

**Q Technology Group Limited  
and Controlled Entities**

(ABN 27 009 259 876)



**2017 FINANCIAL REPORT**

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This Annual Financial Report covers Q Technology Group Limited (formerly QRSciences Holdings Limited) and its controlled entities as a consolidated group. The group's functional presentation currency is Australian Dollars.

## CORPORATE DIRECTORY

### DIRECTORS

Mr Douglas Potter (Chairman, Non-Executive)  
Mr Rob Rosa (Non-Executive)  
Mr Edmond Tern (Non-Executive)  
Mr Howard Whitesmith (Acting Managing Director)

### ACTING CHIEF EXECUTIVE OFFICER, CHIEF FINANCIAL OFFICER AND COMPANY SECRETARY

Mr Andrew Phillips

### REGISTERED OFFICE

5/435 Williamstown Road  
Port Melbourne VIC 3207  
Telephone +61 3 9676 7054  
Email: [enquiries@qtechnologygroup.com.au](mailto:enquiries@qtechnologygroup.com.au)

### SHARE REGISTRY

Computershare Investor Services Pty Ltd  
Yarra Falls, 452 Johnston Street  
Abbotsford VIC 3067

### WEBSITE

[www.qtechnologygroup.com.au](http://www.qtechnologygroup.com.au)  
[www.qsecuritysystems.com.au](http://www.qsecuritysystems.com.au)

### AUDITORS

RSM Australia Partners  
Level 21, 55 Collins Street  
Melbourne VIC 3000  
Telephone: +61 3 9286 8000

### BANKERS

Classic Funding Group  
6/146 Arthur Street  
North Sydney 2060  
Telephone: 1300 780 895

### SOLICITORS

CBW Partners  
1/159 Dorcas Street  
South Melbourne VIC 3205  
Telephone: +61 3 8646 3833

### STOCK EXCHANGE

Australian Stock Exchange  
Level 45  
South Tower, Rialto  
525 Collins Street  
Melbourne VIC 3000

### ASX CODE

QTG - Ordinary Shares

# Q TECHNOLOGY GROUP LIMITED AND CONTROLLED ENTITIES

## CHAIRMAN'S REPORT

Dear Shareholders,

On behalf of the Directors I enclose the group's results for the year ended 30 June 2017 within this annual report.

The Group's full year revenue decreased by 26% to \$16.2 million. On a consolidated basis QTG reported a net loss after tax of \$1.9 million for the year ended 30 June 2017. This compared to a net loss after tax of \$3.5 million in the prior period. The business was constrained in 2017 due to a dispute with a major supplier limiting our access to fast moving product together with legacy stock issues. 2017 was a year of rebuilding for QSS and repairing the balance sheet to enable the business to grow in FY18 and beyond.

### Summary of financial result

	30 June 2017	30 June 2016	Change
Revenue	\$16.2 million	\$21.9 million	- 26.0%
EBITDA	-\$1.5 million	-\$2.6 million	+ 42.3%
NPAT	-\$1.9 million	-\$3.5 million	+ 45.7%
EPS	-0.34 cents	-1.1 cents	+ 69.0%

### QRSciences Security Pty Ltd

QRSciences Security Pty Ltd is the operating arm of Q Technology Group trading as Q Security Systems ("QSS"). QSS focuses on distribution of CCTV cameras, digital video recorders, security video management systems and alarm systems. It has offices located in Melbourne, Sydney, Brisbane, Adelaide and Perth. The company has a strong reputation for service excellence, fast and reliable delivery, expert technical support and end-to-end turn-key solutions.

The Company is a leader in the supply of all video and camera security needs, embedded video encoders and wireless transmitters, megapixel and IP cameras, robust video management software, integrated video analytics, alarms and security systems.

In 2017, we were very pleased with the improvement in underlying business processes, notably procurement and inventory management. Gross inventory reduced \$4.1 million (48%) during the year, from \$8.6million at 30 June 2016 to \$4.5 million at 30 June 2017. There was, however, a financial impact of selling legacy stock on the shelf with both sales dollars and margin dollars decreasing as a result. In addition, the lack of supply of fast moving product from a major supplier resulted in lost market share in 2017. We are, however, now confident that we now have a better underlying business with better procedures and controls to take the business into the future. QSS continued to rationalize its suppliers during the period and focus on suppliers with whom a longer term partnership is valued. In April 2017 QSS exclusively released the Sunell low cost NVR and camera range which is well priced and well featured and will provide a platform to rebuild low end market sales which declined in FY17. QSS remains the primary distributor of Flir enterprise (formerly Dvtel) VMS products and we are confident we can continue to profitably service the project market. We continue to represent a range of other market leading products including Bosch CCTV and alarms and NUUO together with our own brand "QVS" CCTV products.

### Corporate

In May 2017 Mr Rob Rosa resigned as Chief Executive Officer and Managing Director. Mr Rosa remains on the board as a Non Executive Director. In May 2017 Mr Warren Sainsbury commenced as Chief Executive Officer and Managing Director and resigned in August 2017. Mr Howard Whitesmith was appointed Acting Managing Director in August 2017 and Mr Andrew Phillips Acting Chief Executive Officer in August 2017.

# Q TECHNOLOGY GROUP LIMITED AND CONTROLLED ENTITIES

## CHAIRMAN'S REPORT

### Corporate Governance

Our compliance with corporate governance practices at Q Technology Group Limited is included within this report. The Board is confident our governance structure is in place and properly administered.

Management has continued to refine risk management procedures and implement business strategies to leverage the capabilities of the company.

### Outlook

The underlying business improvement in procurement, stock and supplier management in FY17 will stand the business in good stead for future performance. In addition the business continued to streamline the operating model with operating costs reduced in 2017.

Despite challenges in FY17 the QSS business remained very resilient and has a very loyal and experienced team of core senior personnel with significant industry experience to take the business forward into FY18. The Board believes the Group is ready to deliver a stronger result in FY18 with a more focused team and a range of quality suppliers capable of increasing market share and margins together with maintaining an appropriate focus on cost control and inventory management.

As a listed company we currently lack the required scale to carry the ASX listing costs and related overheads to deliver satisfactory earnings per share. We will continue to seek opportunities in the coming year to unlock value to shareholders and I look forward to discussing this report with shareholders at the Annual General Meeting.

On behalf of the Directors we wish to thank the senior management team and all employees for their hard work, commitment and customer service focus during the year and also thank our customers and shareholders for their continuing support.



Douglas Potter  
Chairman  
Q Technology Group Limited

29 August 2017

# Q TECHNOLOGY GROUP LIMITED AND CONTROLLED ENTITIES

## DIRECTORS REPORT

Your Directors present their report, together with the financial statements for the Group, being the Company and its controlled entities as at and for the financial year ended 30 June 2017.

Q Technology Group Limited ("QTG") is based in Melbourne, Victoria. Its wholly owned distribution business, QRSciences Security Pty Ltd trading as Q Security Systems ("QSS") has 5 offices located throughout Australia, with a presence in all state capital cities except Tasmania (serviced by Victorian office) and Northern Territory (serviced by Queensland office).

### Directors

The following persons were directors of Q Technology Group Limited during the financial year and up to the date of this report:

Mr Douglas Potter, Chairman and Non Executive Director (appointed 16 December 2014)  
Mr Rob Rosa, Non Executive Director (appointed 16 December 2014)  
Mr Edmond Tern, Non Executive Director (appointed 16 December 2014)  
Mr Howard Whitesmith, Non Executive Director (appointed 27 September 2016)  
Mr Warren Sainsbury, Managing Director (appointed 30 May 2017, resigned 21 August 2017).

Particulars of each Director's experience and qualifications are set out later in this report.

### Principal Activities and Significant Changes in Nature of Activities

The principal activity of the consolidated group during the financial year was the distribution of CCTV and alarm products and solutions.

There were no changes to the nature of this principal activity during the financial year.

### Dividends

No dividends have been paid or recommended for the financial year ended 30 June 2017 (2016:Nil).

### Consolidated Result

For FY17, the Group reported a net loss after tax (NPAT) of \$1.89 million, compared to a loss of \$3.5million in the prior year. Earnings before Interest, Tax and Depreciation (EBITDA) was a loss of \$1.56 million, compared to a loss of \$2.6 million in the prior year. Revenue dropped by 26.0% to \$16.2 million in FY17.

# Q TECHNOLOGY GROUP LIMITED AND CONTROLLED ENTITIES

## DIRECTORS REPORT

### Financial Summary

\$'000

	2017			2016		
	Actual	Adjust	Normalized	Actual	Adjust	Normalized
Revenue	16,224		16,224	21,888		21,888
Gross Profit including other income	4,291		4,291	4,374	1,748	6,122
GP Margin	26.5%		26.5%	20.0%		28.0%
EBITDA	(1,555)		(1,555)	(2,551)	1,748	(803)
EBITDA Margin	-9.6%		-9.6%	-11.7		-3.7%
EBIT	(1,614)		(1,614)	(2,603)	1,748	(855)
EBIT Margin	-9.9%		-9.9%	-11.9%		-3.9%
Interest	(272)		(272)	(213)		(213)
<b>Net (Loss) before tax</b>	<b>(1,885)</b>		<b>(1,885)</b>	<b>(2,816)</b>	<b>1,748</b>	<b>(1,068)</b>

### NON-RECURRING ITEMS

	2017	2016
Inventory impairment	-	1,748
<b>Sub-total</b>	<b>-</b>	<b>1,748</b>

Normalized column reflects the adjustment of one off non-recurring items to enable assessment of the underlying business.

# Q TECHNOLOGY GROUP LIMITED AND CONTROLLED ENTITIES

## DIRECTORS REPORT

### Review of Operations

QSS continued its main business of distribution of Q Video Systems and Q Alarm Supplies products and solutions and Q Professional Services throughout offices in Sydney, Melbourne, Brisbane, Adelaide and Perth. QSS continued to differentiate itself from competitors through a strong team of technical support personnel providing before and after sales service for customers, which is particularly important as a solution provider as the industry continues to migrate from analogue to IP network video solutions. Q Professional Services is a chargeable service mainly utilised by middle to high end project integration companies dealing in this market space. QSS continued to offer pre-configured systems for smaller integrators to maintain the true “plug and play” solution for the everyday project offering.

There were two significant negative impacts on business profitability in FY17. Firstly a dispute with a major supplier resulted in the lack of ability to procure fast moving inventory lines. This resulted in a loss of sales and a loss of market share. The business has now released new products in this market segment and the board is confident in the business to rebuild market confidence and market share. At the same time legacy stock issues resulted in a push to sell the stock on the shelf to generate cash and repair the balance sheet. This resulted in lower selling prices and lower margins, resulting in poor profitability; albeit cash was generated from the sale of such products and inventory ratios significantly improved.

The Directors are confident the underlying business improvement in FY17 will lead to improved results in the future.

### Finance Facilities and Lending Covenants

The Company funds its working capital requirements through an invoice discounting facility with the Classic Funding Group. At 30 June 2017, the Company had drawn down \$1.53million of the \$4.0million facility. There is no interest cover or other balance sheet covenants associated with this facility.

### Future developments, prospects, and business strategies

The Company expects growth in both sales and gross profit dollars in FY2018 on the basis of new distribution agreements, improved business processes and an expected improvement in general market conditions. The Company believes growth is possible in both major project sales as well as daily run rate sales. We will continue to focus in FY18 on all areas of the business; improving project and run rate sales, an improved focus on increasing gross profit percentage in line with a new price book released, whilst continuing to monitor the cost base and stock levels.

### Environmental Issues

The Group is not involved in any activities that have a marked influence on the environment within its area of operation. As such, the directors are not aware of any material issues affecting the Group or its compliance with the relevant environmental agencies or regulatory authorities.

### Significant Changes in State of Affairs

No significant changes in the Group’s state of affairs occurred during the financial year.

### Matters subsequent to the end of the financial year

The Directors are not aware of any material matters subsequent to the end of the financial year which will impact this report or the operations of the business.

# Q TECHNOLOGY GROUP LIMITED AND CONTROLLED ENTITIES

## DIRECTORS REPORT

### Information relating to Directors

#### **Douglas Potter**

#### Experience and Qualifications

- **Chairman  
Non-Executive Director**

- Douglas Potter served as non-executive director of QTG since 2009 and was nominated as Chairman on 16 December 2014.

Douglas Potter is the Managing Director of Helmsman Funds Management Limited responsible for fund raising as well as originating, managing and exiting investments. Douglas has experience as a director on a number of private companies including not for profit boards.

Douglas holds a Bachelor of Economics from University of Sydney and has completed an Advanced Insolvency Course through the Insolvency Practitioners Association of Australia. He is a member of Chartered Accountants Australia and New Zealand and the Australian Private Equity & Venture Capital Association.

#### Interest in Shares and Options

- Nil

#### Special Responsibilities

- Non-Executive Chairman of Board  
Chairman of Risk and Audit Committee  
Chairman of Remuneration Committee

#### Directorships held in other listed entities during the last three years

- Nil

# Q TECHNOLOGY GROUP LIMITED AND CONTROLLED ENTITIES

## DIRECTORS REPORT

### **Rob Rosa**

#### **- Non Executive Director**

#### Experience and Qualifications

- Rob Rosa joined Q Security Systems as the Chief Operating Officer in November 2013 and was later appointed Managing Director on 16 December 2014. Rob resigned as Managing Director on 30 May 2017, however, remains a Non Executive Director.

Rob has been involved in the security and investigative industry for over 29 years and has held numerous positions in Government, private and ASX listed companies. Rob came from Hills Limited having served as General Manager Sales and Operations. Prior to that he was Head of Security for Melbourne City Council.

Rob has a BA in Arts majoring in Criminal Justice, an Advanced Certificate in Sales Management and an Associate Diploma of Business Marketing.

#### Interest in Shares and Options

- 35,008,964 ordinary shares

#### Special Responsibilities

- Member of Risk and Audit Committee

#### Directorships held in other listed entities during the last three years

- Nil

### **Edmond Tern**

#### **- Non Executive Director**

#### Experience and Qualifications

- Edmond Tern was appointed as Company Secretary and Chief Financial Officer on 27 November 2012 and later joined the Board on 16 December 2014. Edmond resigned from the executive position of Company Secretary and Chief Financial Officer on 25 May 2016, however, remains a Non Executive Director.

Edmond has extensive commercial experience across multiple industries including ASX listed entities and overseas owned multinationals.

Edmond holds a Bachelor of Economics and Bachelor of Business Administration from University of Windsor, Canada. He is also a member of CPA Australia with Post Graduate Diploma in Strategic Accounting from Monash University.

#### Interest in Shares and Options

- 23,186,263 ordinary shares

#### Special Responsibilities

- Member of Risk and Audit Committee  
Member of Remuneration Committee

#### Directorships held in other listed entities during the last three years

- Nil.

# Q TECHNOLOGY GROUP LIMITED AND CONTROLLED ENTITIES

## DIRECTORS REPORT

### **Howard Whitesmith** - **Acting Managing Director**

Experience and Qualifications - Howard Whitesmith was appointed as Non Executive Director on 27 September 2016 and Acting Managing Director on 21 August 2017.

Howard has extensive electronics industry experience including Chairman of Sherwood Technologies (now Datalase Ltd), Director of Hansatech Limited, Chairman of Agar Scientific Limited and Chairman and Founder of Tagtec Limited.

Howard was the CEO of the world leading UK high speed industrial printing/coding company Domino Printing Sciences PLC for seven years. During that time sales increased fourfold to \$350 million. He then worked as a consultant/board member helping small companies develop strategic plans to successfully grow their business.

Interest in Shares and Options - 50,000,000 ordinary shares

Special Responsibilities - Member of Risk and Audit Committee  
Member of Remuneration Committee

Directorships held in other listed entities during the last three years - Nil.

