

**MULTI CHANNEL SOLUTIONS LIMITED (ABN 60 006 569 124)
AND CONTROLLED ENTITIES**

APPENDIX 4D

HALF YEAR REPORT

PERIOD ENDING 31 DECEMBER 2010

1. Results for Announcement to the Market

Summary Information	31-Dec 2010 \$	31-Dec 2009 \$	Inc/(Dec) \$	Inc/(Dec) %
Revenue from Ordinary Activities	2,629,838	2,374,336	255,502	10.76
Operational Profit/(Loss) after Tax from Ordinary Activities	122,528	(302,086)	424,614	N/A
Statutory (Loss) after Tax from Ordinary Activities	(790,452)	(302,086)	(488,366)	N/A
Net (Loss) after Tax Attributable to Members	(790,452)	(302,086)	(488,366)	N/A
Basic Earnings – Cents Per Share	(0.07904)	(0.03021)	(0.04883)	N/A
Diluted Earnings – Cents Per Share	(0.02107)	(0.00306)	(0.01801)	N/A
Net Tangible Assets – Cents Per Share	(0.16037)	(0.11169)	(0.04868)	(43.58)
Dividends Paid	-	-	-	-

An explanation of the above results is covered in your Directors Report under Review of Operations.

**Multi Channel Solutions Limited ABN 60 006 569 124
and Controlled Entities**

Interim Financial Report

DIRECTORS' REPORT

Your directors submit the financial report of the consolidated group for the half-year ended 31 December 2010.

Directors

The names of directors who held office during or since the end of the half-year:

Desmond Smale

John White

Roger Smith

Clay Moore

Review of Operations

The operational consolidated profit for the 6 months to 31 December 2010 was \$122,528 as compared to a loss of \$302,086 for the corresponding 6 months to 31 December 2009. The statutory consolidated loss for the 6 months to 31 December 2010 was \$790,452 as compared to a loss of \$302,086 for the corresponding 6 months to 31 December 2009. The statutory loss was impacted by an one off share based expense of \$912,980 pertaining to the issue of options to directors and the chief financial officer approved at the last annual general meeting held on 17 November 2010. This one off expense had no impact on the Company's cash flow. Revenue for the half-year was \$2,629,838 compared to \$2,374,336 for the corresponding period last year.

The revenue increase of 10.8 percent over the corresponding period in 2009 can be attributed to the new products previously launched generating increased sales and an increase in existing business volume.

The Board and Management are continuing to source new products to be presented to our customers in Australia. A number of products have been recently launched, which will generate increased sales in the second half of the financial year.

Our USA team has brought a new Cat Litter product onto the market which has been accepted in several major retail establishments including Kroger, Stop & Shop and Pet Food experts. The team have presented the product to a number of other retailers including the largest retailer in the USA and are awaiting acceptance of the product into their range. This product has significant revenue and profit potential for the company.

A number of new products currently being distributed in Australia are being sourced for the USA market, which we hope will be accepted by retailers in that market. Future announcements will be made when these new products are accepted by retailers.

The consolidation of our office and warehouse facilities at one location has generated significant savings and generated greater efficiency and productivity.

Your board is confident that both revenue and profitability will increase in the second half of the year and your board and management will be striving to achieve this objective.

Events Subsequent to Reporting Date

On 9 February 2011 convertible notes were issued for the sum of \$150,000. On 10 February 2011 7,777,778 shares were issued at \$0.009 and on 18 February 2011 a further 3,500,000 shares were issued at \$0.01. There are no other matters or circumstances that have arisen since the end of the financial year which significantly affect or may significantly affect the economic entity.

**Multi Channel Solutions Limited ABN 60 006 569 124
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Interim Financial Report

Auditor's Declaration

The lead auditor's independence declaration under s 307C of the *Corporations Act 2001* is set out on page 4 for the half-year ended 31 December 2010.

This report is signed in accordance with a resolution of the Board of Directors.



