalisation. Cancelling ABN / GST / PAYG registration. Completing Finalisation matters. Finalising WIP & outlays.
	Planning / Review	Discussions regarding status of administration.
	Books and Records/Storage	Dealing with records in storage. Archiving administration file.

Annexure A

- **Schedule 1 – Description of Work Completed**
- **Schedule 2 – Remuneration Report by Staff Member**
- **Schedule 3 – Receipts & Payments**
- **List of Known Creditors and Proofs of Debt received**

Schedule 1

Description of Work Completed

Company	On Q Group Limited	Period from	28 July 2008 to 15 December 2008
Administration type	Voluntary Administration	Firm	Worrells Solvency & Forensic Accountants
Practitioners	Matthew Jess & Paul Burness		

Task area	General Description	Detailed description
Assets Time: 27h 5m Fees: \$9,760.17 \$8,872.88 ex GST	Plant and Equipment	Identifying available plant & equipment for realisation. Preparing and reviewing asset listings.
	Other Assets	Tasks associated with identifying and realising other assets and realising other assets. Attendance at Court, meetings with solicitor
	Leased Assets	Identifying assets subject to lease arrangements. Reviewing leasing documents. Assessing available equity. Liaising with owners/lessors. Tasks associated with disclaiming leases.
Creditors Time:85h 22m Fees:\$32,481.81 \$29,528.92 ex GST	Creditor Enquiries	Receive and follow up creditor enquiries via telephone. Maintaining creditor register. Review and prepare correspondence to creditors and their representatives via facsimile, email and post.
	Creditor Advices, Reports & Updates	Preparation of Advices, Reports and Updates to Creditors & Web Notes.
	Dealing with Proofs of Debt	Receipting, registering and filing POD's when not related to a dividend.
	Meeting of Creditors	Preparation meeting notices, proxies and advertisements. Forward notice of meeting to all known creditors. Preparation of meeting file, including Agenda, Attendance & Observers Register, list of creditors, reports to creditors, advertisement of meeting, Chairmans Report, draft minutes of meeting and other meeting documents. Preparation and lodgement minutes of meetings. Respond to stakeholder queries and questions immediately following meeting.
	Shareholder Enquires	Responding to any shareholder inquiries and legal action.
Trade on Time:3h 0m Fees:\$1,090.89	Trade On Management	Attendance on site.

\$991.72 ex GST		
Investigation Time:239h 31m Fees:\$80,208.88 \$72,917.16 ex GST	Conducting Investigation	<p>Collection of books and records. Interview regarding history and affairs of the relevant entity. Reviewing books and records & statutory forms. Reconstruction of financial statements. Review and preparation of nature and history. Conducting and summarising statutory searches. Preparation of comparative financial statements. Preparation of deficiency statement. Review of specific transactions and liaising with relevant parties regarding certain transactions. Liaising with relevant parties regarding certain transactions. Conduct of investigations generally into the affairs of the relevant entity. Lodgement of investigation Report with the relevant Regulatory Authority. Preparation and lodgement of supplementary report with Regulatory Authority as required.</p>
	Regulatory Reporting	<p>Preparing statutory investigation reports. Liaising with relevant Regulatory Authority as required.</p>
	Proposal for a Deed of Company Arrangement	<p>Liaise with interested parties with regard to a proposal for Deed. Advertise and seek expressions of interest. Provision of further information Obtain legal advice on expressions of interest. Discussions and communication with interest parties. Obtain extensions of convening period.</p>
Dividend Time:8h 12m Fees:\$2,501.63 \$2,274.21 ex GST	Processing Proofs of Debt	<p>Receipt of PODs. Maintain POD Register. Adjudicating PODs. Request further information from claimants regarding POD. Preparation of correspondence to claimant advising outcome of adjudication.</p>
	Correspondence	General Correspondence.
	File Maintenance/Review	<p>First month, then timely administration review. Filing of documents. File reviews.</p>
	Insurance	<p>Correspondence with Insurers regarding initial and ongoing</p>

Administration Time:1h 20m Fees:\$144.07 \$130.97 ex GST		insurance requirements. Reviewing insurance policies.
	Funds/Bank Administration	Account Maintain & monitoring of administration funds and bank account. Regular bank reconciliations of funds.
	Regulatory Authority Forms	Lodgement of Regulatory Authority forms as required. Correspondence with relevant Regulatory Authorities as required concerning forms.
	ATO & Other Statutory Reporting	Notification of appointment. Preparing and lodging BAS'
	Planning / Review	Discussions regarding status of administration.
	Books and Records/Storage	Dealing with records in storage. Archiving administration file.