### **Andrew Phillips** - **Acting Chief Executive Officer**

Experience and Qualifications - Andrew Phillips joined Q Security Systems as the Chief Financial Officer in June 2016 and was appointed as Acting Chief Executive Officer in August 2017.

Andrew has been in senior management in the security industry for 20 years and brings a broad and diverse set of experience and skills to the role with a record of achievement in operational improvement.

Andrew holds a Bachelor of Economics from Monash University with majors in Accounting and Law is a member of Chartered Accountants Australia and New Zealand.

Interest in Shares and Options - 201,000

Special Responsibilities - Acting Chief Executive Officer  
Chief Financial Officer and Company Secretary

Directorships held in other listed entities during the last three years - Nil

# Q TECHNOLOGY GROUP LIMITED AND CONTROLLED ENTITIES

## DIRECTORS REPORT

### Meetings of Directors

During the financial year, meetings of Directors (including Committees of Directors) were held. Attendances by each director during the year were as follows:

	Directors' meetings		Risk and Audit Committee		Remuneration Committee	
	Number eligible to Attend	Number attended	Number eligible to attend	Number attended	Number eligible to attend	Number attended
Douglas Potter	11	11	2	2	2	2
Rob Rosa	11	11	2	2	2	2
Edmond Tern	11	11	2	2	2	2
Howard Whitesmith	8	8	1	1	1	1
Warren Sainsbury	1	1	-	-	-	-

### Indemnifying Officers or Auditor

During or since the end of the financial year, the Company has given an indemnity or entered into an agreement to indemnify, or paid or agreed to pay premiums to insure all Directors and Officers against liabilities for costs and expenses incurred by them in defending legal proceedings arising from their conduct whilst acting in the capacity of Directors of the Company, other than conduct involving a wilful breach of duty in relation to the Company. The premiums amounted to \$97,096.

### Options

At the date of this report there are no unissued ordinary shares of Q Technology Group Limited under option.

There have been no unissued shares or interests under option of any controlled entity within the Group during or since the end of reporting period.

For details of options issued to Directors and Executives as remuneration, please refer to the Remuneration Report.

### Proceedings on Behalf of Company

No person has applied to the Court under section 237 of the Corporations Act 2001 for leave to bring proceedings on behalf of the company or to intervene in any proceedings to which the company is a party for the purpose of taking responsibility on behalf of the company for all or part of those proceedings.

No proceedings have been brought or intervened in on behalf of the company with leave of the Court under section 237 of the Corporations Act 2001.

### Non-audit Services

The Board of Directors, in accordance with advice from the Audit Committee is satisfied the provision of non-audit services during the year is compatible with the general standard of independence for auditors imposed by the *Corporations Act 2001*. The Directors are satisfied the services disclosed below did not compromise the external auditor's independence for the following reasons:

# Q TECHNOLOGY GROUP LIMITED AND CONTROLLED ENTITIES

## DIRECTORS REPORT

- All non-audit services are reviewed and approved by the Audit Committee prior to commencement to ensure they do not adversely affect the integrity and objectivity of the auditor; and
- The nature of the services provided does not compromise the general principles relating to auditor independence in accordance with APES 110: Code of Ethics for Professional Accountants set by the Accounting Professional and Ethical Standards Board.
- No other services or fees were paid or payable to RSM Australia Partners for non-audit services provided during the year ended 30 June 2017. Refer to Note 8 of financial report for details of auditors' remuneration.

### **Auditor's Independence Declaration**

The lead auditor's independence declaration for the year ended 30 June 2017 has been received and is included in the Financial Report.

### **ASIC Corporations (Rounding in Financial/Directors' Reports) Instrument 2016/191**

The company is an entity to which ASIC Instrument 2016/191 applies and, accordingly, amounts in the financial statements and Directors' report have been rounded to the nearest thousand dollars.

# Q TECHNOLOGY GROUP LIMITED AND CONTROLLED ENTITIES

## DIRECTORS REPORT

### Remuneration Policy

The remuneration policy of Q Technology Group Limited has been designed to align key management personnel (“KMP”) objectives with shareholder and business objectives by providing a fixed remuneration component and offering specific long-term incentives based on key performance areas affecting the consolidated Group’s financial results.

The Board of Q Technology Group Limited believes the remuneration policy to be appropriate and effective in its ability to attract and retain the best key management personnel to run and manage the consolidated group as well as create goal congruence between Directors, Executives and Shareholders.

The Board’s policy for determining the nature and amount of remuneration for KMP of the consolidated group is as follows:

- The remuneration policy is to be developed by the Remuneration Committee and approved by the Board after professional advice is sought from independent external consultants where considered necessary.
- KMP receive a combination of base salary (which is based on factors such as length of service and experience), superannuation, fringe benefits, options and performance incentives.
- Performance incentives are generally only paid once predetermined key performance indicators have been met.
- Incentives paid in the form of options or rights are intended to align the interests of the Directors and Company with those of the Shareholders. In this regard, KMP are prohibited from limiting risk attached to those instruments by use of derivatives or other means.
- The Remuneration Committee reviews KMP packages annually by reference to the consolidated group’s performance, executive performance and comparable information from industry sectors.

The performance of KMP is measured against criteria agreed bi-annually with each executive and is based predominantly on the forecast growth of the consolidated group’s profits and shareholders’ value. All bonuses and incentives must be linked to predetermined performance criteria. The Board may, however, exercise its discretion in relation to approving incentives, bonuses and options, and can recommend changes to the Committee’s recommendations. Any changes must be justified by reference to measurable performance criteria. The policy is designed to attract the highest calibre of executives and reward them for performance results leading to long-term growth in shareholder wealth.

KMP receive a superannuation guarantee contribution required by the government, which for the FY2017 financial year was 9.5% of the individual’s average weekly ordinary time earnings (AWOTE), and do not receive any other retirement benefits. Some individuals, however, have chosen to sacrifice part of their salary to increase payments towards superannuation.

All remuneration paid to KMP is valued at the cost to the company and expensed.

The Board’s policy is to remunerate Non-Executive Directors at market rates for time, commitment and responsibilities. The remuneration committee determines payments to the Non-Executive Directors and reviews their remuneration annually, based on market practice, duties and accountability. Independent external advice is sought when required. The maximum aggregate amount of fees that can be paid to Non-Executive Directors is subject to approval by shareholders at the Annual General Meeting.

# Q TECHNOLOGY GROUP LIMITED AND CONTROLLED ENTITIES

## REMUNERATION REPORT - AUDITED

KMP are also entitled and encouraged to participate in the employee share and option arrangements to align directors' interests with shareholders' interests.

Options granted under the arrangement do not carry dividend or voting rights. Each option is entitled to be converted into one ordinary share once the interim or final financial report has been disclosed to the public and is valued using the Black-Scholes methodology.

KMP or closely related parties of KMP are prohibited from entering into hedge arrangements that would have the effect of limiting the risk exposure relating to their remuneration.

In addition, the Board's remuneration policy prohibits directors and KMP from using Q Technology Group Limited shares as collateral in any financial transaction, including margin loan arrangements.

### **Engagement of Remuneration Consultants**

No remuneration consultant was engaged during the year.

### **Performance-based Remuneration**

The key performance indicators (KPIs) are set annually, with a certain level of consultation with KMP. The measures are specifically tailored to the area each individual is involved in and has a level of control over. The KPIs target areas the Board believes hold greater potential for group expansion and profit, covering financial and non-financial as well as short and long-term goals. The level set for each KPI is based on budgeted figures for the Group and respective industry standards.

Performance in relation to the KPIs is assessed annually, with bonuses being awarded depending on the number and deemed difficulty of the KPIs achieved. Following the assessment, the KPIs are reviewed by the Remuneration Committee in light of the desired and actual outcomes, and their efficiency is assessed in relation to the Group's goals and shareholder wealth, before the KPIs are set for the following year.

In determining whether or not a KPI has been achieved, Q Technology Group Limited bases the assessment on audited figures; however, where the KPI involves comparison of the Group, or a division within the Group, to the market, independent reports may be obtained from organisations such as Standard & Poor's.

### **Relationship between Remuneration Policy and Company Performance**

The remuneration policy has been tailored to increase goal congruence between Shareholders, Directors and Executives. Two methods have been applied to achieve this aim, the first a performance-based bonus based on key performance indicators and the second the issue of options to Executives to encourage the alignment of personal and shareholder interests when considered appropriate.

# Q TECHNOLOGY GROUP LIMITED AND CONTROLLED ENTITIES

## REMUNERATION REPORT - AUDITED

The following table shows the gross revenue and profits for the last five years for the listed group, as well as the share prices at the end of the respective financial years.

	2017 \$'000	2016 \$'000	2015 \$'000	2014 \$'000	2013 \$'000
Revenue	16,224	21,888	23,786	25,827	30,335
Net Profit/(loss)	(1,885)	(3,451)	(2,264)	(799)	157
Share price at year-end (cents)	0.2	0.3	0.4	3.0	1.1

### Performance Conditions Linked to Remuneration

The Group seeks to emphasise incentives that reward for results and continued commitment to the Group through the provision of various cash bonus reward schemes, specifically the incorporation of incentive payments based on the achievement of revenue and profit targets, return on equity ratios, and continued employment with the Group provides management with a performance target which focuses upon sales growth and profitability utilising existing group resources.

The performance related proportions of remuneration based on these targets are included in the following table. The objective of the reward schemes is to both reinforce the short and long-term goals of the Group and provide a common interest between management and shareholders. There has been no alteration to the terms of the bonuses paid since grant date.

The satisfaction of the performance conditions are based on a review of the audited financial statements of the Group, as such figures reduce any risk of contention relating to payment eligibility. The Board does not believe that performance conditions should include a comparison with factors external to the Group at this time.

# Q TECHNOLOGY GROUP LIMITED AND CONTROLLED ENTITIES

## REMUNERATION REPORT - AUDITED

### Employment Details of Key Management Personnel

The following table provides employment details of persons who were, during the financial year, key management personnel of the group. The table also illustrates the proportion of remuneration that was performance and non-performance based and the proportion of remuneration received in the form of options.

Group KMP	Position held as at 30 June 2017 and any change during the year	Contract Details (Duration and Termination)	Proportions of elements of remuneration related to performance			Proportions of elements of remuneration not related to performance	
			Non-salary cash-based incentives	Shares/ Units	Options/ Rights	Fixed Salary/Fees	Total
Douglas Potter	Chairman	Letter of appointment.	-	-	-	100.0%	100.0%
Robert Rosa	Managing Director commenced 16 December 2014, resigned as Managing Director 30 May 2017, and continues as Non Executive Director.	As Managing Director ongoing agreement 6 months' notice required to terminate. Entitled to 6 months' gross salary. As Non Executive Director - Letter of appointment	16.8%	-	-	83.2%	100.0%
Edmond Tern	Non Executive Director.	Letter of appointment.	-	-	-	100.0%	100.0%
Howard Whitesmith	Non Executive Director.	Letter of appointment.	-	-	-	100.0%	100.0%
Warren Sainsbury	Managing Director commenced 30 May 2017 (resigned on 21 August 2017)	Ongoing agreement 6 months' notice required to terminate. Entitled to 6 months' gross salary	23.1%	-	-	76.9%	100.0%
Andrew Phillips	Company Secretary and Chief Financial Officer	Ongoing agreement 3 months' notice required to terminate. Entitled to 3 months' gross salary.	16.7%	-	-	83.3%	100.0%

On appointment to the board, all Non-Executive Directors enter into a service agreement with the company in the form of a letter of appointment. The letter summarises the board policies and terms, including compensation, relevant to the office of director.

The employment terms and conditions of all KMP are formalized in contracts of employment. Each of these agreements provide for the provision of performance related cash bonuses, other benefits including car allowances, mobile telephone and laptop, and equity participation, when eligible.

# Q TECHNOLOGY GROUP LIMITED AND CONTROLLED ENTITIES

## REMUNERATION REPORT - AUDITED

Terms of employment of other KMP require that the relevant group entity provide an executive contracted person with a minimum of one month's notice prior to termination of contract. Termination payments are not payable on resignation or under the circumstances of unsatisfactory performance.

Non-Executive Directors are subject to similar contracts requiring one month's notice to be given on termination. Termination payments are at the discretion of the remuneration committee.

### Changes in Directors and Executives Subsequent to Year-end

There were no changes in Directors nor Executives subsequent to year-end.

### Table of Benefits and Payments for the year ended 30 June 2017 Directors and Key Management Personnel

		Short-term benefits				Post-employment benefits		Long-term benefits		Equity-settled share-based payments		Cash-settled shared-based payments	Termination benefits	Total
		Salary, fees and leave	Profit share and bonuses	Non-monetary	Other	Pension and Superannuation	Other	Incentive plans	LSL	Shares / Units	Options / Rights			
		\$000	\$000	\$000	\$000	\$000	\$000	\$000	\$000	\$000	\$000			
<b>Non-Executive Directors</b>														
Douglas Potter	2017	75	-	-	-	-	-	-	-	-	-	-	-	75
	2016	75	-	-	-	-	-	-	-	-	-	-	-	75
Edmond Tern	2017	55	-	-	-	9	-	-	-	-	-	-	-	64
	2016	156	-	-	-	37	-	-	-	-	-	-	-	193
Howard Whitesmith	2017	11	-	-	-	6	-	-	-	-	-	-	-	17
	2016	-	-	-	-	-	-	-	-	-	-	-	-	-
<b>Executive Directors and Company Secretary</b>														
Warren Sainsbury	2017	10	-	-	-	1	-	-	-	-	-	-	-	11
	2016	-	-	-	-	-	-	-	-	-	-	-	-	-
Robert Rosa	2017	210	25	-	-	20	-	-	-	-	-	-	-	255
	2016	210	-	-	-	18	-	-	-	-	8	-	-	236
Andrew Phillips	2017	177	-	-	-	18	-	-	-	-	-	-	-	195
	2016	-	-	-	-	-	-	-	-	-	-	-	-	-
<b>Total</b>	<b>2017</b>	<b>538</b>	<b>25</b>	-	-	<b>54</b>	-	-	-	-	-	-	-	<b>617</b>
	<b>2016</b>	<b>441</b>		-	-	<b>55</b>	-	-	-	-	<b>8</b>	-	-	<b>504</b>

# Q TECHNOLOGY GROUP LIMITED AND CONTROLLED ENTITIES

## REMUNERATION REPORT - AUDITED

### Securities Received that are not Performance Related

No members of key management personnel are entitled to receive securities which are not performance-based as part of their remuneration package.

### Cash Bonuses, Performance-related Bonuses and Share-based Payments

The terms and conditions relating to options and bonuses granted as remuneration during the year to key management personnel and other executives during the year are as follows:

Executive	Remuneration Type	Grant Date	Grant Value	Reason for grant
Nil				

### Description of Options Issued as Remuneration

Nil.

### KMP Shareholdings

The number of ordinary shares in Q Technology Group Limited held by each KMP of the Group during the financial year is as follows:

	Balance at beginning of year	Granted as remuneration during the year	Issued on exercise of options during the year	Other changes during the year	Balance at end of year
<b>30 June 2017</b>					
Douglas Potter	-	-	-	-	-
Robert Rosa	18,019,482	-	-	16,989,482	35,008,964
Edmond Tern	12,393,131	-	-	10,793,132	23,186,263
Howard Whitesmith	22,837,940	-	-	27,162,060	50,000,000
Warren Sainsbury	-	-	-	-	-
Andrew Phillips	201,000	-	-	-	201,000
<b>Total</b>	<b>53,451,553</b>	<b>-</b>	<b>-</b>	<b>54,944,674</b>	<b>108,396,227</b>
<b>30 June 2016</b>					
Douglas Potter	-	-	-	-	-
Robert Rosa	6,539,561	-	-	11,479,921	18,019,482
Edmond Tern	-	-	-	12,393,131	12,393,131
Andrew Phillips	201,000	-	-	-	201,000
<b>Total</b>	<b>6,740,561</b>	<b>-</b>	<b>-</b>	<b>23,873,052</b>	<b>30,613,613</b>

# Q TECHNOLOGY GROUP LIMITED AND CONTROLLED ENTITIES

## REMUNERATION REPORT - AUDITED

### Other KMP Transactions

There have been no other transactions involving equity instruments other than those described in the tables above.