Director

Desmond Smale

Dated this 28th day of February 2011

HALLCHADWICK

Chartered Accountants and Business Advisers

MULTI CHANNEL SOLUTIONS LIMITED
ABN 60 006 569 124
AUDITOR'S INDEPENDENCE DECLARATION UNDER SECTION 307C OF THE
CORPORATIONS ACT 2001
TO THE DIRECTORS OF MULTI CHANNEL SOLUTIONS LIMITED
AND CONTROLLED ENTITIES

I declare that, to the best of my knowledge and belief, during the half-year ended 31 December 2010 there have been:

- no contraventions of the auditor independence requirements as set out in the Corporations Act 2001 in relation to the review; and
- no contraventions of any applicable code of professional conduct in relation to the review.

Udi Chodura

Hall Chadwick
Level 29, St Martins Tower
31 Market Street
Sydney, NSW 2000

Graham Webb

GRAHAM WEBB

Partner

Date: 28 February 2011

SYDNEY

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PARTNERS

Drew Townsend
David Kenney
Richard Albarran
Gino Malacco
Paul Leroy
Steven Gladman
Brent Kijurina
Blair Pleash
David Ross
Graham Webb
Domenic Calabretta
Bill Petrovski

ASSOCIATES

Sally Saad
David Ingram
Lyle Vallance

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and consulting firms

**Multi Channel Solutions Limited ABN 60 006 569 124
and Controlled Entities**

Interim Financial Report

**CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME FOR THE HALF-YEAR ENDED
31 DECEMBER 2010**

	Consolidated Group	
	31.12.2010	31.12.2009
	\$	\$
Revenue	2,629,838	2,374,336
Expenses		
Cost of product sold	1,373,795	1,434,183
Media and product endorsement expenses	4,005	27,322
Travel expenses	25,718	5,437
Financial expenses	250,399	179,355
Depreciation and amortisation	19,637	23,316
Employee benefit expenses	453,780	512,322
Legal compliance and professional fees	50,459	56,914
Rental and operating lease expenses	68,700	179,785
Option issue expense	912,980	3,260
Warehouse & distribution costs	192,483	119,225
Other expenses	68,334	135,303
Total Expenses	<u>3,420,290</u>	<u>2,676,422</u>
Loss before income tax	(790,452)	(302,086)
Income tax expense	-	-
Loss for the period	<u>(790,452)</u>	<u>(302,086)</u>
Other comprehensive income		
Adjustments from translation of foreign controlled entities	(179,286)	(131,105)
Other comprehensive income for the period	(179,286)	(131,105)
Total comprehensive income for the period	<u>(969,738)</u>	<u>(433,191)</u>
Loss attributable to members of the parent entity	(790,452)	(302,086)
Non-controlling interests	-	-
	<u>(790,452)</u>	<u>(302,086)</u>
Total comprehensive income attributable to members of the parent entity	(969,738)	(433,191)
Non-controlling interests	-	-
	<u>(969,738)</u>	<u>(433,191)</u>
Earnings per share		
From continuing operations		
Basic earnings per share (cents per share)	(0.07904)	(0.03021)
Diluted earnings per share (cents per share)	(0.02107)	(0.00306)

The accompanying notes form part of these financial statements.

**Multi Channel Solutions Limited ABN 60 006 569 124
and Controlled Entities**

Interim Financial Report

CONSOLIDATED STATEMENT OF FINANCIAL POSITION AS AT 31 DECEMBER 2010

	Consolidated Group	
Note	31.12.2010	30.06.2010
	\$	\$
CURRENT ASSETS		
Cash and cash equivalents	132,199	205,875
Trade and other receivables	10 1,177,456	714,786
Inventories	858,600	812,993
Other current assets	755,401	739,039
TOTAL CURRENT ASSETS	<u>2,923,656</u>	<u>2,472,693</u>
NON-CURRENT ASSETS		
Plant and equipment	124,399	151,428
Intangible assets	7 3,417,956	3,417,956
TOTAL NON-CURRENT ASSETS	<u>3,542,355</u>	<u>3,569,384</u>
TOTAL ASSETS	<u><u>6,466,011</u></u>	<u><u>6,042,077</u></u>
CURRENT LIABILITIES		
Trade and other payables	997,210	986,449
Short-term provisions	72,176	58,014
Current tax liabilities	170,903	225,114
Borrowings	5 1,415,344	1,009,898
TOTAL CURRENT LIABILITIES	<u>2,655,633</u>	<u>2,279,475</u>
NON-CURRENT LIABILITIES		
Borrowings	5 1,996,141	1,891,271
TOTAL NON-CURRENT LIABILITIES	<u>1,996,141</u>	<u>1,891,271</u>
TOTAL LIABILITIES	<u>4,651,774</u>	<u>4,170,746</u>
NET ASSETS	<u>1,814,237</u>	<u>1,871,331</u>
EQUITY		
Issued capital	8,013,687	8,013,687
Reserves	734,710	1,353
Retained earnings	(6,934,231)	(6,143,780)
Parent interest	1,814,166	1,871,260
Minority equity interest	71	71
TOTAL EQUITY	<u>1,814,237</u>	<u>1,871,331</u>