Schedule 2

Remuneration Report by staff member

Employee	Position	Hourly Rate	Total Hours	Total \$	Administration		Assets		Creditors		Dividend		Employees		Investigations		Trade on	
		(ex GST)		(ex GST)	hrs	\$	hrs	\$	hrs	\$	hrs	\$	hrs	\$	hrs	\$	hrs	\$
Con Kokkinos	Partner	\$440.91	0h 37m	\$271.90					0h 17m	\$124.93					0h 20m	\$146.97		
David Marshall	File Accountant	\$168.18	10h 47m	\$1,813.55	0h 17m	\$47.65									10h 30m	\$1,765.90		
Gyan Tse	Senior File Accountant	\$227.27	130h 23m	\$29,612.81	0h 13m	\$30.30	11h 43m	\$2,662.76	26h 20m	\$5,984.68	5h 47m	\$1,314.34			85h 18m	\$19,385.91	1h 2m	\$234.82
Hugh Nankervis	Senior File Accountant	\$227.27	0h 13m	\$49.25											0h 13m	\$49.25		
Ko-Chen Wu	Senior File Accountant	\$227.27	4h 51m	\$1,102.27											4h 51m	\$1,102.27		
Laura Bronts	Financial Assistant	\$136.36	22h 51m	\$3,115.91											22h 51m	\$3,115.91		
Marina Fedoran	Support	\$63.64	0h 50m	\$53.02	0h 50m	\$53.02												
Matthew Jess	Partner	\$440.91	91h 26m	\$40,313.83			6h 31m	\$2,873.27	20h 26m	\$9,009.23	0h 52m	\$382.12			63h 16m	\$27,894.89	0h 21m	\$154.32
Nathan Deppeler	Manager	\$372.73	0h 15m	\$93.18					0h 15m	\$93.18								
Paul Burness	Partner	\$440.91	2h 46m	\$1,219.85			0h 40m	\$293.95	1h 53m	\$830.37					0h 13m	\$95.53		
Rebecca Clifford	Manager	\$372.73	99h 18m	\$37,011.96			8h 8m	\$3,031.54	36h 11m	\$13,486.53	1h 33m	\$577.75			51h 49m	\$19,313.56	1h 37m	\$602.58
Richard Tan	Manager	\$281.82	0h 10m	\$46.97											0h 10m	\$46.97		
Tomer Abraham	Manager	\$227.27	0h 3m	\$11.36			0h 3m	\$11.36										
Total			364h 30m	\$114,715.86	1h 20m	\$130.97	27h 5m	\$8,872.88	85h 22m	\$29,528.92	8h 12m	\$2,274.21	0h 0m	\$0.00	239h 31m	\$72,917.16	3h 0m	\$991.72
GST				\$11,471.59														
Total (including GST)				\$126,187.45														
Average Hourly Rate				\$314.72		\$98.23		\$327.61		\$345.91		\$277.34		\$0.00		\$304.43		\$330.57

**Schedule 3
Summary of Receipts & Payments as at 15 December 2008**

Account Name	Code	Amount
Receipts		
Interest Earned		\$31.63
Collection of Cash Balances		\$3,965.73
Total Receipts		<u>\$3,997.36</u>
Payments		
Filing Fees & Government Charges	B1	\$3,051.30
Legal Costs & Outlays	B1	\$324.00
Meeting Costs	B2	\$220.00
Printing, Stationery & Postage	B1	\$126.78
Searches	B1	\$32.88
Sundry Expenses	B2	\$210.00
GST Paid		\$32.40
Total Payments		<u>\$3,997.36</u>
Assets		Nil
Total Assets		<u>Nil</u>

Notes:

Disbursements are divided into three types: A, B1, B2.