This Report of the Directors, incorporating the Remuneration Report, is signed in accordance with a resolution of the Board of Directors.



Douglas Potter, Chairman  
29 August 2017

**RSM Australia Partners**

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**AUDITOR'S INDEPENDENCE DECLARATION**

As lead auditor for the audit of the financial report of Q Technology Group Limited for the year ended 30 June 2017, I declare that, to the best of my knowledge and belief, there have been no contraventions of:

- (i) the auditor independence requirements of the *Corporations Act 2001* in relation to the audit; and
- (ii) any applicable code of professional conduct in relation to the audit.

A handwritten signature in black ink that reads "RSM".

**RSM AUSTRALIA PARTNERS**

A handwritten signature in black ink that reads "P A Ransom".

**P A RANSOM**  
Partner

Melbourne, Victoria  
Dated: 29 August 2017

**THE POWER OF BEING UNDERSTOOD**  
AUDIT | TAX | CONSULTING

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# Q TECHNOLOGY GROUP LIMITED AND CONTROLLED ENTITIES

## CORPORATE GOVERNANCE STATEMENT

### Q Technology Group Limited's Corporate Governance Arrangements

The Board is responsible for ensuring the existence of an effective corporate governance environment to safeguard the interests of the Company and its Shareholders. This statement outlines the main corporate governance practices that were in place during the year ended 30 June 2017.

The Board considers there to be an unambiguous and positive relationship between the creation and delivery of long-term shareholder value and high-quality corporate governance. Accordingly, in pursuing its objective, the Board has committed to corporate governance arrangements that strive to foster the values of integrity, respect, trust and openness among and between board members, management, employees, customers and suppliers.

Q Technology Group Limited ("QTG") and its subsidiaries operate as a single economic entity with a unified Board and management. As such, the Board's corporate governance arrangements apply to all entities within the economic group

QTG is listed on the Australian Securities Exchange ("ASX"). Accordingly, unless stated otherwise in his document, the Board's corporate governance arrangements comply with the recommendations of the ASX Corporate Governance Council as well as current standards of best practice for the entire financial year ended 30 June 2017.

### Board Composition

At 30 June 2017 the Board comprised of four Non-Executive Directors and one executive Director. The Board meets regularly and is responsible for providing strategic direction, identifying significant business risks, approving major investment proposals and acquisitions, establishing goals and monitoring the achievement of these goals.

Day to day management of the Group's affairs and the implementation of corporate strategy and policy initiatives are formally delegated by the Board to the Chief Executive Officer and senior executives.

The skills, experience and expertise relevant to the position of each director, and their term of office at the date of the annual report, are included in the Directors' Report.

Directors of QTG are considered to be independent when they are independent of management (3 year qualifying period) and free from any business or other relationship that could materially interfere with, or could reasonably be perceived to materially interfere with, the exercise of their unfettered and independent judgment.

In the context of director independence, "materiality" is considered from both the Company and individual director perspective. The determination of materiality requires consideration of both quantitative and qualitative elements. An item is presumed to be quantitatively immaterial if it is equal or less than 10% of the appropriate base amount.

It is presumed to be material (unless there is qualitative evidence to the contrary) if it is equal to or greater than 10% of the appropriate base amount. Qualitative factors considered include whether a relationship is strategically important, the competitive landscape, the nature of the relationship and the contractual or other arrangement governing it and other factors that point to the actual ability of the Director in question to shape the direction of the Company's loyalty.

# Q TECHNOLOGY GROUP LIMITED AND CONTROLLED ENTITIES

## CORPORATE GOVERNANCE STATEMENT

In accordance with the definition of the independence above, and the materiality threshold set, the following table indicates the directors of QTG considered as independent:

<b>Names</b>	<b>Role</b>	<b>Non-Executive</b>	<b>Independent</b>
Mr Rob Rosa	Non-Executive Director	Yes	No
Mr Edmond Tern	Non-Executive Director	Yes	No
Mr Douglas Potter	Non-Executive Director Chairman	Yes	No
Mr Howard Whitesmith	Non-Executive Director	Yes	Yes
Mr Warren Sainsbury*	Managing Director	No	No

Mr Douglas Potter, being Managing Director of Helmsman Funds Management Limited (“HFML”), is deemed not to be an independent director due to Helmsman Capital Fund Trust IIA of which HFML is trustee being a substantial shareholder of the Group.

Mr Rob Rosa and Mr Edmond Tern are deemed non independent as they have been employed by the company within the last three years.

There are procedures in place, agreed by the Board, to enable Directors in furtherance of their duties to seek independent professional advice at the Company’s expense.

The responsibilities and terms of appointment held by each director in office at the date of this report are as follows:

<b>Name</b>	<b>Position</b>
Mr Warren Sainsbury*	Managing Director Executive Service Agreement
Mr Douglas Potter	Chairman Directorship is tied to HFML who has a greater than 20% stake in Q Technology Group Limited Letter of appointment setting out duties and responsibilities.
Mr Edmond Tern	Non Executive Director Letter of appointment setting out duties and responsibilities
Mr Howard Whitesmith	Non Executive Director Letter of appointment setting out duties and responsibilities
Mr Rob Rosa	Non Executive Director Letter of appointment setting out duties and responsibilities

The Board considers its current composition is the most appropriate blend of skills and expertise, relevant to the Company’s business particularly at a time of significant structural change where the board has been required to meet regularly with key stakeholders and oversee implementation of a significant volume of change initiatives. The Board will consider the structure of the Board going forward and the need to have a majority of independent directors.

Warren Sainsbury resigned as Managing Director and Chief Executive Officer on 21 August 2017.

# Q TECHNOLOGY GROUP LIMITED AND CONTROLLED ENTITIES

## CORPORATE GOVERNANCE STATEMENT

### Performance Evaluation

An annual performance evaluation of the Board and all Board members was conducted by the Board for the financial year ended 30 June 2017.

A performance assessment for senior executives last took place in October 2016 and will be due to be completed for 2017 at a similar time.

**Board Committees:** To facilitate achieving its objectives, the Board has established two sub committees comprising Board members – the Risk and Audit Committee and the Remuneration Committee. Each of these Committees has formal terms of reference that outline the committee's roles and responsibilities and the authorities delegated to it by the Board. Due to the size of the company, all Committees comprise the same members.

### Nomination Committee

The Company has not assigned a Nomination Committee, which is a departure from ASX Corporate Governance Council best practice recommendation 2.1. The full Board is responsible for establishing criteria for Board membership, reviewing Board membership and nominating Directors for appointment to the Board. Candidates are initially appointed by the Board and must stand for election at the next general meeting of Shareholders.

Directors are selected on the basis of qualification, skills and experience, and are subject to retirement by rotation in accordance with the Company's constitution.

### Independent Professional Advice

Directors have the right to seek independent professional advice at the Company's expense in the furtherance of their duties as Directors. Approval must be obtained from the Chairman prior to incurring any such expense on behalf of the Company.

### Identifying and Managing Business Risks

The Board regularly monitors the operational and financial performance of the Company and economic entity and also reviews and (where necessary) receives independent external advice on areas of operational and financial risks. Appropriate risk management strategies are developed to mitigate all identified risks of the business.

### Trading Policy

The Company's securities dealing policy regarding Directors and employees trading in its securities is set by the Board. The policy restricts Directors and employees from trading on material information until it has been released to the market and adequate time has been given for this to be reflected in the securities' prices.

### Risk and Audit Committee

The Risk and Audit Committee is responsible for the nomination of the external auditors and for reviewing the adequacy of existing external audit arrangements, including the scope and quality of the audit.

The Risk and Audit Committee consists of the following directors:

Mr D Potter, Chairman  
Mr E Tern  
Mr H Whitesmith

# Q TECHNOLOGY GROUP LIMITED AND CONTROLLED ENTITIES

## CORPORATE GOVERNANCE STATEMENT

Mr Potter, the Chairman, is deemed not to be independent, which is a departure from ASX Corporate Governance Council best practice recommendation 2.5. Mr Tern and Mr Rosa are also deemed not to be independent on the basis of recent previous employment with the Company. The Board considers the current composition of the Risk and Audit Committee is the most appropriate blend of skills and expertise, relevant to the Company's business. The Company will review the composition of the Risk and Audit Committee on an on-going basis.

For qualifications of Risk and Audit Committee members and details on the number of meetings of the Risk and Audit Committee held during the year and the attendees at those meetings, refer to the Director's Report.

### **Risk Management**

The Board considers identification and management of key risks associated with the business as vital to maximise Shareholder wealth. A yearly assessment of the business risk profile is undertaken and reviewed by the Board, covering all aspects of the business from the operational level through to strategic level risks.

Internal controls to negate the identified risks are assessed and reviewed by the Board.

### **Remuneration Committee**

The Remuneration Committee of the Board is responsible for reviewing and approving the remuneration packages, if any, and policies applicable to the Directors and the Executive Chairman. This responsibility extends to share option schemes and incentive performance packages.

The Remuneration Committee consists of the following directors:

Mr D Potter, Chairman  
Mr R Rosa  
Mr H Whitesmith

Mr Potter, the Chairman, is deemed not to be independent, which is a departure from ASX Corporate Governance Council best practice recommendations. Mr Tern and Mr Rosa are also deemed not to be independent on the basis of recent previous employment with the Company. The Board considers the current composition of the Remuneration Committee is the most appropriate blend of skills and expertise, relevant to the Company's business. The Company will review the composition of the Remuneration Committee on an on-going basis.

Executives and staff are also entitled to participate in the employee share and option arrangements.

The remuneration package of each Executive Director and Executive includes a performance based component.

A more detailed explanation of the Company's remuneration policies and framework, performance based remuneration, and the amount of remuneration for all Directors (including Non-Executive Directors) and other key management personnel including all monetary and non-monetary components, are detailed in the Remuneration Report.

All remuneration paid to key management personnel is valued at the cost to the Company and expensed. Shares given to key management personnel are valued as the difference between the market price on the date of issue and the amount paid by the key management personnel. Options are valued using the Black-Scholes methodology. There are no retirement benefits for Non-Executive Directors.

The Board has a remuneration structure that will result in the Company attracting and retaining the best people to run the business. As part of this strategy it will also provide Executives with the necessary incentives to work to grow long term shareholder value. For details on the number of meetings of the

# Q TECHNOLOGY GROUP LIMITED AND CONTROLLED ENTITIES

## CORPORATE GOVERNANCE STATEMENT

Remuneration Committee held during the year and the attendees at those meetings, refer to the Director's Report.

### **Ethical Standards**

The Board is committed to its core governance values of integrity, respect, trust and openness among and between Board members, management, employees, customers and suppliers. These values are enshrined in the Board's Code of Conduct policy. The Board acknowledges and emphasises the importance of all directors and employees maintaining the highest standards of corporate governance practice and ethical conduct.

A code of conduct has been established requiring Directors and employees to:

- Act honestly and in good faith;
- Exercise due care and diligence in fulfilling the functions of office;
- Avoid conflicts and make full disclosure of any possible conflict of interest;
- Comply with both the letter and spirit of the law;
- Encourage the reporting and investigating of unlawful and unethical behaviour, and
- Comply with the securities trading policy outlined in the code of conduct.

A copy of the Company's code of conduct for Directors and key officers is available on the company website.

### **Continuous Disclosure and Shareholder Communication**

The Company has a Continuous Disclosure policy that sets out who is responsible for ensuring compliance with the Continuous Disclosure and all communication with the ASX. All information disclosed to the ASX is posted on the company website as soon as it is disclosed to the ASX.

The Board of Directors aims to ensure that the shareholders are informed of all major developments affecting the Company's state of affairs. Information is communicated to shareholders as follows:

- The annual report is available to all shareholders. The Board ensures that the annual report includes relevant information about the operations of the Company during the year, changes in the state of affairs of the Company and details of future developments, in addition to the other disclosures required by the Corporations Law.
- Half year financial statements prepared in accordance with the requirements of Accounting Standards and the *Corporations Act 2001* and subject to an audit review are lodged with the Australian Securities and Investments Commission and Australian Stock Exchange Limited.
- Proposed major changes in the Company which may impact on share ownership rights are submitted to a vote of shareholders.

The Board encourages full participation of shareholders at the Annual General Meeting to ensure a high level of accountability and identification with the Company's strategy and goals. Important issues are presented to the shareholders as resolutions. The shareholders are responsible for voting on the appointment of Directors.

### **Other**

The best practice recommendations of the ASX Corporate Governance Council require the Company to formalise and make publicly available (preferably on its website) a number of different charters and policies.

Subject to the exceptions outlined below, the Company will adopt the ASX Corporate Governance Council's Corporate Governance Principles and Recommendations released on 27 March 2014

# Q TECHNOLOGY GROUP LIMITED AND CONTROLLED ENTITIES

## CORPORATE GOVERNANCE STATEMENT

(“Recommendations”) to determine an appropriate system of control and accountability to best fit its business and operations commensurate with these guidelines.

The Company’s compliance with Recommendations is summarised in the table below:

Recommendation	ASX P & R <sup>1</sup>	If not, why not <sup>2</sup>	Recommendation	ASX P & R <sup>1</sup>	If not, why not <sup>2</sup>
Recommendation 1.1	Yes		Recommendation 4.2	Yes	
Recommendation 1.2	Yes		Recommendation 4.3	Yes	
Recommendation 1.3	Yes		Recommendation 5.1	Yes	
Recommendation 1.4	Yes		Recommendation 6.1	Yes	
Recommendation 1.5	No	Yes	Recommendation 6.2	Yes	
Recommendation 1.6	Yes		Recommendation 6.3	Yes	
Recommendation 1.7	Yes		Recommendation 6.4	Yes	
Recommendation 2.1	No	Yes	Recommendation 7.1	No	Yes
Recommendation 2.2	Yes		Recommendation 7.2	Yes	
Recommendation 2.3	Yes		Recommendation 7.3	No	Yes
Recommendation 2.4	No	Yes	Recommendation 7.4	Yes	
Recommendation 2.5	No	Yes	Recommendation 8.1	No	Yes
Recommendation 2.6	Yes		Recommendation 8.2	Yes	
Recommendation 3.1	Yes		Recommendation 8.3	Yes	
Recommendation 4.1	No	Yes			

<sup>1</sup> Indicates where the Company has followed the Recommendations and summarised those practices below.

<sup>2</sup> Indicates where the Company has provided a ‘if not, why not’ disclosure below

In acknowledging the Key Messages of the first review of the corporate governance reporting under the Revised Recommendations by ASX Markets Supervision (“ASXMS”), the Company has provided additional disclosure for each of the 29 recommendations. Where the Company has departed from a Recommendation, the Company has provided substantive reasons and refers to material containing additional disclosure, as relevant.