The accompanying notes form part of this financial report.

**Multi Channel Solutions Limited ABN 60 006 569 124
and Controlled Entities**

Interim Financial Report

**CONSOLIDATED STATEMENT OF CHANGES IN EQUITY FOR THE HALF-YEAR ENDED
31 DECEMBER 2010**

	Share Capital Ordinary	Accumulated (Losses)/ Profit	Option Reserve	Foreign Currency Translation Reserve	Minority Equity Interest	Total
	\$	\$	\$	\$	\$	\$
Balance at 1.7.2009	8,013,687	(4,606,473)	84,089	(12,582)	71	3,478,792
Loss attributable to members of parent entity	-	(302,086)	-	-	-	(302,086)
Revaluation increment	-	-	3,260	-	-	3,260
Total other comprehensive income for the period	-	-	-	(131,105)	-	(131,105)
Balance at 31.12.2009	8,013,687	(4,908,559)	87,349	(143,687)	71	3,048,861
Balance at 1.7.2010	8,013,687	(6,143,779)	87,349	(85,996)	71	1,871,332
Loss attributable to members of parent entity	-	(790,452)	-	-	-	(790,452)
Revaluation increment	-	-	912,980	-	-	912,980
Total other comprehensive income for the period	-	-	-	(179,623)	-	(179,623)
Balance at 31.12.2010	8,013,687	(6,934,231)	1,000,329	(265,619)	71	1,814,237

The accompanying notes form part of this financial report.

**Multi Channel Solutions Limited ABN 60 006 569 124
and Controlled Entities**

Interim Financial Report

**CONSOLIDATED STATEMENT OF CASH FLOWS FOR THE HALF-YEAR ENDED
31 DECEMBER 2010**

	Consolidated Group		
	Note	31.12.2010	31.12.2009
		\$	\$
CASH FLOWS FROM OPERATING ACTIVITIES			
Receipts from customers		2,162,893	2,487,362
Payments to suppliers		(2,553,396)	(2,188,479)
Interest received		1,207	349
Interest paid		(142,948)	(102,810)
Income tax paid		(45,362)	(175,678)
Other income		3,068	2,877
Net cash inflow/(outflow) from operating activities		(574,538)	23,621
CASH FLOWS FROM INVESTING ACTIVITIES			
Payment for plant and equipment		(8,740)	-
Net cash (outflow)/inflow from investing activities		(8,740)	-
CASH FLOWS FROM FINANCING ACTIVITIES			
Repayment of hire purchase liabilities		(9,339)	(8,583)
Payments to related parties		(34,815)	(45,357)
Proceeds from convertible notes		300,000	350,000
Net cash inflow/(outflow) from financing activities		255,846	296,060
Net (decrease)/increase in cash held		(327,432)	319,681
Cash at beginning of period		(258,684)	(609,820)
Effect of exchange rates on cash holdings in foreign currencies		(336)	(131,105)
Cash at end of period	9	(586,452)	(421,244)

The accompanying notes form part of this financial report.

**Multi Channel Solutions Limited ABN 60 006 569 124
and Controlled Entities**

Interim Financial Report

NOTES TO THE FINANCIAL STATEMENTS FOR THE HALF-YEAR ENDED 31 DECEMBER 2010

NOTE 1: BASIS OF PREPARATION

These general purpose financial statements for the interim half-year reporting period ended 31 December 2010 have been prepared in accordance with requirements of the *Corporations Act 2001* and Australian Accounting Standards including AASB 134: Interim Financial Reporting. Compliance with Australian Accounting Standards ensures that the financial statements and notes also comply with International Financial Reporting Standards.