- A disbursements are all externally provided professional services and are recovered at cost. An example of an A disbursement is legal fees.
- B1 disbursements are externally provided non-professional costs such as travel, accommodation and search fees. B1 disbursements are recovered at cost.
- B2 disbursements are internally provided non-professional costs such as photocopying and document storage. B2 disbursements are charged at cost except for photocopying, storage, printing and telephone calls which are charged at a rate which is intended to recoup both variable and fixed costs.

List of Known Creditors and Proofs of Debt Received

You need not lodge a further Proof of Debt if you have previously lodged one

Creditor	Report as to Affairs (\$)	Proof of Debt (\$)	Administrator's Estimate (\$)
Priority Unsecured Creditors			
Michael Williams	\$ 14,706	\$ 172,007	\$ 172,007
Peter Couper	\$ 70,655	\$ -	\$ 70,655
ATO - Superannuation Guarantee	\$ 1,453	\$ -	\$ 1,453
	\$ 86,814	\$ 172,007	\$ 244,115
Ordinary Unsecured Creditors			
A.C.N 082 202 082 Pty Ltd (Formerly MON Beverages Pty Ltd)(In Liquidation)	\$ -	\$ 2,789,955.91	\$ 2,789,955.91
Aitken Walker Strachan	\$ 2,812	\$ -	\$ 2,812
ANZ Bank	\$ 79,500	\$ -	\$ 80,077
Australian Securities & Investments Commission	\$ 65	\$ 1,065	\$ 1,065
Australian Stock Exchange	\$ 10,973	\$ -	\$ 10,973
Australian Taxation Office (Tax Withheld)	\$ 55,000	\$ -	\$ 55,000
Capital Finance Australia Limited	\$ 240,000	\$ -	\$ 240,000
CCH Europe GmbH	\$ 1,763,415	\$ -	\$ 1,763,415
Computershare Investor Services	\$ 2,518	\$ -	\$ 2,518
Deloitte Touche Tomatsu	\$ 11,330	\$ 11,330	\$ 11,330
EFS Finance	\$ 73,090	\$ -	\$ 73,090
Elliot's Accounting	\$ 3,966	\$ 10,604	\$ 10,604
Esanda Finance	\$ 8,728	\$ -	\$ 8,728
Foster Harris Lawyers	\$ 82,304	\$ 146,142	\$ 146,142
Lawrie Callinan	\$ 2,610	\$ -	\$ 2,610
Lumley's Finance	\$ 149,000	\$ -	\$ 149,000
Moore Stephens	\$ 152,181	\$ 152,181	\$ 152,181
Pacific Internet	\$ -	\$ 3,513	\$ 3,513
Steven Fitzgerald	\$ -	\$ 64,882	\$ 64,882
Vision & Associates Legal	\$ -	\$ 15,348	\$ 15,348
Vodafone Pty Limited	\$ -	\$ 36,242,530	\$ 36,242,530
	\$ 2,637,491	\$ 39,437,552	\$ 41,825,774
Margin Lenders			
Opes Prime Stockbroking Ltd (In Liquidation) (Receivers & Managers Appointed)	\$ -	\$ -	\$ 544,127
Primebroker Securities Limited (In Liquidation)(Receivers & Managers Appointed)	\$ 4,099,296	\$ 4,127,767	\$ 4,127,767
Tricom Equities Limited	\$ 800,297	\$ 839,560	\$ 839,560
	\$ 4,899,593	\$ 4,967,326	\$ 5,511,453
Loans - Associated			
Bill Express Ltd	\$ 12,658,086	\$ 21,586,727	\$ 21,586,727
	\$ 12,658,086	\$ 21,586,727	\$ 21,586,727
TOTAL	\$ 20,281,984	\$ 66,163,612	\$ 69,168,069

Annexure B

- **Declaration of Independence, Relevant Relationships and Indemnities**

DECLARATION OF INDEPENDENCE, RELEVANT RELATIONSHIPS AND INDEMNITIES

On Q Group Ltd (Administrators Appointed) ACN: 009 104 330

Independence

We, Matthew Jess & Paul Burness of Worrells Solvency & Forensic Accountants have undertaken a proper assessment of the risks to our independence prior to accepting the appointment as administrators of On Q Group Ltd. This assessment identified no real or potential risks to our independence, subject to the following.