# Q TECHNOLOGY GROUP LIMITED AND CONTROLLED ENTITIES

## CORPORATE GOVERNANCE STATEMENT

The “if not, why not” disclosure of the Company is summarised in the table below:

Recommendation	Explanation of Departure from Recommendation
1.5	Owing to the size, skill set and current composition of the Board, the Company does not have a gender diversity policy. The board will consider the need to have a gender diversity policy in due course.
2.1	Owing to the size and composition of the Board, it is not appropriate to establish an Independent Nomination Committee or to establish a formal Nomination Policy at this stage.
2.4	Owing to the size, skill set and current composition of the Board, it does not comprise a majority of independent Directors. The Board will consider the structure of the board going forward and the need to have a majority of independent directors.
2.5	Owing to the size and skill set of the Board and the shareholder composition the board does not have a Chairman who is deemed to be independent.
4.1	Owing to the size, composition, and skill mix of the Board, the Company does not have an Audit Committee with a majority of Directors who are independent or a Chair who is not Chair of the Board of Directors.
7.1	Owing to the size and composition of the Board the Risk and Audit Committee does not have a Risk Committee with a majority of Directors who are independent or a Chair who is not Chair of the Board of Directors.
7.3	Owing to the size, the Company does not have an internal audit function. The Board will consider this in due course.
8.1	Owing to the size and composition of the Board, the Remuneration Committee does not have a majority of independent Directors, nor a Chairman who is an independent Director.

As the Company’s activities develop in size, nature and scope, the Company’s corporate governance policies and processes will continue to be reviewed and improved as resources permit.

### Board Roles and Responsibilities

The Board is accountable to the shareholders for creating and delivering shareholder value through governance of the company’s business activities. The discharge of these responsibilities is facilitated by the Board delivering to shareholders timely and balanced disclosures about the company’s performance.

As a part of its corporate governance arrangements, the Board has established a strategy for engaging and communicating with shareholders that includes:

- regular meetings with institutional shareholders;
- quarterly reporting to all shareholders; and
- actively encouraging shareholders to attend and participate in the company’s Annual General Meeting.

# Q TECHNOLOGY GROUP LIMITED AND CONTROLLED ENTITIES

## CORPORATE GOVERNANCE STATEMENT

The Board has delegated to the Chief Executive Officer (CEO) all authorities appropriate and necessary to achieve the Board's objective to create and deliver long-term shareholder value. Notwithstanding these delegations of authority by the Board, the CEO remains accountable to the Board for the authority delegated to him and for the performance of the company's business activities at all times. As noted above, the Board regularly monitors the decisions and actions of the CEO as well as the performance of the company's business activities.

Independent Directors have the right to seek independent professional advice on any matter connected with the discharge of their responsibilities as Directors at the company's expense. Written approval must be obtained from the Chairman prior to incurring any expense on behalf of the Company.

### **Shareholder Rights**

Shareholders are entitled to vote on significant matters impacting on the business, which include the election and remuneration of Directors, changes to the constitution and receipt of annual and interim financial statements. The Board actively encourages shareholders to attend and participate in the Annual General Meetings of QTG, to lodge questions to be responded to by the Board and/or the CEO and are able to appoint proxies.

# Q TECHNOLOGY GROUP LIMITED AND CONTROLLED ENTITIES

## CONSOLIDATED INCOME STATEMENT FOR YEAR ENDED 30 JUNE 2017

Continuing Operations	Note	Consolidated Group	
		2017 \$'000	2016 \$'000
<b>Revenue</b>	3	16,224	21,888
Other income	3	682	753
Changes in inventories of finished goods		4,058	(2,157)
Purchases		(16,673)	(16,099)
Employee benefits expense		(4,067)	(4,796)
Depreciation and amortisation expense		(59)	(52)
Finance costs		(363)	(344)
Occupancy costs		(678)	(711)
Legal fees		(59)	(38)
Insurance		(197)	(149)
Advertising and promotion		(83)	(168)
Motor vehicle		(17)	(38)
Travel expenses		(98)	(115)
Other expenses		(555)	(790)
<b>Loss before income tax</b>		<b>(1,885)</b>	<b>(2,816)</b>
Income tax expense	5	-	(635)
<b>Net Loss from continuing operations</b>		<b>(1,885)</b>	<b>(3,451)</b>
<b>Net Loss for the year</b>	4	<b>(1,885)</b>	<b>(3,451)</b>
(Loss) attributable to:			
- Members of the parent entity		<b>(1,885)</b>	<b>(3,451)</b>
		<b>(1,885)</b>	<b>(3,451)</b>
<b>Earnings per share</b>			
From continuing and discontinued operations:			
- Basic earnings per share (cents)	10	(0.344)	(1.106)
- Diluted earnings per share (cents)	10	(0.344)	(1.106)
From continuing operations:			
- Basic earnings per share (cents)	10	(0.344)	(1.106)
- Diluted earnings per share (cents)	10	(0.344)	(1.106)

The accompanying notes form part of these financial statements.

# Q TECHNOLOGY GROUP LIMITED AND CONTROLLED ENTITIES

## CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME FOR YEAR ENDED 30 JUNE 2017

	Consolidated Group	
	2017	2016
	\$'000	\$'000
<b>Loss for the year</b>	(1,885)	(3,451)
<b>Other comprehensive income for the year:</b>	-	-
<b>Total comprehensive income for the year</b>	<b>(1,885)</b>	<b>(3,451)</b>
Total comprehensive income attributable to:		
- Members of the parent entity	(1,885)	(3,451)
	<b>(1,885)</b>	<b>(3,451)</b>

The accompanying notes form part of these financial statements.

# Q TECHNOLOGY GROUP LIMITED AND CONTROLLED ENTITIES

## CONSOLIDATED STATEMENT OF FINANCIAL POSITION AS AT 30 JUNE 2017

	Note	Consolidated Group	
		2017 \$'000	2016 \$'000
<b><u>ASSETS</u></b>			
<b><u>CURRENT ASSETS</u></b>			
Cash and cash equivalents	11	302	220
Trade and other receivables	12	2,157	4,397
Inventories	13	3,049	6,123
Other current assets	16	107	129
<b>TOTAL CURRENT ASSETS</b>		<b>5,615</b>	<b>10,869</b>
<b><u>NON-CURRENT ASSETS</u></b>			
Property, plant and equipment	15	317	305
Deferred tax assets	19	-	-
<b>TOTAL NON-CURRENT ASSETS</b>		<b>317</b>	<b>305</b>
<b>TOTAL ASSETS</b>		<b>5,932</b>	<b>11,174</b>
<b><u>LIABILITIES</u></b>			
<b><u>CURRENT LIABILITIES</u></b>			
Trade and other payables	17	3,310	6,152
Borrowings	18	2,111	3,449
Provisions	20	311	434
<b>TOTAL CURRENT LIABILITIES</b>		<b>5,732</b>	<b>10,035</b>
<b><u>NON-CURRENT LIABILITIES</u></b>			
Borrowings	18	-	-
Provisions	20	42	96
<b>TOTAL NON-CURRENT LIABILITIES</b>		<b>42</b>	<b>96</b>
<b>TOTAL LIABILITIES</b>		<b>5,774</b>	<b>10,131</b>
<b>NET ASSETS</b>		<b>158</b>	<b>1,043</b>
<b><u>EQUITY</u></b>			
Issued capital	21	74,122	73,121
Reserves		-	-
Accumulated losses		(73,964)	(72,078)
<b>TOTAL EQUITY</b>		<b>158</b>	<b>1,043</b>

The accompanying notes form part of these financial statements.

# Q TECHNOLOGY GROUP LIMITED AND CONTROLLED ENTITIES

## CONSOLIDATED STATEMENT OF CHANGES IN EQUITY FOR YEAR ENDED 30 JUNE 2017

	Note	Issued Capital \$'000	Accumulated losses \$'000	Options Reserve \$'000	Total \$'000
<b>Balance at 1 July 2016</b>		73,121	(72,078)	-	1,043
Loss attributable to members of the parent entity		-	(1,885)	-	(1,885)
Other comprehensive income for the year		-	-	-	-
<b>Total comprehensive income for the year</b>		<b>73,121</b>	<b>(73,963)</b>	-	<b>(842)</b>
<b>Transactions with owners, in their capacity as owner, and other transfers</b>					
Dividends paid and provided for		-	-	-	-
Shares issued during the year		1,000	-	-	1,000
Transfers from reserves to accumulated losses		-	-	-	-
<b>Balance at 30 June 2017</b>		<b>74,121</b>	<b>(73,963)</b>	-	<b>158</b>
<b>Balance at 1 July 2015</b>		72,385	(68,627)	-	3,758
Loss attributable to members of the parent entity		-	(3,451)	-	(3,451)
Other comprehensive income for the year		-	-	-	-
<b>Total comprehensive income for the year</b>		<b>72,385</b>	<b>(72,078)</b>	-	<b>307</b>
<b>Transactions with owners, in their capacity as owner, and other transfers</b>					
Dividends paid and provided for		-	-	-	-
Shares issued during the year		736	-	-	736
Transfers from reserves to accumulated losses		-	-	-	-
<b>Balance at 30 June 2016</b>		<b>73,121</b>	<b>(72,078)</b>	-	<b>1,043</b>

The accompanying notes form part of these financial statements.

# Q TECHNOLOGY GROUP LIMITED AND CONTROLLED ENTITIES

## CONSOLIDATED STATEMENT OF CASHFLOWS FOR YEAR ENDED 30 JUNE 2017

	Note	Consolidated Group	
		2017 \$000	2016 \$000
<b><u>CASH FLOWS FROM OPERATING ACTIVITIES</u></b>			
Receipts from customers		20,289	24,728
Payments to suppliers and employees		(19,548)	(25,675)
Interest received		3	3
Finance costs		(328)	(344)
<b>Net cash provided by/(used in) operating activities</b>	25	<b>416</b>	<b>(1,288)</b>
<b><u>CASH FLOWS FROM INVESTING ACTIVITIES</u></b>			
Proceeds from sale of property, plant and equipment		2	7
Purchase of property, plant and equipment		-	(63)
<b>Net cash provided by/(used in) investing activities</b>		<b>2</b>	<b>(56)</b>
<b><u>CASH FLOWS FROM FINANCING ACTIVITIES</u></b>			
Proceeds from issue of shares		1,000	736
Proceeds from borrowings		310	660
Repayment of borrowings		-	(397)
<b>Net cash provided by/(used in) financing activities</b>		<b>1,310</b>	<b>999</b>
Net (decrease)/increase in cash held		1,728	(345)
Cash and cash equivalents at beginning of financial year		(2,959)	(2,614)
<b>Cash and cash equivalents at end of financial year</b>	11	<b>(1,231)</b>	<b>(2,959)</b>

The accompanying notes form part of these financial statements

# Q TECHNOLOGY GROUP LIMITED AND CONTROLLED ENTITIES

## NOTES TO THE FINANCIAL STATEMENTS FOR YEAR ENDED 30 JUNE 2017

### NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

These consolidated financial statements and notes represent those of Q Technology Group Limited and controlled entities ('Consolidated Group' or 'Group').

The separate financial statements and notes of Q Technology Group Limited have not been presented within this financial report as permitted by amendments made to the *Corporations Act 2001*.

The financial information for the parent entity as disclosed in Note 2 to the financial statements has been prepared on the same basis as the consolidated financial statements.

The financial statements are authorised for issue on 31 August 2017 by the Directors of the Company.

#### **Basis of Preparation**

The financial statements are general purpose financial statements that have been prepared in accordance with Australian Accounting Standards, Australian Accounting Interpretations, other authoritative pronouncements of the Australian Accounting Standards Board (AASB), and the Corporations Act 2001. The Group is a for-profit entity for financial reporting purposes under Australian Accounting Standards.

Australian Accounting Standards set out accounting policies that the AASB has concluded would result in financial statements containing relevant and reliable information about transactions, events and conditions. Compliance with Australian Accounting Standards ensures that the financial statements and notes also comply with International Financial Reporting Standards as issued by the IASB. Material accounting policies adopted in the preparation of these financial statements are presented below and have been consistently applied unless stated otherwise.

Except for the cash flow information the financial statements have been prepared on an accrual basis and are based on historical costs, modified where applicable, by the measurement at fair value of selected non-current assets, financial assets and financial liabilities.

#### **A. Principles of Consolidation**

The consolidated financial statements incorporate the assets, liabilities and results of entities controlled by Q Technology Group Limited at the end of the reporting period. A controlled entity ('subsidiary') is any entity over which Q Technology Group Limited has the power to govern the financial and operating policies so as to obtain benefits from the entity's activities. Control will generally exist when the parent owns, directly or indirectly through subsidiaries, more than half of the voting power of an entity. In assessing the power to govern, the existence and effect of holdings of actual and potential voting rights are also considered.

Where controlled entities have entered or left the Group during the year, the financial performance of those entities are included only for the period of the year that they were controlled. A list of controlled entities is contained in Note 14 to the financial statements.

In preparing the consolidated financial statements, all intra-group balances and transactions between entities in the consolidated group have been eliminated on consolidation. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with those adopted by the parent entity.

# Q TECHNOLOGY GROUP LIMITED AND CONTROLLED ENTITIES

## NOTES TO THE FINANCIAL STATEMENTS FOR YEAR ENDED 30 JUNE 2017

### NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Non-controlling interests, being the equity in a subsidiary not attributable, directly or indirectly, to a parent, are shown separately within the Equity section of the consolidated Statement of Financial Position and Statement of Comprehensive Income. The non-controlling interests in the net assets comprise their interests at the date of the original business combination and their share of changes in equity since that date.

#### **B. Income tax**

The income tax expense/(income) for the year comprises current income tax expense (income) and deferred tax expense (income).

Current income tax expense charged to profit or loss is the tax payable on taxable income. Current tax liabilities/(assets) are measured at the amounts expected to be paid to/(recovered from) the relevant taxation authority.

Deferred income tax expense reflects movements in deferred tax asset and deferred tax liability balances during the year as well unused tax losses.

Current and deferred income tax expense/(income) is charged or credited outside profit or loss when the tax relates to items that are recognised outside profit or loss.

Deferred tax assets and liabilities are calculated at the tax rates that are expected to apply to the period when the asset is realised or the liability is settled and their measurement also reflects the manner in which management expects to recover or settle the carrying amount of the related asset or liability. With respect to non-depreciable items of property, plant and equipment measured at fair value and items of investment property measured at fair value, the related deferred tax liability or deferred tax asset is measured on the basis that the carrying amount of the asset will be recovered entirely through sale.

# Q TECHNOLOGY GROUP LIMITED AND CONTROLLED ENTITIES

## NOTES TO THE FINANCIAL STATEMENTS FOR YEAR ENDED 30 JUNE 2017

### NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Deferred tax assets and liabilities are calculated at the tax rates that are expected to apply to the period when the asset is realised or the liability is settled, based on tax rates enacted or substantively enacted at the end of the reporting period. Their measurement also reflects the manner in which management expects to recover or settle the carrying amount of the related asset or liability.

Deferred tax assets relating to temporary differences and unused tax losses are recognised only to the extent that it is probable that future taxable profit will be available against which the benefits of the deferred tax asset can be utilised.

Where temporary differences exist in relation to investments in subsidiaries, branches, associates and joint ventures, deferred tax assets and liabilities are not recognised where the timing of the reversal of the temporary difference can be controlled and it is not probable that the reversal will occur in the foreseeable future.

Current tax assets and liabilities are offset where a legally enforceable right of set-off exists and it is intended that net settlement or simultaneous realisation and settlement of the respective asset and liability will occur. Deferred tax assets and liabilities are offset where: (a) a legally enforceable right of set-off exists; and (b) the deferred tax assets and liabilities relate to income taxes levied by the same taxation authority on either the same taxable entity or different taxable entities where it is intended that net settlement or simultaneous realisation and settlement of the respective asset and liability will occur in future periods in which significant amounts of deferred tax assets or liabilities are expected to be recovered or settled.

#### **Tax Consolidation**

Q Technology Group Limited and its wholly-owned Australian subsidiaries have formed an income tax consolidated group under tax consolidation legislation. Each entity in the Group recognises its own current and deferred tax assets and liabilities. Such taxes are measured using the 'stand-alone taxpayer' approach to allocation. Current tax liabilities (assets) and deferred tax assets arising from unused tax losses and tax credits in the subsidiaries are immediately transferred to the head entity.