This interim financial report is intended to provide users with an update on the latest annual financial statements of Multi Channel Solutions Limited and its controlled entities (the Group). As such, it does not contain information that represents relatively insignificant changes occurring during the half-year within the Group. It is therefore recommended that this financial report be read in conjunction with the annual financial statements of the Group for the year ended 30 June 2010, together with any public announcements made during the half-year.

The same accounting policies and methods of computation have been followed in this interim financial report as were applied in the most recent annual financial statements except for the adoption of the following new and revised Accounting Standards.

Going Concern

The financial report has been prepared on the going concern basis, which assumes the continuity of normal business activities and the realisation of assets and settlement of liabilities in the ordinary course of business.

The net loss for the consolidated entity for the half year ended 31 December 2010 was \$790,452.

The directors believe that it is appropriate to prepare the financial report on a going concern basis for the following reasons:-

- The group's budget for the year to 31 December 2011 shows a profitable position. The budget takes into account the supply of a number of new lines which occur in the second half of the 2011 year.
- Our USA subsidiary, Home & Business Consumer Products LLC has commenced supply of cat litter to major retail customers from October 2010. This product is expected to be a major profit generator in the future.
- The group has raised funds throughout the period and subsequent to the end of the period when required to fund the group's working capital requirements by issuing convertible notes. The group is of the opinion that they can raise further funds to meet future working capital requirements by way of issuing additional convertible notes and the issue of ordinary shares in the Company.

NOTE 2: LOSS FOR THE PERIOD

All the significant revenue and expense items for the period are disclosed on the face of the Statement of Comprehensive Income.

NOTE 3: DIVIDENDS

No dividends were paid or provided for the current period.

**Multi Channel Solutions Limited ABN 60 006 569 124
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Interim Financial Report

NOTES TO THE FINANCIAL STATEMENTS FOR THE HALF-YEAR ENDED 31 DECEMBER 2010

NOTE 4: OPERATING SEGMENTS

Segment Information

Identification of reportable segments

The group has identified its operating segments based on the internal reports that are reviewed and used by the board of directors (chief operating decision makers) in assessing performance and determining the allocation of resources.

The Group is managed primarily on the basis of geographic segments. Operating segments are therefore determined on the same basis.

Reportable segments disclosed are based on aggregating operating segments where the segments are considered to have similar economic characteristics and are also similar with respect to the following:

- the products sold and/or services provided by the segment;
- the type or class of customer for the products or service;
- the distribution method; and
- external regulatory requirements.

Types of products and services by segment

(i) *USA*

Supplies consumer products to USA Club stores and retail groups.

(ii) *Australia*

Marketing and distribution of consumer based products to the large retailers.

(iii) *Corporate*

Provide corporate and legal services to the Group.

Basis of accounting for purposes of reporting by operating segments

Accounting policies adopted

Unless stated otherwise, all amounts reported to the Board of Directors as the chief decision maker with respect to operating segments are determined in accordance with accounting policies that are consistent to those adopted in the annual financial statements of the Group.

Inter-segment transactions

All such transactions are eliminated on consolidation in the Group's financial statements.

Segment assets

Where an asset is used across multiple segments, the asset is allocated to the segment that receives the majority of economic value from the asset. In the majority of instances, segment assets are clearly identifiable on the basis of their nature and physical location.

Segment liabilities

Liabilities are allocated to segments where there is direct nexus between the incurrence of the liability and the operations of the segment. Segment liabilities include trade and other payables and certain direct borrowings.