On Q Group Ltd (Administrators Appointed), is a creditor of On Q Technologies Pty Ltd and Motorlink Systems Pty Ltd, of which we are also the Administrators/Liquidators. It is intended that an alternate insolvency practitioner be engaged to assess the validity and quantum of the claims lodged by On Q Group Ltd in those administrations, and if appropriate an application for directions will be sought from the court prior to admitting the claim for dividend purposes.

Relevant Relationships

We, or a member of our firm, have, or have had within the preceding 24 months, a relationship with:

Name	Nature of relationship	Reasons why not an Impediment or Conflict
On Q Technologies Pty Ltd (A.C.N: 093 653 251)	Appointed as Voluntary Administrators of the company on 28 July 2008	Our relationship with the Company is limited to our role as Administrator, and Deed Administrator/Liquidator, if appointed. We refer to our comments above in relation to the claim of On Q Group Ltd (Administrators Appointed).
Motorlink Systems Pty Ltd (A.C.N: 074 116 297)	Appointed as Voluntary Administrators of the company on 28 July 2008 and Liquidator on 29 August 2008	Our relationship with the Company is limited to our role as Administrator and subsequently Liquidator. We refer to our comments above in relation to the claim of On Q Group Ltd (Administrators Appointed).

There are no other prior professional or personal relationships that should be disclosed.

Prior Engagements with the Insolvent

Neither of us, nor our Firm, have undertaken any prior engagements for On Q Technologies Pty Ltd. There are no other prior professional relationships or engagements that should be disclosed.

Indemnities

We have not been indemnified in relation to this administration, other than any indemnities that we may be entitled to under statute.

Dated: 15 December 2008



Matthew Jess for and on behalf of the Administrators

NOTE: If circumstances change, or new information is identified, I am required under the IPA Code of Professional Practice to update this Declaration and provide a copy to creditors with my next communication as well as table a copy of any replacement declaration at the next meeting of the company's creditors.

Annexure C

- **Directors' Statement as to the Failure of the Company**
- **Diagram of Corporate Structure**

Causes of the Failure of the Company Statement by Ian Christiansen and Julian Little

"It is not possible for us to identify with precision the cause or causes, however the following sets out a variety of reasons and a combination of factors that were relevant to the failure of the company.

The corporate structure that was in place from the IPO onwards created an inappropriate structure which prevented key outcomes being achieved, for example:

- 1. Potential buyers and certain strategic partners would not engage while OnQ and BXP were separate entities*
- 2. The separation of ownership of key assets, particularly IP and IT assets, made execution of appropriate capital and debt raisings difficult.*

Additionally, the separation of functions between OnQ, BXP and the company's outsourced provider led to a challenging environment which involved elements including a lack of transparency, an inability to monitor and control costs effectively, and restrictions on the ability to influence appropriate behaviour by all parties acting on the company's behalf. The board worked to rectify these issues and drive a group re-construction with Bill Express.

As part of this re-construction process with Bill Express:

- 1. The On Q Group board nominated Stephen Fitzgerald in 2007 as the independent director to negotiate with Bill Express to establish an agreed structure for bringing the two companies together. This was the key approach to strengthen the position of On Q. The resulting re-structure would have consolidated the On Q assets of IP and international rights with the existing business of Bill Express in Australia. Bill Express had also negotiated a commitment from IPay (received on or about April 14 2008) to underwrite a \$25 million rights issue as part of the re-structure.*
- 2. The On Q Group appointed an experienced corporate advisor Bill O'Neill in mid 2007 to provide corporate advisory services in relations to the re-structure with Bill Express Limited. Bill O'Neill was recommended by the independent director Stephen Fitzgerald.*
- 3. Deloitte were appointed to provide advice and value the software / technology IP asset. The software/technology IP asset was valued by Deloitte at \$22 million - \$27 million in a draft report released to On Q Group Limited in August 2007 as part of preparation for the consolidation transaction with Bill Express*

By mid April 2008, On Q was well advanced on preparation for the restructuring which would have resulted in the restructured On Q and Bill Express combined company receiving \$25 million in additional capital through an underwritten rights issue which IPay had already committed to underwrite. The process of correcting the issues identified above although well underway was not completed at the time of the administration.