The Group formed an income tax consolidated group to apply from 1 July 2010. The tax consolidated group has entered a tax funding arrangement whereby each company in the Group contributes to the income tax payable by the Group in proportion to their contribution to the Group's taxable income. Differences between the amounts of net tax assets and liabilities derecognised and the net amounts recognised pursuant to the funding arrangement are recognised as either a contribution by, or distribution to the head entity.

#### **C. Inventories**

Inventories are measured at the lower of cost and net realisable value. Costs are assigned to individual items of inventory on the basis of weighted average costs. Net realisable value is the estimated selling price in the ordinary course of business less the estimated costs necessary to make the sale.

# Q TECHNOLOGY GROUP LIMITED AND CONTROLLED ENTITIES

## NOTES TO THE FINANCIAL STATEMENTS FOR YEAR ENDED 30 JUNE 2017

### NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

#### D. Property, plant and equipment

Each class of property, plant and equipment is carried at cost as indicated less, where applicable, any accumulated depreciation and impairment losses.

##### Plant and equipment

Plant and equipment are measured on the cost basis and therefore carried at cost less accumulated depreciation and any accumulated impairment. In the event the carrying amount of plant and equipment is greater than the estimated recoverable amount, the carrying amount is written down immediately to the estimated recoverable amount and impairment losses are recognised either in profit or loss or as a revaluation decrease if the impairment losses relate to a re-valued asset. A formal assessment of recoverable amount is made when impairment indicators are present.

The carrying amount of plant and equipment is reviewed annually by Directors to ensure it is not in excess of the recoverable amount from these assets. The recoverable amount is assessed on the basis of the expected net cash flows that will be received from the asset's employment and subsequent disposal. The expected net cash flows have been discounted to their present values in determining recoverable amounts.

##### Depreciation

The depreciable amount of all fixed assets is depreciated on a straight line basis over the asset's useful life to the consolidated group commencing from the time the asset is held ready for use.

The depreciation rates used for each class of depreciable assets are:

Class of Fixed Asset	Depreciation Rate
Plant and equipment	5 – 37.5%
Plant and equipment under lease	15 – 60%

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at the end of each reporting period.

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount.

Gains and losses on disposals are determined by comparing proceeds with the carrying amount. These gains and losses are included in the consolidated income statement.

# Q TECHNOLOGY GROUP LIMITED AND CONTROLLED ENTITIES

## NOTES TO THE FINANCIAL STATEMENTS FOR YEAR ENDED 30 JUNE 2017

### NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

#### E. Leases

Leases of fixed assets where substantially all the risks and benefits incidental to the ownership of the asset, but not the legal ownership that is transferred to entities in the consolidated group, are classified as finance leases.

Finance leases are capitalised by recording an asset and a liability at the lower of the amounts equal to the fair value of the leased property or the present value of the minimum lease payments, including any guaranteed residual values. Lease payments are allocated between the reduction of the lease liability and the lease interest expense for the period.

Leased assets are depreciated on a straight-line basis over the shorter of their estimated useful lives or the lease term.

Lease payments for operating leases, where substantially all the risks and benefits remain with the lessor, are charged as expenses in the periods in which they are incurred.

Lease incentives under operating leases are recognised as a liability and amortised on a straight-line basis over the life of the lease term.

#### F. Financial instruments

##### Recognition and initial measurement

Financial assets and financial liabilities are recognised when the entity becomes a party to the contractual provisions to the instrument. For financial assets, this is equivalent to the date that the company commits itself to either the purchase or sale of the asset (i.e. trade date accounting is adopted).

Financial instruments are initially measured at fair value plus transaction costs, except where the instrument is classified 'at fair value through profit or loss', in which case transaction costs are expensed to profit or loss immediately.

##### Classification and subsequent measurement

Financial instruments are subsequently measured at either of fair value, amortised cost using the effective interest rate method, or cost.

Amortised cost is calculated as the amount at which the financial asset or financial liability is measured at initial recognition less principal repayments and any reduction for impairment, and adjusted for any cumulative amortisation of the difference between that initial amount and the maturity amount calculated using the effective interest method.

The effective interest method is used to allocate interest income or interest expense over the relevant period and is equivalent to the rate that exactly discounts estimated future cash payments or receipts (including fees, transaction costs and other premiums or discounts) through the expected life (or when this cannot be reliably predicted, the contractual term) of the financial instrument to the net carrying amount of the financial asset or financial liability. Revisions to expected future net cash flows will necessitate an adjustment to the carrying value with a consequential recognition of an income or expense in profit or loss.

# Q TECHNOLOGY GROUP LIMITED AND CONTROLLED ENTITIES

## NOTES TO THE FINANCIAL STATEMENTS FOR YEAR ENDED 30 JUNE 2017

### NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

The Group does not designate any interests in subsidiaries, associates or joint venture entities as being subject to the requirements of accounting standards specifically applicable to financial instruments.

i. Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market and are subsequently measured at amortised cost.

Loans and receivables are included in current assets, except for those which are not expected to mature within 12 months after the end of the reporting period. (All other loans and receivables are classified as non-current assets.)

ii. Financial liabilities

Non-derivative financial liabilities (excluding financial guarantees) are subsequently measured at amortised cost.

#### Impairment

At the end of each reporting period, the Group assesses whether there is objective evidence that a financial instrument has been impaired.

#### De-recognition

Financial assets are de-recognised where the contractual rights to receipt of cash flows expires or the asset is transferred to another party whereby the entity no longer has any significant continuing involvement in the risks and benefits associated with the asset. Financial liabilities are de-recognised where the related obligations are either discharged, cancelled or expired. The difference between the carrying value of the financial liability extinguished or transferred to another party and the fair value of consideration paid, including the transfer of non-cash assets or liabilities assumed, is recognised in profit or loss.

### G. Fair value of Assets and Liabilities

Fair value is the price the Group would receive to sell an asset or would have to pay to transfer a liability in an orderly (i.e. unforced) transaction between independent, knowledgeable and willing market participants at the measurement date.

The Group did not measure any of its assets and liabilities at fair value on either a recurring or non-recurring basis, during the financial year.

# Q TECHNOLOGY GROUP LIMITED AND CONTROLLED ENTITIES

## NOTES TO THE FINANCIAL STATEMENTS FOR YEAR ENDED 30 JUNE 2017

### NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

#### H. Impairment of Assets

At the end of each reporting period, the Group assesses whether there is any indication that an asset may be impaired. The assessment will include the consideration of external and internal sources of information, including dividends received from subsidiaries, associates or jointly controlled entities deemed to be out of pre-acquisition profits. If such an indication exists, an impairment test is carried out on the asset by comparing the recoverable amount of the asset, being the higher of the asset's fair value less costs to sell and value in use, to the asset's carrying amount. Any excess of the asset's carrying amount over its recoverable amount is recognised immediately in profit or loss, unless the asset is carried at a revalued amount in accordance with another Standard (e.g. in accordance with the revaluation model in AASB 116: Property, Plant and Equipment). Any impairment loss of a revalued asset is treated as a revaluation decrease in accordance with that other Standard.

Where it is not possible to estimate the recoverable amount of an individual asset, the Group estimates the recoverable amount of the cash-generating unit to which the asset belongs.

#### I. Foreign Currency Transactions and Balances

##### Functional and presentation currency

The functional currency of each of the Group's entities is determined using the currency of the primary economic environment in which that entity operates. The consolidated financial statements are presented in Australian dollars which is the parent entity's functional and presentation currency.

##### Transactions and balances

Foreign currency transactions are translated into functional currency using the exchange rates prevailing at the date of the transaction. Foreign currency monetary items are translated at the year-end exchange rate. Non-monetary items measured at historical cost continue to be carried at the exchange rate at the date of the transaction. Non-monetary items measured at fair value are reported at the exchange rate at the date when fair values were determined.

Exchange differences arising on the translation of monetary items are recognised in profit or loss, except where deferred in equity as a qualifying cash flow or net investment hedge.

Exchange differences arising on the translation of non-monetary items are recognised directly in other comprehensive income to the extent that the underlying gain or loss is recognised in other comprehensive income; otherwise the exchange difference is recognised in profit or loss.

# Q TECHNOLOGY GROUP LIMITED AND CONTROLLED ENTITIES

## NOTES TO THE FINANCIAL STATEMENTS FOR YEAR ENDED 30 JUNE 2017

### NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

#### J. Employee Benefits

##### Short term employee benefits

Provision is made for the Group's obligation for short-term employee benefits. Short-term employee benefits are benefits (other than termination benefits) that are expected to be settled wholly before 12 months after the end of the annual reporting period in which the employees render the related service, including wages, salaries and sick leave. Short-term employee benefits are measured at the (undiscounted) amounts expected to be paid when the obligation is settled.

The Group's obligations for short-term employee benefits such as wages, salaries and sick leave are recognised as part of current trade and other payables in the statement of financial position. The Group's obligations for employees' annual leave and long service leave entitlements are recognised as provisions in the statement of financial position.

##### Other long-term employee benefits

Provision is made for employees' long service leave and annual entitlements not expected to be settled wholly within 12 months after the end of the annual reporting period in which the employees render the related service. Other long-term employee benefits are measured at the present value of the expected future payments to be made to employees. Expected future payments incorporate anticipated future wage and salary levels, durations of service and employee departure and are discounted at rates determined by reference to market yields at the end of the reporting period on corporate bonds that have maturity dates that approximate the terms of the obligations. Any remeasurements for changes in assumptions of obligations for other long-term employee benefits are recognised in profit or loss in the periods in which the changes occur.

The Group's obligations for long-term employee benefits are presented as non-current provisions in its statement of financial position, except where the Group does not have an unconditional right to defer settlement for at least 12 months after the end of the reporting period, in which case the obligations are presented as current provisions.

##### Equity-settled compensation

The Group operates equity-settled share-based payment employee share and option schemes. The fair value of the equity to which employees become entitled is measured at grant date and recognised as an expense over the vesting period, with a corresponding increase to an equity account. The fair value of shares is ascertained as the market bid price. The fair value of options is ascertained using a Black-Scholes pricing model which incorporates all market vesting conditions. The number of shares and options expected to vest is reviewed and adjusted at the end of each reporting date such that the amount recognised for services received as consideration for the equity instruments granted shall be based on the number of equity instruments that eventually vest.

# Q TECHNOLOGY GROUP LIMITED AND CONTROLLED ENTITIES

## NOTES TO THE FINANCIAL STATEMENTS FOR YEAR ENDED 30 JUNE 2017

### NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

#### **K. Provisions**

Provisions are recognised when the Group has a legal or constructive obligation as a result of past events for which it is probable that an outflow of economic benefits will result and that outflow can be reliably measured.

Provisions are measurable using the best estimate of the amounts required to settle the obligation at the end of the reporting period.

#### **L. Cash and Cash Equivalents**

Cash and cash equivalents include cash on hand, deposits held at call with banks, other short-term highly liquid investments with original maturities of three months or less, and bank overdrafts. Bank overdrafts are shown within short-term borrowings in current liabilities on the statement of financial position.

#### **M. Revenue and Other Income**

Revenue is measured at the fair value of the consideration received or receivable after taking into account any trade discounts and volume rebates allowed.

Revenue from the sale of goods is recognised at the point of delivery as this corresponds to the transfer of significant risks and rewards of ownership of the goods and the cessation of all involvement in those goods.

Interest revenue is recognised using the effective interest rate method, which, for floating rate financial assets, is the rate inherent in the instrument.

All revenue is stated net of the amount of goods and services tax (GST).

#### **N. Trade and Other Payables**

Trade and other payables represent the liability outstanding at the end of the reporting period for goods and services received by the Group during the reporting period which remains unpaid. The balance is recognised as a current liability.

#### **O. Borrowing Costs**

Borrowing costs directly attributable to the acquisition, construction or production of assets that necessarily take a substantial period of time to prepare for their intended use or sale, are added to the cost of those assets, until such time as the assets are substantially ready for their intended use or sale. All other borrowing costs are recognised in profit or loss in the period in which they are incurred.

# Q TECHNOLOGY GROUP LIMITED AND CONTROLLED ENTITIES

## NOTES TO THE FINANCIAL STATEMENTS FOR YEAR ENDED 30 JUNE 2017

### NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

#### **P. Goods and Services Tax (GST)**

Revenues, expenses and assets are recognised net of the amount of GST, except where the amount of GST incurred is not recoverable from the Australian Taxation Office. In these circumstances the GST is recognised as part of the cost of acquisition of the asset or as part of an item of the expense. Receivables and payables in the statement of financial position are shown inclusive of GST.

Cash flows are presented in the statement of cash flows on a gross basis, except for the GST component of investing and financing activities, which are disclosed as operating cash flows.

#### **Q. Comparative Figures**

When required by Accounting Standards, comparative figures have been adjusted to conform to changes in presentation for the current financial year.

When the Group applies an accounting policy retrospectively, makes a retrospective restatement or reclassifies items in its financial statements, a statement of financial position as at the beginning of the earliest comparative period will be disclosed.

#### **R. Rounding of Amounts**

The parent entity has applied the relief available to it under ASIC Corporations (Rounding in Financial/Directors' Reports) Instrument 2016/191 and accordingly, amounts in the financial report and directors' report have been rounded off to the nearest \$1,000.

#### **S. Critical Accounting Estimates and Judgments**

The Directors evaluate estimates and judgments incorporated into the financial statements based on historical knowledge and best available current information. Estimates assume a reasonable expectation of future events and are based on current trends and economic data, obtained both externally and within the Group.

# Q TECHNOLOGY GROUP LIMITED AND CONTROLLED ENTITIES

## NOTES TO THE FINANCIAL STATEMENTS FOR YEAR ENDED 30 JUNE 2017

### NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

#### T. Going Concern

The financial statements have been prepared on the going concern basis, which contemplates continuity of normal business activities and the realisation of assets and discharge of liabilities in the normal course of business.

For the year ended 30 June 2017 the consolidated entity reported operating losses of \$1,885,000 and, as of that date, the consolidated entity's current liabilities exceeded its current assets by \$117,000

These factors indicate a material uncertainty which may cast significant doubt over the ability of the consolidated entity to continue as a going concern and therefore whether it will realise its assets and extinguish its liabilities in the normal course of business and at the amounts stated in the financial report.

The Directors believe there are reasonable grounds to believe the consolidated entity will be able to continue as a going concern, after consideration of the following factors:

- The consolidated entity intends on completing a capital raising for \$360,000 before the next AGM;
- As disclosed in Note 18, a facility for an additional \$200,000 drawdown of convertible notes is available to the consolidated entity. This facility along with the existing convertible notes liability of \$556,000 will be expected to be converted to share capital after shareholder approval at the next AGM;
- The consolidated entity expects to place 25% of additional equity after the next AGM which will provide a cash injection and improve net assets by up to \$450,000 based on the current share price;
- The consolidated entity has prepared budgets and cash flow forecasts for the next 12 months from the date of this report which indicates the consolidated entity will be cash flow positive during this period and the directors are confident these forecasts can be achieved; and
- Net operating cashflows for FY2017 were positive \$498,000.

Accordingly, the Directors believe that the consolidated entity will be able to continue as a going concern and that it is appropriate to adopt the going concern basis in the preparation of the financial report.

The financial report does not include any adjustments relating to the amounts or classification of recorded assets or liabilities that might be necessary if the consolidated entity does not continue as a going concern.