**Multi Channel Solutions Limited ABN 60 006 569 124
and Controlled Entities**

Interim Financial Report

NOTES TO THE FINANCIAL STATEMENTS FOR THE HALF-YEAR ENDED 31 DECEMBER 2010

NOTE 4: OPERATING SEGMENTS

	USA	Australia	Corporate	Total
	\$	\$	\$	\$
Six Months Ended 31.12.2010				
Revenue				
External Sales	615,377	2,010,186	-	2,625,563
Interest Income	-	2	1,205	1,207
Other Revenue	-	3,068	-	3,068
Inter-Segment Sales	31,359	156,425	-	187,784
Total Segment Revenue	646,736	2,169,681	1,205	2,817,622
Inter-Segment Elimination	(31,359)	(156,425)	-	(187,784)
Total Group Revenue	615,377	2,013,256	1,205	2,629,838
Segment Net Profit/(Loss) (before tax)	30,814	328,754	(1,150,020)	(790,452)
Six Months Ended 31.12.2009				
Revenue				
External Sales	705,108	1,666,002	-	2,371,110
Interest Income	-	4	345	349
Other Revenue	-	2,877	-	2,877
Inter-Segment Sales	38,934	339,085	-	378,019
Total Segment Revenue	744,042	2,007,968	345	2,752,355
Inter-Segment Elimination	(38,934)	(339,085)	-	(378,019)
Total Group Revenue	705,108	1,668,883	345	2,374,336
Segment Net Profit/(Loss) (before tax)	28,163	(107,481)	(222,768)	(302,086)
(ii) Segment Assets				
As at 31.12.2010				
Segment Assets	2,090,926	7,950,894	3,948,619	13,990,439
Segment asset increases for the period				
Capital Expenditure	-	9,240	-	9,240
Inter-segment eliminations	(799,554)	(6,298,089)	(436,025)	(7,533,668)
Total Group Assets	1,291,372	1,662,045	3,512,594	6,466,011
As at 30.06.2010				
Segment Assets	1,870,095	7,333,665	3,965,519	13,169,279
Segment asset increases for the period				
Capital Expenditure	-	8,333	-	8,333
Inter-segment eliminations	(748,562)	(6,020,851)	(366,122)	(7,135,535)
Total Group Assets	1,121,533	1,321,147	3,599,397	6,042,077

**Multi Channel Solutions Limited ABN 60 006 569 124
and Controlled Entities**

Interim Financial Report

NOTES TO THE FINANCIAL STATEMENTS FOR THE HALF-YEAR ENDED 31 DECEMBER 2010

NOTE 4: OPERATING SEGMENTS

	USA \$	Australia \$	Corporate \$	Total \$
(iii) Segment Liabilities				
As at 31.12.2010				
Segment Liabilities	7,113,337	10,119,012	1,739,895	18,972,244
Inter-segment eliminations	(6,987,192)	(7,051,792)	(281,486)	(14,320,470)
Total Liabilities	126,145	3,067,220	1,458,409	4,651,744
As at 30.06.2010				
Segment Liabilities	6,835,023	9,829,631	1,519,755	18,184,409
Inter-segment eliminations	(6,716,993)	(6,981,889)	(314,781)	(14,013,663)
Total Liabilities	118,030	2,847,742	1,204,974	4,170,746

(iv) Major customers

The Group has a number of customers to which it provides products. In the USA segment, the Group supplies one single external customer which accounts for 61.3% of external revenue (2009: 76.8%). The next most significant client accounts for 26.0% (2009: 17.8%).

In the Australia segment the Group supplies one external customer which accounts for 47.2% of external revenue (2009: 31.5%). The next most significant client accounts for 29.0% (2009: 21.2%).

NOTE 5: FINANCIAL LIABILITIES

	Consolidated Group	
	31.12.2010	30.06.2010
	\$	\$
CURRENT		
Bank overdraft	718,651	464,559
Hire purchase	20,141	19,165
Convertible notes	380,000	230,000
Trade finance	296,552	296,174
	<u>1,415,344</u>	<u>1,009,898</u>
NON CURRENT		
Convertible notes	910,000	760,000
Hire purchase	25,966	36,281
Loan from Related Party	1,060,175	1,094,990
	<u>1,996,141</u>	<u>1,891,271</u>

**Multi Channel Solutions Limited ABN 60 006 569 124
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Interim Financial Report

NOTES TO THE FINANCIAL STATEMENTS FOR THE HALF-YEAR ENDED 31 DECEMBER 2010

NOTE 5: FINANCIAL LIABILITIES

During the period \$300,000 additional convertible notes were issued. Convertible notes are issued for a term of 12 months and 24 months and on expiry can be converted into ordinary shares or redeemed for their face value. The conversion price is the weighted average price of the shares for the last five trading days prior to exercise date less a discount of 25% of this value. The interest rate applicable is 15% per annum on \$330,000 and 11% per annum on \$960,000.

The hire purchase liabilities are secured over the Company's motor vehicles.