On Q Group Limited (at that time known as Australian Pure Fruits Limited) ("APF") was listed on the ASX in June 2000. In 2001, APF acquired the technology businesses that went on to become the flagship performers of the company. In 2004, the Australian technology business DialTime Pty Ltd was separately listed as Bill Express Limited. At this time, APF's core business was in the food and beverage industry. Ian Christiansen, Julian Little and Hal Christiansen had no involvement with the food and beverage division. Peter McDougall, was the sole director of APF's wholly owned fruit and beverage division, M.O.N. Beverages Pty Ltd.

In 2004 DialTime won the Deloitte award for the fastest growing technology company in Australia and in Asia Pacific.

The food and beverage businesses run by Peter McDougall amassed large losses and resulted in a very significant cash drain on the technology businesses. As a result the food and beverage business were sold off / put into liquidation and the company renamed On Q Group Limited.

Notwithstanding the exit from the Food and Beverage business there continued to be cost obligations relating to the Food and Beverage business – namely the leasing costs to Melbourne Finance on fridges purchased as part of the Food and Beverage business that the company has been left with. The cost of this is a \$40,000 per month obligation.

In October 2005, the board of APF secured a formal agreement with Peter McDougall and his related entities to reduce his food and beverage related party loans. This agreement is the subject of current

proceedings in the Supreme Court and the outstanding overdue balance of these loans to Peter McDougall is \$2.5 million. The Directors felt that they had little choice but to pursue funds that the company had been advised were legally due to it, but in the end, the company has experienced major diversion of directors' time consumed by legal proceedings and the dispute with McDougall.

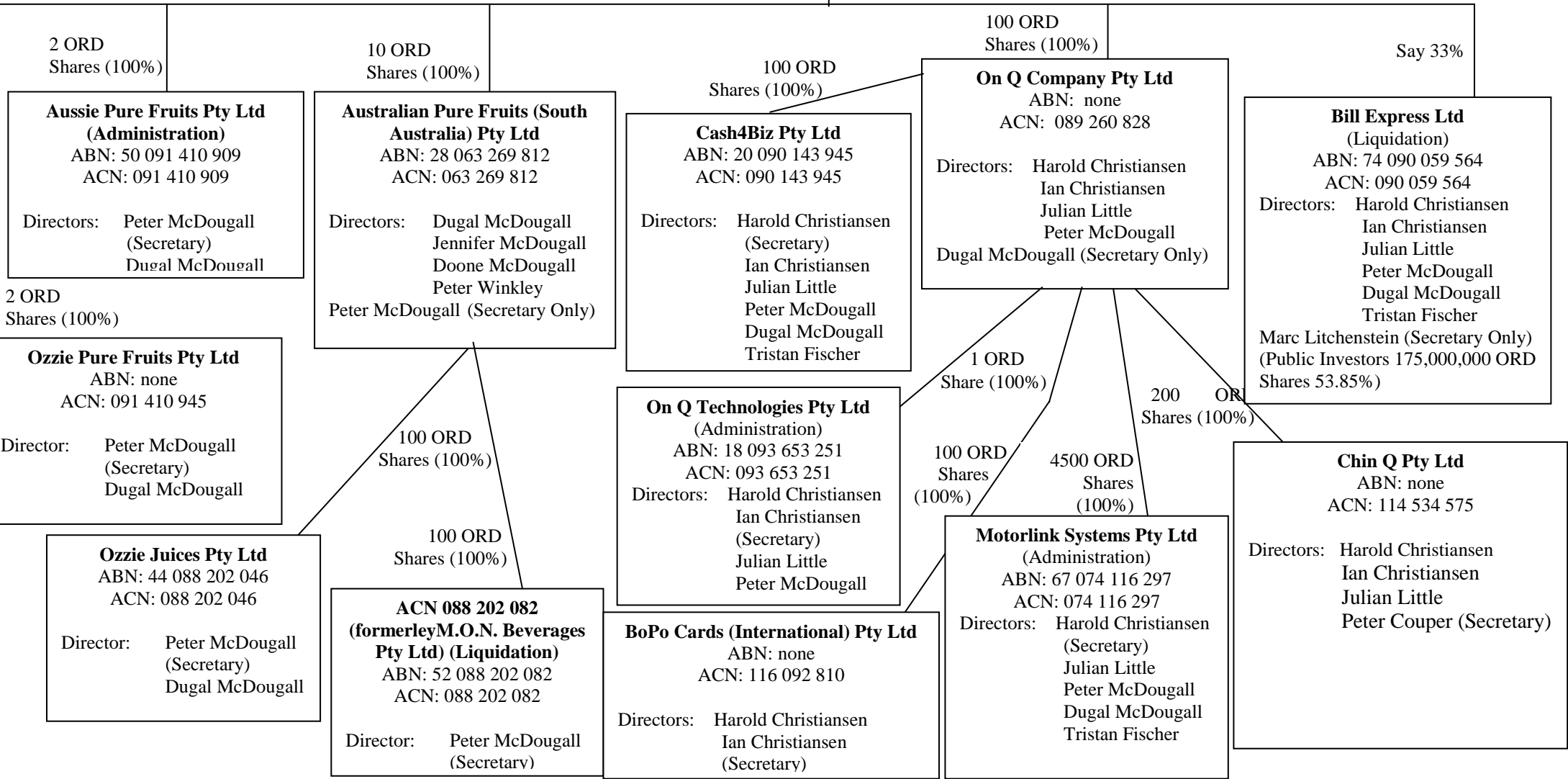
Given the parlous state of the food and beverage division, by 2005, the strategic focus of APF had shifted to a technology business (electronic business management system and bill payment processing software) conducted predominantly through its ownership and development of technology products then licensed to other parties, primarily Bill Express Limited. This shift in focus was reflected in the change of name to On Q Group Limited ("On Q"). With these developments, the future of On Q became closely linked to Bill Express Limited, to which administrators were recently appointed. Royalty payments from Bill Express were the company's principal source of income, while the company worked toward generating further income from the licensing of the technology internationally (Vietnam, Philippines, & Middle East). International licensing was a slow process, hindered by the fact that the company was not sufficiently capitalised for International expansion.