# Q TECHNOLOGY GROUP LIMITED AND CONTROLLED ENTITIES

## NOTES TO THE FINANCIAL STATEMENTS FOR YEAR ENDED 30 JUNE 2017

### NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

#### U. New standards and interpretations issued but not yet effective

At the date of this financial report the following standards and interpretations, which may impact the entity in the period of initial application, have been issued but are not yet effective. Other than changes to disclosure formats, it is not expected that the initial application of these new standards in the future will have any material impact on the financial report, except for AASB 16 Leases. This standard requires operating leases which are currently held off balance sheet to be brought onto the balance sheet. Future expected lease payments should be capitalized and brought onto the balance sheet as an asset and also reflect an offsetting liability (right of use) and amortized together with interest costs over the expected remaining period of the leases. The expected value of such offsetting assets and liabilities at 30 June 2017 is \$990k and the group has not brought such assets or liabilities to account.

Reference	Title	Summary	Application date (financial years beginning)
AASB 2010-7	<i>Amendments to Australian Accounting Standards arising from AASB 9 (December 2010)</i>	Amends AASB 1, 3, 4, 5, 7, 101, 102, 108, 112, 118, 120, 121, 127, 128, 131, 132, 136, 137, 139, 1023 & 1038 and Interpretations 2, 5, 10, 12, 16, 19, 107 & 127 for issuance of AASB 9.	1 January 2018
AASB 2015-8	<i>Amendments to Australian Accounting Standards – Effective Date of AASB 15</i>	This Standard defers the effective date of AASB 15 <i>Revenue from Contracts with Customers</i> to 1 January 2018.	1 January 2017
AASB 15	<i>Revenue from Contracts with Customers</i>	It contains a single model for contracts with customers based on a five-step analysis of transactions for revenue recognition, and two approach, a single time or over time, for revenue recognition.	1 January 2018
AASB 2014-5	<i>Amendments to Australian Accounting Standards arising from AASB 15</i>	Consequential amendments arising from the issuance of AASB 15.	1 January 2018
AASB 9	<i>Financial Instruments</i>	This Standard supersedes both AASB 9 (December 2010) and AASB 9 (December 2009) when applied. It introduces a “fair value through other comprehensive income” category for debt instruments, contains requirements for impairment of financial assets, etc.	1 January 2018
AASB 2014-7	<i>Amendments to Australian Accounting Standards arising</i>	Consequential amendments arising from the issuance of AASB 9	1 January 2018

# Q TECHNOLOGY GROUP LIMITED AND CONTROLLED ENTITIES

## NOTES TO THE FINANCIAL STATEMENTS FOR YEAR ENDED 30 JUNE 2017

	<i>from AASB 9 (December 2014)</i>		
AASB 16	Leases	AASB 16 sets out the principles for the recognition, measurement, presentation and disclosure of leases. This standard removes the current distinction between operating and financing leases and requires recognition of an asset (the right to use the leased item) and a financial liability to pay rentals for almost all lease contracts, effectively resulting in the recognition of almost all leases on the statement of financial position.	1 January 2019
AASB 2016-1	Amendments to Australian Accounting Standards – Recognition of Deferred Tax Assets for Unrealised Losses [AASB 112]	2016-1 clarifies the accounting requirements on recognition of deferred tax assets for unrealised losses on debt instruments measured at fair value.	1 January 2017
AASB 2016-2	Amendments to Australian Accounting Standards – Disclosure Initiative: Amendments to AASB 107	This Standard amends AASB 107 to require entities preparing financial statements in accordance with Tier 1 reporting requirements to provide disclosures that enable users of financial statements to evaluate changes in liabilities arising from financing activities, including both changes arising from cash flows and non-cash changes.	1 January 2017
AASB 2016-3	Amendments to Australian Accounting Standards – Clarifications to AASB 15	2016- 3 amends AASB 15 to clarify the requirements on identifying performance obligations, principal versus agent considerations and the timing of recognising revenue from granting a licence. In addition, it provides further practical expedients on transition to AASB 15.	1 January 2018

# Q TECHNOLOGY GROUP LIMITED AND CONTROLLED ENTITIES

## NOTES TO THE FINANCIAL STATEMENTS FOR YEAR ENDED 30 JUNE 2017

### NOTE 2: PARENT INFORMATION

The following information has been extracted from the books and records of the parent and has been prepared in accordance with the accounting standards.

STATEMENT OF FINANCIAL POSITIONS	Note	Parent Entity	
		2017 \$'000	2016 \$'000
<b>ASSETS</b>			
Current Assets		-	37
Non Current Assets		1,829	5,673
<b>TOTAL ASSETS</b>		<b>1,829</b>	<b>5,710</b>
<b>LIABILITIES</b>			
Current Liabilities		1,671	2,272
Non Current Liabilities		-	-
<b>TOTAL LIABILITIES</b>		<b>1,671</b>	<b>2,272</b>
<b>EQUITY</b>			
Issued Capital		74,122	73,121
Share Option Reserve		-	-
Accumulated Losses		(73,964)	(69,683)
<b>TOTAL EQUITY</b>		<b>158</b>	<b>3,438</b>
<b>STATEMENT OF PROFIT OR LOSS AND COMPREHENSIVE INCOME</b>			
Total profit/(loss)		(4,281)	(506)
<b>Total comprehensive income</b>		<b>(4,281)</b>	<b>(506)</b>

#### Guarantees

Q Technology Group Limited has entered into a deed of cross guarantee with its wholly owned subsidiary QRSciences Security Pty Ltd.

#### Contingent Liabilities

Q Technology Group Limited did not have any contingent liabilities as at 30 June 2017 or 30 June 2016.

#### Contractual Commitments

At 30 June 2017, Q Technology Group Limited had not entered into any contractual commitments for the acquisition of property, plant and equipment (2016: Nil).

# Q TECHNOLOGY GROUP LIMITED AND CONTROLLED ENTITIES

## NOTES TO THE FINANCIAL STATEMENTS FOR YEAR ENDED 30 JUNE 2017

### NOTE 3: REVENUE AND OTHER INCOME

	Consolidated Group	
	2017 \$'000	2016 \$'000
<b>Revenue from Continuing Operations</b>		
<b>Sales revenue</b>		
Sale of goods	16,224	21,888
<b>Total Revenue</b>	<b>16,224</b>	<b>21,888</b>
<b>Other Income</b>		
Interest received	3	3
(Loss) on disposal of fixed assets	(9)	(55)
Foreign exchange gains	419	504
Other income	261	301
	<b>674</b>	<b>753</b>

### NOTE 4: PROFIT/LOSS FOR THE YEAR

Profit/Loss before income tax from continuing operations includes the following specific items:

	Consolidated Group	
	2017 \$'000	2016 \$'000
<b>Expenses</b>		
Cost of sales	12,615	18,256
Finance costs		
- external parties	271	213
- bank charges	92	131
<b>Total finance costs</b>	<b>363</b>	<b>344</b>
<b>Employee benefits expenses</b>		
Defined contribution superannuation expense	320	403
Other employee benefits expense	3,747	4,393
<b>Total employee benefits expense</b>	<b>4,067</b>	<b>4,796</b>
<b>Bad and doubtful debts</b>		
Trade receivables	5	84
<b>Total bad and doubtful debts</b>	<b>5</b>	<b>84</b>
<b>Inventory adjustments</b>		
Write-down of inventories to net realisable value	(983)	1,560
<b>Total inventory adjustments</b>	<b>(983)</b>	<b>1,560</b>

# Q TECHNOLOGY GROUP LIMITED AND CONTROLLED ENTITIES

## NOTES TO THE FINANCIAL STATEMENTS FOR YEAR ENDED 30 JUNE 2017

### NOTE 5: INCOME TAX EXPENSE

	Note	Consolidated Group	
		2017 \$'000	2016 \$'000
The components of tax expense / (benefit) comprise:			
Deferred tax	19	-	-
		-	-
The prima facie tax on profit from continuing activities before income tax is reconciled to the income tax as follows:			
Prima facie tax payable on (loss) from continuing activities before income tax at 30% (2016: 30%)		(565)	(845)
Add:			
Tax effect of:			
Other non-allowable items		(358)	386
		<b>(923)</b>	<b>(459)</b>
Less:			
Tax effect of:			
Non recognition of current year tax loss		923	459
De-recognition of deferred tax assets		-	635
<b>Income tax attributable to entity</b>		<b>-</b>	<b>635</b>

### NOTE 6: ONEROUS CONTRACT

	Note	Consolidated Group	
		2017 \$'000	2016 \$'000
Onerous rent	20	-	23
<b>Total onerous contracts</b>		<b>-</b>	<b>23</b>

# Q TECHNOLOGY GROUP LIMITED AND CONTROLLED ENTITIES

## NOTES TO THE FINANCIAL STATEMENTS FOR YEAR ENDED 30 JUNE 2017

### NOTE 7: INTERESTS OF KEY MANAGEMENT PERSONNEL (KMP)

Refer to the Remuneration Report contained in the Directors' Report for details of the remuneration paid or payable to each member of the Group's key management personnel for the year ended 30 June 2017.

The total remuneration paid to KMP of the company and the Group during the year are as follows:

	<b>2017</b>	<b>2016</b>
	<b>\$'000</b>	<b>\$'000</b>
Short-term employee benefits	563	441
Post-employment benefits	54	55
Share based payments	-	8
	<b>617</b>	<b>504</b>

#### Short-term employee benefits

These amounts include fees and benefits paid to the non-executive Chairman and non-executive Directors as well as all salary, paid leave benefits, fringe benefits and cash bonuses awarded to executive directors and KMP.

#### Post-employment benefits

These amounts are superannuation contributions made during the year.

#### Share-based payments

These amounts represent the expense related to the participation of KMP in equity-settled benefit schemes as measured by the fair value of the options, rights and shares granted on grant date.

Further information in relation to KMP remuneration can be found in the Directors' Report.

### NOTE 8: AUDITOR'S REMUNERATION

	<b>Consolidated Group</b>	
	<b>2017</b>	<b>2016</b>
	<b>\$'000</b>	<b>\$'000</b>
Remuneration of the auditor of the parent entity for:		
- auditing or reviewing the financial statements	72	72

### NOTE 9: DIVIDENDS

No dividends were paid or provided for during the year (2016: Nil).

# Q TECHNOLOGY GROUP LIMITED AND CONTROLLED ENTITIES

## NOTES TO THE FINANCIAL STATEMENTS FOR YEAR ENDED 30 JUNE 2017

### NOTE 10: EARNINGS PER SHARE

	Note	Consolidated Group	
		2017 \$'000	2016 \$'000
a. Reconciliation of earnings to profit / (loss)			
Profit/(loss)		(1,885)	(3,451)
<b>Earnings used to calculate basic and diluted EPS</b>		<b>(1,885)</b>	<b>(3,451)</b>
b. Reconciliation of earnings to profit or (loss) from continuing operations			
Profit/(loss) from continuing operations		(1,885)	(3,451)
<b>Earnings used to calculate basic and diluted EPS from continuing operations</b>		<b>(1,885)</b>	<b>(3,451)</b>
c. Reconciliation of earnings to profit or loss from discontinuing operations			
Profit/(Loss) from discontinuing operations		-	-
<b>Earnings used to calculate basic EPS from discontinuing operations</b>		<b>-</b>	<b>-</b>
		<b>No.</b>	<b>No.</b>
d. Weighted average number of ordinary shares outstanding during the year used in calculating basic EPS	21	546,985,486	312,093,276
Weighted average number of diluted options outstanding		-	-
<b>Weighted average number of ordinary shares and options outstanding during the year used in calculating dilutive EPS</b>	<b>21</b>	<b>546,985,486</b>	<b>312,093,276</b>
e. Diluted earnings per share is not reflected for discontinued operations as the result is anti-dilutive in nature		-	-

# Q TECHNOLOGY GROUP LIMITED AND CONTROLLED ENTITIES

## NOTES TO THE FINANCIAL STATEMENTS FOR YEAR ENDED 30 JUNE 2017

### NOTE 11: CASH AND CASH EQUIVALENTS

	<b>Consolidated Group</b>	
	<b>2017</b>	<b>2016</b>
<b>Note</b>	<b>\$'000</b>	<b>\$'000</b>
Cash at bank and in hand	302	220
<b>27</b>	<b>302</b>	<b>220</b>

There are no short term bank deposits at 30 June 2017.

Cash at the end of the financial year as shown in the statement of cash flows is reconciled to items in the statement of financial position as follows:

	<b>Consolidated Group</b>	
	<b>2017</b>	<b>2016</b>
<b>Note</b>	<b>\$'000</b>	<b>\$'000</b>
Cash and cash equivalents	302	220
Debtors financing facility	18 (1,533)	(3,179)
	<b>(1,231)</b>	<b>(2,959)</b>

A floating charge over cash and cash equivalents has been provided for certain debts. Refer to Note 18 for further details.

### NOTE 12: TRADE AND OTHER RECEIVABLES

	<b>Consolidated Group</b>	
	<b>2017</b>	<b>2016</b>
<b>Note</b>	<b>\$'000</b>	<b>\$'000</b>
<b>CURRENT</b>		
Trade receivables	12b 2,283	4,585
Provision for impairment	12a (182)	(213)
	<b>2,101</b>	<b>4,372</b>
Other receivables	56	26
	<b>56</b>	<b>26</b>
<b>Total current trade and other receivables</b>	<b>12c 2,157</b>	<b>4,397</b>

# Q TECHNOLOGY GROUP LIMITED AND CONTROLLED ENTITIES

## NOTES TO THE FINANCIAL STATEMENTS FOR YEAR ENDED 30 JUNE 2017

### NOTE 12: TRADE AND OTHER RECEIVABLES (continued)

#### a. Provision for Impairment of Receivables

A provision for impairment is recognised when there is objective evidence that an individual trade receivable is impaired. These amounts have been included in the other expenses item.

Movement in the provision for impairment of receivables is as follows:

	Consolidated Group			
	Opening Balance 01-07-2016 \$'000	Charge for the Year \$'000	Amounts Written Off \$'000	Closing Balance 30-06-2017 \$'000
(i) Current trade receivables	213	5	(36)	182
	<b>213</b>	<b>5</b>	<b>(36)</b>	<b>182</b>

	Consolidated Group			
	Opening Balance 01-07-2015 \$'000	Charge for the Year \$'000	Amounts Written Off \$'000	Closing Balance 30-06-2016 \$'000
(i) Current trade receivables	169	116	(72)	213
	<b>169</b>	<b>116</b>	<b>(72)</b>	<b>213</b>

#### b. Credit Risk - Trade and Other Receivables

The Group has some credit risk with respect to a single counterparty or group of counterparties other than those receivables specifically provided for per note 24 Operating Segments. The class of assets described as Trade and Other Receivables is considered to be the main source of credit risk related to the Group.

The following table details the Group's trade and other receivables exposed to credit risk (prior to collateral and other credit enhancements) with ageing analysis and impairment provided for thereon. Amounts are considered as 'past due' when the debt has not been settled, with the terms and conditions agreed between the Group and the customer or counterparty to the transaction. Receivables that are past due are assessed for impairment and are provided for where there are specific circumstances indicating that the debt may not be fully repaid to the Group.

# Q TECHNOLOGY GROUP LIMITED AND CONTROLLED ENTITIES

## NOTES TO THE FINANCIAL STATEMENTS FOR YEAR ENDED 30 JUNE 2017

### NOTE 12: TRADE AND OTHER RECEIVABLES (continued)

The balances of receivables that remain within initial trade terms (as detailed in the table) are considered to be of high credit quality.