NOTE 6: CONTINGENT LIABILITIES

There are no contingent liabilities within the group at reporting date.

NOTE 7: INTANGIBLE ASSETS

	Consolidated Group	
	31.12.2010	30.06.2010
	\$	\$
Goodwill at cost	14,791,630	14,791,630
Less accumulated impairment losses	(11,373,674)	(11,373,674)
Net carrying value	3,417,956	3,417,956

Goodwill has an infinite life.

Impairment Disclosures

The recoverable amount of the goodwill is determined based on value-in-use calculations. Value-in-use is calculated based on the present value of cash flow projections over a five-year period with the period extending beyond three years extrapolated using an estimated growth rate. The cash flows are discounted using a discount rate of 12.50%, based on a weighted average of the group's debt facilities with a risk free premium.

The following assumptions were used in the value-in-use calculations:

	Growth Rate	Discount Rate
Distribution Segment	5.0%	12.5%

Management has based the value-in-use calculations on budgets for each reporting segment. These budgets use historical weighted average growth rates to project revenue. Costs are calculated taking into account historical gross margins as well as estimated weighted average inflation rates over the period which are consistent with inflation rates applicable to the locations in which the segments operate. Discount rates are pre-tax and are adjusted to incorporate risks associated with a particular segment.

NOTE 8: EVENTS SUBSEQUENT TO REPORTING DATE

On 9 February 2011 convertible notes were issued for the sum of \$150,000. On 10 February 2011 7,777,778 shares were issued at \$0.009 and on 18 February 2011 a further 3,500,000 shares were issued at \$0.01. There are no other matters or circumstances that have arisen since the end of the financial year which significantly affect or may significantly affect the economic entity.

**Multi Channel Solutions Limited ABN 60 006 569 124
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Interim Financial Report

NOTES TO THE FINANCIAL STATEMENTS FOR THE HALF-YEAR ENDED 31 DECEMBER 2010

NOTE 9: RECONCILIATION OF CASH

	Consolidated Group	
	31.12.2010	31.12.2009
	\$	\$
Cash on hand	132,199	41,209
Bank overdraft	(718,651)	(462,453)
	<u>(586,452)</u>	<u>(421,244)</u>

NOTE 10: TRADE AND OTHER RECEIVABLES

	Consolidated Group	
	31.12.2010	30.06.2010
	\$	\$
Trade receivables	1,278,247	850,027
Less provision for settlement discount	(100,791)	(43,202)
Less provision for doubtful debts	-	(92,039)
	<u>1,177,456</u>	<u>714,786</u>

NOTE 11: SUBSIDIARIES ACQUIRED/DISPOSED OF

There have been no subsidiaries acquired or disposed of during the 6 months period to 31 December 2010.

NOTE 12: RELATED PARTY TRANSACTIONS

Transactions between related parties are on normal commercial terms and conditions no more favourable than those available to other parties unless otherwise stated.

Transactions with related parties:

a. Directors and director related entities

The names of each person holding the position of Director of Multi Channel Solutions Limited during the half year ended 31st December 2010 are:

Desmond Smale, Roger Smith, John White & Clay Moore.

b. Significant related party transactions with directors of the Company during the period were:

Clay Moore, a Director of the Company, owes an amount of \$687,271 (\$711,350 at 30 June 2010) which represents profit draws in advance. This amount is included in other current assets and is due to be recovered from his 50% share of the profits of Home & Business Consumer Products LLC.

Sharon White, the wife of John White has lent the Company \$200,000 by way of convertible notes issued by the Company.

**Multi Channel Solutions Limited ABN 60 006 569 124
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Interim Financial Report

DIRECTORS' DECLARATION

The directors of the company declare that:

1. The financial statements and notes, as set out on pages 5 to 14 are in accordance with the *Corporations Act 2001*, including:
 - a. complying with Accounting Standard AASB 134: Interim Financial Reporting; and
 - b. giving a true and fair view of the consolidated entity's financial position as at 31 December 2010 and of its performance for the half-year ended on that date.
2. In the directors' opinion there are reasonable grounds to believe that the company will be able to pay its debts as and when they become due and payable.

This declaration is made in accordance with a resolution of the Board of Directors.