On Q Group has as a principle asset a holding of 150 million Bill Express Limited shares. These shares were being used as security for margin loan facilities. The margin loans were approximately \$8 million. At the BXP share price up to May 2008 these represented a significant net asset to On Q Group. As the BXP share price fell this was another significant change in the strength of On Q Group Limited.

The cessation of royalties from Bill Express and a demand from Bill Express for repayment of loans of \$22 million by 29 July 2008 had a severe impact upon On Q. On 28 July 2008, the directors of On Q resolved to place the company and its trading subsidiaries into administration. Other non-trading subsidiaries will be the subject of creditors' voluntary winding up."

**PUBLIC COMPANY –
ON Q GROUP LTD
Corporate Structure**

On Q Group Limited
(Administration)
ABN: 57 009 104 330
ACN: 009 104 330
Directors: Harold Christiansen (Deceased)
Ian Christiansen
Julian Little



2 ORD
Shares (100%)

**Aussie Pure Fruits Pty Ltd
(Administration)**
ABN: 50 091 410 909
ACN: 091 410 909

Directors: Peter McDougall
(Secretary)
Dugal McDougall

10 ORD
Shares (100%)

**Australian Pure Fruits (South
Australia) Pty Ltd**
ABN: 28 063 269 812
ACN: 063 269 812

Directors: Dugal McDougall
Jennifer McDougall
Doone McDougall
Peter Winkley
Peter McDougall (Secretary Only)

100 ORD
Shares (100%)

Cash4Biz Pty Ltd
ABN: 20 090 143 945
ACN: 090 143 945

Directors: Harold Christiansen
(Secretary)
Ian Christiansen
Julian Little
Peter McDougall
Dugal McDougall
Tristan Fischer

100 ORD
Shares (100%)

On Q Company Pty Ltd
ABN: none
ACN: 089 260 828

Directors: Harold Christiansen
Ian Christiansen
Julian Little
Peter McDougall
Dugal McDougall (Secretary Only)

Say 33%

**Bill Express Ltd
(Liquidation)**
ABN: 74 090 059 564
ACN: 090 059 564

Directors: Harold Christiansen
Ian Christiansen
Julian Little
Peter McDougall
Dugal McDougall
Tristan Fischer