	Gross amount \$'000	Past due and impaired \$'000	Past due but not impaired (days overdue)				Within initial trade terms \$'000
			< 30 \$'000	31-60 \$'000	61-90 \$'000	> 90 \$'000	
<b>2017</b>							
Trade receivables	2,283	182	889	170	29	16	997
<b>Total</b>	<b>2,283</b>	<b>182</b>	<b>889</b>	<b>170</b>	<b>29</b>	<b>16</b>	<b>997</b>

	Gross amount \$'000	Past due and impaired \$'000	Past due but not impaired (days overdue)				Within initial trade terms \$'000
			< 30 \$'000	31-60 \$'000	61-90 \$'000	> 90 \$'000	
<b>2016</b>							
Trade receivables	4,585	213	1,395	305	313	17	2,342
<b>Total</b>	<b>4,585</b>	<b>213</b>	<b>1,395</b>	<b>305</b>	<b>313</b>	<b>17</b>	<b>2,342</b>

#### c. Financial assets classified as loans and receivables

	Note	Consolidated Group	
		2017 \$'000	2016 \$'000
Trade and other receivables			
- Total current	27	2,157	4,397
<b>Financial assets</b>		<b>2,157</b>	<b>4,397</b>

### NOTE 13: INVENTORIES

	Consolidated Group	
	2017 \$'000	2016 \$'000
<b>CURRENT</b>		
Finished goods at cost	4,548	8,605
Provision for obsolescence	(1,499)	(2,482)
	<b>3,049</b>	<b>6,123</b>

# Q TECHNOLOGY GROUP LIMITED AND CONTROLLED ENTITIES

## NOTES TO THE FINANCIAL STATEMENTS FOR YEAR ENDED 30 JUNE 2017

### NOTE 14: CONTROLLED ENTITIES

#### a. Controlled Entities Consolidated

The subsidiaries listed below have share capital consisting solely of ordinary shares which are held directly by the parent company. The proportion of ownership interest held equals the voting rights held by the parent company. Each subsidiary's principal place of business is also its Country of incorporation.

	Country of Incorporation	Percentage Owned (%)	
		2017	2016
Subsidiaries of Q Technology Group Ltd:			
- QRSciences Security Pty Ltd	Australia	100	100

#### b. Acquisition of Controlled Entities

No acquisition activity took place during the 2017 financial year.

# Q TECHNOLOGY GROUP LIMITED AND CONTROLLED ENTITIES

## NOTES TO THE FINANCIAL STATEMENTS FOR YEAR ENDED 30 JUNE 2017

### NOTE 15: PROPERTY, PLANT AND EQUIPMENT

	Consolidated Group	
	2017 \$'000	2016 \$'000
<u>Plant and equipment:</u>		
At cost	1,347	1,377
Accumulated depreciation	(1,030)	(1,072)
<b>Total Plant and Equipment</b>	<b>317</b>	<b>305</b>
<b>Total Property, Plant and Equipment</b>	<b>317</b>	<b>305</b>

#### a. Movements in Carrying Amounts

Movements in the carrying amounts for each class of property, plant and equipment between the beginning and the end of the current financial year:

	Consolidated Group	
	Plant and equipment \$'000	Total \$'000
<b>Balance at 1 July 2016</b>	305	305
Additions	82	82
Disposals	(112)	(112)
Disposals' depreciation	101	101
Depreciation expense	(59)	(59)
<b>Balance at 30 June 2017</b>	<b>317</b>	<b>317</b>
<b>Balance at 1 July 2015</b>	357	357
Additions	63	63
Disposals	(62)	(62)
Disposals' depreciation	36	36
Depreciation expense	(89)	(89)
<b>Balance at 30 June 2016</b>	<b>305</b>	<b>305</b>



# Q TECHNOLOGY GROUP LIMITED AND CONTROLLED ENTITIES

## NOTES TO THE FINANCIAL STATEMENTS FOR YEAR ENDED 30 JUNE 2017

### NOTE 18: BORROWINGS (continued)

#### Convertible Note issue to Mr Edmond Tern

QTG has issued 300,674, Convertible Notes to Mr Tern, including accrued interest on the following principal terms:

- Facility amount: \$300,674.
- Conversion Price: \$0.005 per fully paid ordinary share.
- Conversion Period: The period commencing on the date on which QTG obtains shareholder approval for the conversion in accordance with ASX Listing Rules 7.2 and 10.11 and ending one month later.
- Maturity Date: 30 November 2018.
- Interest: 8% per annum payable in arrears on 3 months from the draw down date and the last day of each month thereafter.
- Conversion Terms: Conversion of the Tern Convertible Notes are subject to QTG obtaining shareholder approval in accordance with ASX Listing Rules 7.2 and 10.11. If shareholder approval is provided pursuant to ASX Listing Rules 7.2 and 10.11 then Mr Tern must convert all of the Tern Convertible Notes into ordinary shares.

#### Convertible Note issue to Helmsman

QTG has issued 300,000 Convertible Notes to Helmsman on the following principal terms.

- Facility amount: \$500,000.
- Conversion Price: \$0.003 per fully paid ordinary share.
- Maturity Date: 30 November 2018.
- Interest: 8% per annum payable in quarterly in arrears.
- Conversion Period: The period commencing on the date on which QTG obtains shareholder approval for the conversion in accordance with ASX Listing Rules 7.2 and ending one month later.
- Conversion Terms: Conversion is subject to QTG obtaining shareholder approval in accordance with ASX Listing rule 7.2 for the conversion of the Helmsman Convertible Notes.

In any event, the Helmsman Convertible Notes are not capable of being converted by Helmsman if such conversion would result in an increase of Helmsman's current relevant interest in securities of QTG.

# Q TECHNOLOGY GROUP LIMITED AND CONTROLLED ENTITIES

## NOTES TO THE FINANCIAL STATEMENTS FOR YEAR ENDED 30 JUNE 2017

### NOTE 18: BORROWINGS (continued)

QRSciences Pty Ltd has an invoice discounting facility with the Classic Funding Group. This has a limit of \$4.0m and at 30 June 2017 was drawn down to \$1,532,000. Collateral is by way of general security Deed over the assets of that entity together with a guarantee over the assets of Q Technology Group Ltd. Interest is charged at an effective rate of 8.8% rate. The facility has a yearly review which is set for March 2018. There are no financial covenants required under this facility.

Access was available at balance date to the following lines of credit:

	<b>Consolidated Group</b>	
	<b>2017</b>	<b>2016</b>
	<b>\$'000</b>	<b>\$'000</b>
Invoice discounting	4,000	4,000
Helmsman	200	-
<b>Total facility</b>	<b>4,200</b>	<b>4,000</b>
Used at balance date	1,532	3,179
<b>Unused at balance date</b>	<b>2,668</b>	<b>821</b>

# Q TECHNOLOGY GROUP LIMITED AND CONTROLLED ENTITIES

## NOTES TO THE FINANCIAL STATEMENTS FOR YEAR ENDED 30 JUNE 2017

### NOTE 19: TAX

	<u>Consolidated Group</u>	
	2017 \$'000	2016 \$'000
Deferred Tax Assets	-	-
Deferred Tax Liabilities	-	-
	-	-

Non-Current	Opening Balance 2017 \$'000	Charged to Income \$'000	Sale of Controlled Entity \$'000	Closing Balance 2017 \$'000
<b><u>Deferred Tax Asset 2017</u></b>	<b>\$'000</b>	<b>\$'000</b>	<b>\$'000</b>	<b>\$'000</b>
Relates to temporary differences arising from the following:				
Nil				
<b>Balance at 30 June 2017</b>	-	-	-	-

Non-Current	Opening Balance 2016 \$'000	Charged to Income \$'000	Sale of Controlled Entity \$'000	Closing Balance 2016 \$'000
<b><u>Deferred Tax Asset 2016</u></b>	<b>\$'000</b>	<b>\$'000</b>	<b>\$'000</b>	<b>\$'000</b>
Relates to temporary differences arising from the following:				
Trade and other receivables impairment	50	(50)	-	-
Inventory impairment	350	(350)	-	-
Accrued expenses	15	(15)	-	-
Foreign currency balances	31	(31)	-	-
Provision for employee entitlements	171	(171)	-	-
Unused tax losses (Revenue losses)	-	-	-	-
Unused tax losses (Capital losses)	-	-	-	-
Other	18	(18)	-	-
<b>Balance at 30 June 2016</b>	<b>635</b>	<b>(635)</b>	-	-

# Q TECHNOLOGY GROUP LIMITED AND CONTROLLED ENTITIES

## NOTES TO THE FINANCIAL STATEMENTS FOR YEAR ENDED 30 JUNE 2017

### NOTE 19: TAX (continued)

Deferred tax assets not brought to account, the benefits of which will only be realised if the conditions for deductibility set out in Note 1 (b) occur are as follows:

	Consolidated Group	
Note	2017 \$'000	2016 \$'000
Tax losses		
- Revenue	3,218	2,295
- Capital	-	-

These amounts have no expiry date.

# Q TECHNOLOGY GROUP LIMITED AND CONTROLLED ENTITIES

## NOTES TO THE FINANCIAL STATEMENTS FOR YEAR ENDED 30 JUNE 2017

### NOTE 20: PROVISIONS

Consolidated Group	Annual leave \$'000	Long service leave \$'000	Onerous lease \$'000	Total \$'000
Opening balance at 1 July 2016	300	207	23	530
Additional Provision	(69)	(85)	(23)	(177)
<b>Balance at 30 June 2017</b>	<b>231</b>	<b>122</b>	<b>-</b>	<b>353</b>

### Analysis of Total Provisions

	Note	Consolidated Group	
		2017 \$'000	2016 \$'000
Current		311	434
Non-current		42	96
<b>Total</b>		<b>353</b>	<b>530</b>

### Provision for Employee Benefits

Provision for employee benefits represents amounts accrued for annual leave and long service leave.

The current portion for this provision includes the total amount accrued for annual leave entitlements and the amounts accrued for long service leave entitlements that have vested due to employees having completed the required period of service. Based on past experience, the Group does not expect the full amount of annual leave or long service leave balances classified as current liabilities to be settled within the next 12 months. However, these amounts must be classified as current liabilities since the Group does not have an unconditional right to defer the settlement of these amounts in the event employees wish to use their leave entitlement.

The non-current portion for this provision includes amounts accrued for long service leave entitlements that have not yet vested in relation to those employees who have not yet completed the required period of service.

In calculating the present value of future cash flows in respect of long service leave, the probability of long service leave being taken is based on historical data. The measurement and recognition criteria relating to employee benefits have been discussed in Note 1(J).

# Q TECHNOLOGY GROUP LIMITED AND CONTROLLED ENTITIES

## NOTES TO THE FINANCIAL STATEMENTS FOR YEAR ENDED 30 JUNE 2017

### NOTE 21: ISSUED CAPITAL

	Consolidated Group	
	2017	2016
Notes	\$'000	\$'000
604,619,310 (2016:392,130,968) fully paid ordinary shares	74,121	73,121
	<b>74,121</b>	<b>73,121</b>

The company has share capital amounting to 604,619,350 ordinary shares.

#### a. Ordinary Shares

	Note	2017 No.	2016 No.
At the beginning of reporting period		392,130,968	196,065,484
Movements in the reporting period	21a	212,488,342	196,065,484
<b>At the end of the reporting period</b>	<b>10</b>	<b>604,619,310</b>	<b>392,130,968</b>

During the year the company had a 1 for 1 rights issue and raised \$1,062,442, less capital raising costs, for working capital purposes.

Ordinary shares participate in dividends and the proceeds on winding up of the parent entity in proportion to the number of shares held.

At the shareholders' meetings each ordinary share is entitled to one vote when a poll is called, otherwise each shareholder has one vote on a show of hands.

#### Capital Management

The Group's objectives when managing capital are to safeguard their ability to continue as a going concern so they can continue to provide returns for shareholders and benefits for other stakeholders and to maintain an optimal capital structure to reduce the cost of capital. In order to maintain or adjust the capital structure, the Group may adjust the amount of dividends paid to shareholders, return capital to shareholders, issue new shares or sell assets to reduce debt.

The Group monitors capital on the basis of the gearing ratio. This ratio is calculated as net debt divided by total capital. Net debt is calculated as total borrowings (including 'borrowings' and 'trade and other payables' as shown in the balance sheet) less cash and cash equivalents. Total capital is calculated as 'equity' as shown in the balance sheet plus net debt.

# Q TECHNOLOGY GROUP LIMITED AND CONTROLLED ENTITIES

## NOTES TO THE FINANCIAL STATEMENTS FOR YEAR ENDED 30 JUNE 2017

### NOTE 21: ISSUED CAPITAL (continued)

The gearing ratios for the years ended 30 June 2017 and 30 June 2016 are as follows:

	Notes	Consolidated Group	
		2017 \$'000	2016 \$'000
Total payables and borrowings	17,18	5,421	9,601
Less cash and cash equivalents	11	(302)	(220)
		<b>5,119</b>	<b>9,381</b>
Total equity		158	1,043
Total capital		5,277	10,424
Gearing ratio		97.0%	90.0%

### NOTE 22: CAPITAL AND LEASING COMMITMENTS

#### a. Operating Lease Commitments

	Consolidated Group	
	2017 \$'000	2016 \$'000
Payable - minimum lease payments		
- not later than 12 months	181	429
- between 12 months and 5 years	123	157
- later than 5 years	-	-
	<b>304</b>	<b>586</b>

The Group leases various offices and warehouses under non-cancellable operating leases expiring within one to five years. These leases have varying terms. On renewal, the terms of the lease are renegotiable.

### NOTE 23: EVENTS AFTER THE REPORTING PERIOD

The Directors are not aware of any material matters subsequent to the end of the financial year which will impact this report or the operations of the business.

# Q TECHNOLOGY GROUP LIMITED AND CONTROLLED ENTITIES

## NOTES TO THE FINANCIAL STATEMENTS FOR YEAR ENDED 30 JUNE 2017

### NOTE 24: OPERATING SEGMENTS

The company operates one operating segment in one geographical area, being Australia.

#### General 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 product category and service offerings since the diversifications of the Group's operations inherently have notably different risk profiles and performance assessment criteria. 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
- any external regulatory requirements.

##### Types of products and services by segment

###### (i) Investment

Q Technology Group Limited is a holding company which owns 100% of QRSciences Security Pty Ltd which, in turn, holds the group's security systems distribution operations

###### (ii) Security Systems Distribution

The distribution segment imports and distributes CCTV and alarm intrusion equipment primarily via its wholly owned subsidiary QRSciences Security Pty Ltd (QRSS). QRSS comprises two product groups, which are Q Video Systems, and Q Alarm Supplies. These product groups are aggregated as one reportable segment as the products are similar in nature and distributed to similar types of customers and trades as Q Security Systems (QSS).

# Q TECHNOLOGY GROUP LIMITED AND CONTROLLED ENTITIES

## NOTES TO THE FINANCIAL STATEMENTS FOR YEAR ENDED 30 JUNE 2017

### NOTE 24: OPERATING SEGMENTS (continued)

#### **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.

##### *Intersegment transactions*

Q Technology Group Limited provides services to its wholly owned subsidiary QRSciences Security Pty Ltd. All such transactions are eliminated on consolidation for the Group's Financial Statements.

Intersegment loans payable and receivable exist between the following entities:

- QRSciences Security Pty Ltd to Q Technology Group Ltd

##### *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 reporting period, segment assets are clearly identifiable to a specific segment 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. Tax liabilities are generally considered to relate to the Group as a whole and are not allocated. Segment liabilities include trade and other payables and certain direct borrowings.

##### *Unallocated items*

Any unallocated items are included in the segment result.