Director

Desmond Smale

Dated this 28th day of February 2011

Multi Channel Solutions Limited ABN 60 006 569 124
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Interim Financial Report

HALLCHADWICK 

Chartered Accountants and Business Advisers

MULTI CHANNEL SOLUTIONS LIMITED

ABN 60 006 569 124

INDEPENDENT AUDITOR'S REVIEW REPORT TO THE MEMBERS OF
MULTI CHANNEL SOLUTIONS LIMITED AND CONTROLLED ENTITIES

Report on the Half-year Financial Report

We have reviewed the accompanying half-year financial report of Multi Channel Solutions Limited which comprises the statement of financial position as at 31 December 2010, the statement of comprehensive income, the statement of changes in equity, the statement of cash flows for the half-year ended on that date, the accounting policies and other selected explanatory notes and the directors' declaration.

Directors' Responsibility for the Half-Year Financial Report

The directors of the company are responsible for the preparation and fair presentation of the half-year financial report in accordance with Australian Accounting Standards (including the Australian Accounting Interpretations) and the Corporations Act 2001. This responsibility includes establishing and maintaining internal control relevant to the preparation and fair presentation of the half-year financial report that is free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies and making accounting estimates that are reasonable in the circumstances.

Auditor's Responsibility

Our responsibility is to express a conclusion on the half-year financial report based on our review. We conducted our review in accordance with Auditing Standard on Review Engagements ASRE 2410: Review of an Interim Financial Report Performed by the Independent Auditor of the Entity in order to state whether, on the basis of the procedures described, we have become aware of any matter that makes us believe that the financial report is not in accordance with the Corporations Act 2001 including giving a true and fair view of the consolidated entity's financial position as at 31 December 2010 and its performance for the half-year ended on that date and complying with Accounting Standard AASB 134: Interim Financial Reporting and the Corporations Regulations 2001. As the auditor of Multi Channel Solutions Limited and controlled entities, ASRE 2410 requires that we comply with the ethical requirements relevant to the audit of the annual financial report.

A review of a half-year financial report consists of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and review procedures. A review is substantially less in scope than an audit conducted in accordance with Australian Auditing Standards and, consequently, does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Independence

In conducting our review, we have complied with the independence requirements of the Corporations Act 2001.

Conclusion

Based on our review, which is not an audit, we have not become aware of any matter that makes us believe that the half-year financial report of Multi Channel Solutions Limited is not in accordance with the Corporations Act 2001 including:

- giving a true and fair view of the consolidated entity's financial position as at 31 December 2010 and of its performance for the half-year ended on that date; and
- complying with AASB 134: Interim Financial Reporting and Corporations Regulations 2001.

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Multi Channel Solutions Limited ABN 60 006 569 124
and Controlled Entities

Interim Financial Report

HALLCHADWICK 

Chartered Accountants and Business Advisers

MULTI CHANNEL SOLUTIONS LIMITED

ABN 60 006 569 124

INDEPENDENT AUDITOR'S REVIEW REPORT TO THE MEMBERS OF
MULTI CHANNEL SOLUTIONS LIMITED AND CONTROLLED ENTITIES

Without qualification to the conclusion expressed above, attention is drawn to the following matters:

Significant Uncertainty Regarding Continuation as a Going Concern


We draw attention to Note 1 to the financial report which indicates that the group incurred a loss of \$790,452 during the half year ended 31 December 2010. This condition, along with other matters as set forth in Note 1, indicates the existence of a material uncertainty which may cast doubt about the group's ability to continue as a going concern and to realise its assets and extinguish its liabilities in the normal course of business and at the amounts stated in the financial report.

Significant Uncertainty Regarding the Carrying Value of Goodwill

We draw attention to Note 7 to the financial report. The group has assessed the carrying value of its goodwill based on value in use calculations, which indicates that the balance of goodwill amounting to \$3,417,956 is recoverable. If the cash flow projections used in the value in use calculations are not met, the carrying value of this goodwill may be impaired.

Significant Uncertainty Regarding Carrying Value of Receivables

We draw attention to Note 12 to the financial report. The group has assessed the carrying value of the receivable from Clay Moore of \$687,271 as recoverable. If the budgeted profits used as the basis for the repayment of the receivable from Clay Moore are not met, then the carrying value may be impaired.


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GRAHAM WEBB

Partner

Date: 28 February 2011