Marc Litchenstein (Secretary Only)
(Public Investors 175,000,000 ORD
Shares 53.85%)

2 ORD
Shares (100%)

Ozzie Pure Fruits Pty Ltd
ABN: none
ACN: 091 410 945

Director: Peter McDougall
(Secretary)
Dugal McDougall

100 ORD
Shares (100%)

**On Q Technologies Pty Ltd
(Administration)**
ABN: 18 093 653 251
ACN: 093 653 251

Directors: Harold Christiansen
Ian Christiansen
(Secretary)
Julian Little
Peter McDougall

1 ORD
Share (100%)

**Motorlink Systems Pty Ltd
(Administration)**
ABN: 67 074 116 297
ACN: 074 116 297

Directors: Harold Christiansen
(Secretary)
Julian Little
Peter McDougall
Dugal McDougall
Tristan Fischer

200 ORD
Shares (100%)

Chin Q Pty Ltd
ABN: none
ACN: 114 534 575

Directors: Harold Christiansen
Ian Christiansen
Julian Little
Peter Couper (Secretary)

Ozzie Juices Pty Ltd
ABN: 44 088 202 046
ACN: 088 202 046

Director: Peter McDougall
(Secretary)
Dugal McDougall

100 ORD
Shares (100%)

**ACN 088 202 082
(formerly M.O.N. Beverages
Pty Ltd) (Liquidation)**
ABN: 52 088 202 082
ACN: 088 202 082

Director: Peter McDougall
(Secretary)

BoPo Cards (International) Pty Ltd
ABN: none
ACN: 116 092 810

Directors: Harold Christiansen
Ian Christiansen
(Secretary)

**Motorlink Systems Pty Ltd
(Administration)**
ABN: 67 074 116 297
ACN: 074 116 297

Directors: Harold Christiansen
(Secretary)
Julian Little
Peter McDougall
Dugal McDougall
Tristan Fischer

Annexure D

- **Top 20 Shareholders**

	Shareholder Name	Total number of Ordinary Fully Paid Shares Held
1	KINARRA PTY LIMITED	\$ 7,744,978.00
2	IPAY EXPRESS PTE LTD	\$ 7,395,015.00
3	LINFOX SHARE INVESTMENT PTY	\$ 6,724,701.00
4	MR HAROLD EDWARD CHRISTIANSEN	\$ 6,278,473.00
5	MR IAN DOUGLAS CHRISTIANSEN	\$ 6,263,760.00
6	MR SANDRO DIDONATO	\$ 3,433,464.00
7	SYDBYE PTY LIMITED	\$ 3,395,355.00
8	WALMERST PTY LTD	\$ 3,352,218.00
9	MR KENWARD ELMSLIE	\$ 2,604,464.00
10	STEPHEN FITZGERALD	\$ 1,898,427.00
11	INGOT CAPITAL INVESTMENTS PTY	\$ 1,570,281.00
12	GARRIDO INVESTMENTS PTY LTD	\$ 1,518,667.00
13	WINWOODMACK PRODUCTIONS P/L	\$ 1,485,551.00
14	MS JEAN CHRISTINE CHRISTIANSEN	\$ 1,429,195.00
15	JINDRA ENERGY CONVERSIONS	\$ 1,214,238.00
16	MR JULIAN LITTLE	\$ 1,166,667.00
17	MR IAN WINWOOD MCKENZIE	\$ 1,074,449.00
18	MRS CHRISTINE CHRISTIANSEN	\$ 908,054.00
19	DATA PROGRESSION	\$ 854,597.00
20	WALMER HOLDINGS PTY LTD	\$ 800,000.00

POD No:

Form 535
Corporations Act

Sub regulation 5.6.49(2)

**FORMAL PROOF OF DEBT OR CLAIM
(GENERAL FORM)**

Company Name

On Q Group Limited

A.C.N.

009 104 330

This is to state that the company was on **28 July 2008** and still is justly indebted to:

Creditor Name

*See Note 3

ABN

Postal Address

ABN not applicable

In the amount of

\$

Particulars of the debt are:

Date	Consideration	Amount	Remarks

The creditor has not, nor has any person by the creditor's order, to my knowledge or belief, had or received any part of it except for the following.⁵

I am in the employment of the creditors and duly authorised in writing by the creditor to make this statement and it is within my knowledge that the debt was incurred for the consideration stated and that the debt, to the best of my knowledge and belief, still remains unpaid and unsatisfied.

I am the creditor's agent duly authorised in writing to make this statement in writing and it is within my knowledge that the debt was incurred and for the consideration stated and that debt, to the best of my knowledge and belief, still remains unpaid and unsatisfied.

I have attached the following documents (tick as many as appropriate):

- | | | |
|--|--|---|
| <input type="checkbox"/> Invoices | <input type="checkbox"/> Letters of Demand | <input type="checkbox"/> Guarantee from company |
| <input type="checkbox"/> Monthly Statements | <input type="checkbox"/> Orders from company | <input type="checkbox"/> Credit Application |
| <input type="checkbox"/> Judgment from Court | <input type="checkbox"/> Statutory Demand | <input type="checkbox"/> Other documents |

Name	Signature
Date	Phone
Fax	Email

Contact: Gyan Tse Code: 952

**FORM 532
Corporations Act**

A.C.N.009 104 330

Regulation 5.6.29

APPOINTMENT OF PROXY

(1) *I/We (Name of creditor)

a creditor of **On Q Group Limited (Administrators appointed)**

appoint (name of person to hold proxy)) or in their absence, *The Chairman of the Meeting*

as *my/*our **general proxy** or **special proxy** to vote at the meeting of creditors to be held on **23 December 2008** or at any adjournment of that meeting. This proxy is to be used as a special proxy to vote on resolutions as indicated on my voting form.

Dated

Signature	Name
Phone	Email

WITNESS FOR BLIND CREDITOR

I..... of..... hereby certify that the above instrument appointing a proxy was completed by me in the presence of and at the request of the person appointing the proxy and read to him before he attached his signature or mark to the instrument.

DATED this day of 20.....

Signature of Witness.....
Description.....
Place of Residence.....

* Strike out whichever is inapplicable.

(1) If a firm, strike out "I" and set out the full name of firm.

Producer: Gyan Tse Code: 952

**Voting Slip for Meeting of Creditors of
On Q Group Limited ACN 009 104 330
held on 23 December 2008 or any adjournment.**

Creditor Name

--

Amount of Debt

--

This is a voting slip for a special proxy. I hereby instruct my proxy holder to vote on all resolutions in the manner indicated below;

	For	Against	Abstain
<p>Resolution 1 "that the company be wound up and that the Administrators be appointed joint and several Liquidators"</p>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
<p>Resolution 2 "that the administration be formally ended and the conduct of the company be passed back to the directors of the company"</p>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
<p>Resolution 3 "that the remuneration of the Administrators, the partners and staff be fixed on a time basis applying the simplified Solvency Management Rates published from time to time by Worrells. Such remuneration be subject to review by the Committee (if appointed) or the Court on the application of any creditor and that the liquidators be empowered to draw their fees to a maximum amount of \$130,187.45 (inclusive of GST) from time to time"</p>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
<p>Resolution 4 – if appropriate "that the remuneration of the liquidators, the partners and staff be fixed on a time basis applying the simplified Solvency Management Rates published from time to time by Worrells. Such remuneration be subject to review by the Committee (if appointed) or the Court on the application of any creditor and that the liquidators be empowered to draw their fees to the interim limit of \$250,000 (inclusive of GST) from time to time"</p>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
<p>Resolution 5 – if appropriate "that a Committee of Inspection be appointed"</p>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
<p><i>I hereby consent to be appointed to a Committee of Inspection, if so elected</i></p>	Yes / No		
<p>Resolution 6 – if appropriate "that Paul Burness and Matthew Jess be replaced with a liquidator nominated by the creditors"</p>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
<p>Resolution 7 "that, subject to obtaining approval from the Australian Securities and Investments Commission pursuant to Section 542(4) of the Corporations Act 2001, the books and records of the company and of the Liquidator may be destroyed by the Liquidator within a period of 5 years after the deregistration of the company."</p>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>

Signed

Dated

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