# Q TECHNOLOGY GROUP LIMITED AND CONTROLLED ENTITIES

## NOTES TO THE FINANCIAL STATEMENTS FOR YEAR ENDED 30 JUNE 2017

### NOTE 24: OPERATING SEGMENTS (continued)

#### Segment information

##### (i) Segment performance

30 June 2017	Investment \$'000	CCTV Distribution \$'000	Services and Solutions \$'000	Total \$'000
<b>Revenue</b>				
External sales	-	16,224	-	16,224
Intersegment sales	-	-	-	-
Interest revenue	-	3	-	3
<b>Total segment revenue</b>	-	<b>16,227</b>	-	<b>16,227</b>
<i>Reconciliation of segment revenue to group revenue</i>				
Intersegment elimination	-	-	-	-
(Revenue) from discontinued operations	-	-	-	-
<b>Total group revenue</b>	-	<b>16,227</b>	-	<b>16,227</b>
<b>Segment net profit/(loss) before tax</b>	<b>(438)</b>	<b>(1,447)</b>		<b>(1,885)</b>

30 June 2016	Investment \$'000	CCTV Distribution \$'000	Services and Solutions \$'000	Total \$'000
<b>Revenue</b>				
External sales	-	21,888	-	21,888
Intersegment sales	-	-	-	-
Interest revenue	-	3	-	3
<b>Total segment revenue</b>	-	<b>21,891</b>	-	<b>21,891</b>
<i>Reconciliation of segment revenue to group revenue</i>				
Intersegment elimination	-	-	-	-
(Revenue) from discontinued operations	-	-	-	-
<b>Total group revenue</b>	-	<b>21,891</b>	-	<b>21,891</b>
<b>Segment net profit/(loss) before tax</b>	<b>(354)</b>	<b>(2,462)</b>		<b>(2,816)</b>

# Q TECHNOLOGY GROUP LIMITED AND CONTROLLED ENTITIES

## NOTES TO THE FINANCIAL STATEMENTS FOR YEAR ENDED 30 JUNE 2017

### NOTE 24: OPERATING SEGMENTS (continued)

#### (ii) Segment assets

30 June 2017	Investment \$'000	CCTV Distribution \$'000	Services and Solutions \$'000	Total \$'000
<b>Segment assets</b>	5,663	6,625	-	12,288
Segment asset increases for the period:				
Capital expenditure	-	124	-	124
<i>Reconciliation of segment assets to group assets</i>				
Intersegment eliminations				(6,480)
Unallocated assets:				-
<b>Total group assets from continuing operations</b>				<b>5,932</b>

30 June 2016	Investment \$'000	CCTV Distribution \$'000	Services and Solutions \$'000	Total \$'000
<b>Segment assets</b>	5,710	12,903	-	18,613
Segment asset increases for the period:				
- Capital expenditure	-	63	-	63
<i>Reconciliation of segment assets to group assets</i>				
Intersegment eliminations				(7,502)
Unallocated assets:				-
<b>Total group assets from continuing operations</b>				<b>11,174</b>

# Q TECHNOLOGY GROUP LIMITED AND CONTROLLED ENTITIES

## NOTES TO THE FINANCIAL STATEMENTS FOR YEAR ENDED 30 JUNE 2017

### NOTE 24: OPERATING SEGMENTS (continued)

#### (iii) Segment liabilities

30 June 2017	Investment \$'000	CCTV Distribution \$'000	Services and Solutions \$'000	Total \$'000
<b>Segment liabilities</b>	1,667	4,914	-	6,581
<i>Reconciliation of segment liabilities to group liabilities</i>				
Intersegment eliminations				(807)
Unallocated Liabilities:				
- Current tax liabilities				-
<b>Total liabilities from continuing operations</b>				<b>5,774</b>

30 June 2016	Investment \$'000	CCTV Distribution \$'000	Services and Solutions \$'000	Total \$'000
<b>Segment liabilities</b>	2,272	9,688	-	11,960
<i>Reconciliation of segment liabilities to group liabilities</i>				
Intersegment eliminations				(1,829)
Unallocated Liabilities:				
- Current tax liabilities				-
<b>Total liabilities from continuing operations</b>				<b>10,131</b>

#### (iv) Revenue and Assets by geographical region

The company operates in one geographical area, being Australia.

#### (v) Major customers

QRSciences Security Pty Ltd has a diversified customer base that contributes to the sales of the business. Top 10 customers accounted for 30.4% of the sales revenue.

# Q TECHNOLOGY GROUP LIMITED AND CONTROLLED ENTITIES

## NOTES TO THE FINANCIAL STATEMENTS FOR YEAR ENDED 30 JUNE 2017

### NOTE 25: CASH FLOW INFORMATION

#### Reconciliation of Cash Flow from Operations with Profit after Income Tax

	Consolidated Group	
	2017	2016
	\$'000	\$'000
Profit/(loss) after income tax	(1,885)	(3,451)
Non-cash flows in profit		
- Depreciation and amortisation	59	52
- Net loss/(gain) on sale of plant & equipment	9	55
Changes in assets and liabilities		
- (Increase)/decrease in receivables	2,237	(213)
- (Increase)/decrease in inventories	2,992	(842)
- (Increase)/decrease in other assets	22	47
- (Increase)/decrease in deferred tax	-	635
- Increase/(decrease) in payables	(2,842)	2,469
- Increase/(decrease) in provisions	(176)	(40)
<b>Net cash inflow/(outflow) from operating activities</b>	<b>416</b>	<b>(1,288)</b>

# Q TECHNOLOGY GROUP LIMITED AND CONTROLLED ENTITIES

## NOTES TO THE FINANCIAL STATEMENTS FOR YEAR ENDED 30 JUNE 2017

### NOTE 26: RELATED PARTY TRANSACTIONS

During the year the following loans were entered into with Directors of the company:

Director	Date of loan	Amount \$	Balance at 30 June 2017	Repayment Date	Note
Douglas Potter (Helmsman Capital)	30 August 2016	250,000	-	7 October 2016	1
Douglas Potter (Helmsman Capital)	12 September 2016	250,000	-	7 October 2016	2
Douglas Potter (Helmsman Capital)	29 September 2016	169,903	-	7 October 2016	3
Douglas Potter (Helmsman Capital)	1 May 2017	200,000	200,000	30 November 2018	4
Douglas Potter (Helmsman Capital)	10 May 2017	100,000	100,000	30 November 2018	4
Edmond Tern			300,674	30 November 2018	5
1. Loan provided in advance of rights issue and converted to equity on 7 October 2016					
2. Loan provided in advance of rights issue and converted to equity on 7 October 2016					
3. Loan provided in advance of rights issue and converted to equity on 7 October 2016					
4. Convertible Loan Note entered into 30 June 2017					
5. Convertible Loan Note entered into 27 June 2017					

There were no other transactions between related parties during the period.

#### Parent Entity

The parent entity within the Group is Q Technology Group Limited who is also the ultimate parent entity.

#### Subsidiaries

Subsidiaries are set out in note 14.

### NOTE 27: FINANCIAL RISK MANAGEMENT

The Group's financial instruments consist mainly of deposits with banks, accounts receivable and payable, banks and other borrowings.

The totals for each category of financial instruments, measured in accordance with AASB 139 as detailed in the accounting policies to these financial statements, are as follows:

# Q TECHNOLOGY GROUP LIMITED AND CONTROLLED ENTITIES

## NOTES TO THE FINANCIAL STATEMENTS FOR YEAR ENDED 30 JUNE 2017

### NOTE 27: FINANCIAL RISK MANAGEMENT (continued)

	Notes	Consolidated Group	
		2017 \$'000	2016 \$'000
<b>Financial Assets</b>			
Cash and cash equivalents	11	302	220
Loans and receivables at amortised cost	12C	2,157	4,397
<b>Total Financial Assets</b>		<b>2,459</b>	<b>4,617</b>
<b>Financial Liabilities</b>			
Financial liabilities at amortised cost			
- Trade and other payables	17	3,310	6,152
- Borrowings	18	2,111	3,449
<b>Total Financial Liabilities</b>		<b>5,421</b>	<b>9,601</b>

#### Financial Risk Management Policies

The Risk and Audit Committee (RAC) has been delegated with responsibility by the Board of Directors for, amongst other issues, monitoring and managing financial risk exposures of the Group. The RAC monitors the Group's financial risk management policies and exposures and approves financial transactions within the scope of its authority. It also reviews the effectiveness of internal controls relating to commodity price risk, counterparty credit risk, currency risk, financing risk and interest rate risk.

The RAC's overall risk management strategy seeks to assist the consolidated group in meeting its financial targets, while minimising potential adverse effects on financial performance. Its functions include the review of the use of hedging derivative instruments, credit risk policies and future cash flow requirements.

# Q TECHNOLOGY GROUP LIMITED AND CONTROLLED ENTITIES

## NOTES TO THE FINANCIAL STATEMENTS FOR YEAR ENDED 30 JUNE 2017

### NOTE 27: FINANCIAL RISK MANAGEMENT (continued)

#### Specific Financial Risk Exposures and Management

The main risks the Group is exposed to through its financial instruments are credit risk, liquidity risk and market risk consisting of interest rate risk, foreign currency risk and commodity and equity price risk.

#### a. Credit Risk

Exposure to credit risk relating to financial assets arises from the potential non-performance by counterparties of contract obligations that could lead to a financial loss to the Group.

Credit risk is managed through the maintenance of procedures (such procedures include the utilisation of systems for the approval, granting and renewal of credit limits, regular monitoring of exposures against such limits and monitoring of the financial stability of significant customers and counterparties), ensuring to the extent possible, that customers and counterparties to transactions are of sound credit worthiness. Such monitoring is used in assessing receivables for impairment. Credit terms are generally 30 days from end of month following invoice.

Risk is also minimised through investing surplus funds in financial institutions that maintain a high credit rating. Where the Group is unable to ascertain a satisfactory credit risk profile in relation to a customer or counterparty, the risk may be further managed through title retention clauses over goods or obtaining security by way of personal or commercial guarantees over assets of sufficient value which can be claimed against in the event of any default.

#### Credit Risk Exposures

The maximum exposure to credit risk by class of recognised financial assets at balance date, excluding the value of any collateral or other security held, is equivalent to the carrying value and classification of those financial assets (net of any provisions) as presented in the statement of financial position.

The Group has no significant concentration of credit risk with any single counterparty or group of counterparties. However, on a geographical basis, the Group has significant credit risk exposures to Australia. Details with respect to credit risk of Trade and Other Receivables are provided in Note 12.

Trade and other receivables that are neither past due or impaired are considered to be of high credit quality. Aggregates of such amounts are as detailed in Note 12.

Credit risk related to balances with banks and other financial institutions is managed by the RAC in accordance with approved Board policy. Such policy requires that surplus funds are only invested with counterparties with a rating of at least AA-. The following table provides information regarding the credit risk relating to cash and money market securities:

		Consolidated Group	
		2017	2016
	Note	\$'000	\$'000
Cash and cash equivalents			
- AA Rated	11	302	220
		<b>302</b>	<b>220</b>

# Q TECHNOLOGY GROUP LIMITED AND CONTROLLED ENTITIES

## NOTES TO THE FINANCIAL STATEMENTS FOR YEAR ENDED 30 JUNE 2017

### NOTE 27: FINANCIAL RISK MANAGEMENT (continued)

#### b. Liquidity Risk

Liquidity risk arises from the possibility that the Group might encounter difficulty in settling its debts or otherwise meeting its obligations related to financial liabilities. The Group manages this risk through the following mechanisms:

- preparing forward looking cash flow analysis in relation to its operational, investing and financing activities
- monitoring undrawn credit facilities
- obtaining funding from a variety of sources
- maintaining a reputable credit profile
- managing credit risk related to financial assets
- comparing the maturity profile of financial liabilities with the realisation profile of financial assets.

The tables below reflect an undiscounted contractual maturity analysis for financial liabilities. Financial guarantee liabilities are treated as payable on demand since the Group has no control over the timing of any potential settlement of the liabilities.

Cash flows realised from financial assets reflect management's expectation as to the timing of realisation. Actual timing may therefore differ from that disclosed. The timing of cash flows presented in the table to settle financial liabilities reflects the earliest contractual settlement dates and does not reflect management's expectations that invoice discounting facilities will be renegotiated upon expiry.

#### *Financial Liability and Financial Asset Maturity Analysis*

\$'000	<u>Consolidated Group</u>							
	<u>Within 1 Year</u>		<u>1 to 5 Years</u>		<u>Over 5 Years</u>		<u>Total</u>	
	2017	2016	2017	2016	2017	2016	2017	2016
<b>Financial liabilities due for payment</b>								
Debtor Finance facility and loans	2,111	3,449	-	-	-	-	2,111	3,449
Trade and other payables	3,310	6,152			-	-	3,310	6,152
<b>Total expected outflows</b>	<b>5,421</b>	<b>9,601</b>	-	-	-	-	<b>5,421</b>	<b>9,601</b>
<b>Financial assets - cash flows realisable</b>								
Cash and cash equivalents	302	220			-	-	302	220
Trade and other receivables	2,157	4,397			-	-	2,157	4,397
<b>Total anticipated inflows</b>	<b>2,459</b>	<b>4,617</b>	-	-	-	-	<b>2,459</b>	<b>4,617</b>
<b>Net (outflow)/inflow on financial instruments</b>	<b>(2,962)</b>	<b>(4,984)</b>	-	-	-	-	<b>(2,962)</b>	<b>(4,984)</b>

# Q TECHNOLOGY GROUP LIMITED AND CONTROLLED ENTITIES

## NOTES TO THE FINANCIAL STATEMENTS FOR YEAR ENDED 30 JUNE 2017

### NOTE 27: FINANCIAL RISK MANAGEMENT (continued)

#### *Financial Assets Pledged as Collateral*

Certain financial assets are guaranteed as security for debt and their realisation into cash may be restricted subject to terms and conditions attached to the relevant debt contracts. Refer to Note 18 for further details.

#### **c. Market Risk**

##### *Interest rate risk*

Exposure to interest rate risk arises on financial assets and financial liabilities recognised at the end of the reporting period whereby a future change in interest rates will affect future cash flows. The interest rate payable on the invoice discounting facility is currently 8.8%.

The net effective variable interest rate borrowings (i.e. unhedged debt) exposes the Group to interest rate risk which will impact future cash flows and interest charges and are indicated by the following floating interest rate financial liabilities:

	Consolidated Group	
	2017 \$'000	2016 \$'000
<b>Floating rate instruments</b>		
Invoice Discounting facility	1,532	3,179
	<b>1,532</b>	<b>3,179</b>

##### *Foreign exchange risk*

Exposure to foreign exchange risk may result in the fair value or future cash flows of a financial instrument fluctuating due to movement in foreign exchange rates of currencies in which the Group holds financial instruments which are other than the AUD functional currency of the Group.

The following table shows the foreign currency risk on the financial assets and liabilities of the Group's operations denominated in currencies other than the functional currency of the operations.

# Q TECHNOLOGY GROUP LIMITED AND CONTROLLED ENTITIES

## NOTES TO THE FINANCIAL STATEMENTS FOR YEAR ENDED 30 JUNE 2017

### NOTE 27: FINANCIAL RISK MANAGEMENT (continued)

Consolidated Group	Net financial assets/(liabilities) in AUD \$'000			
	2017		2016	
<i>Functional currency of Group entity</i>	<i>USD</i>	<i>Others</i>	<i>USD</i>	<i>Others</i>
<b><u>Financial assets</u></b>				
Trade and other receivables	-	-	-	-
<b><u>Financial liabilities</u></b>				
Trade and other payables	(1,204)	-	(2,472)	(21)
<b>Statement of financial position exposure</b>	<b>(1,204)</b>	<b>-</b>	<b>(2,472)</b>	<b>(21)</b>

#### *Forward Exchange Contracts*

The Group had 4 foreign exchange contracts open at 30 June 2017. Each was for USD100,000 with expiry dates of 31 July 2017, 31 August 2017, 29 September 2017 and 31 October 2017. The average exchange rate was 0.75.

#### *Other Price Risk*

Other price risk relates to the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices largely due to demand and supply factors for commodities.

The Group is not subject to significant other price risk.

#### *Sensitivity Analysis*

The following table illustrates sensitivities to the Group's exposures to changes in interest rates and exchange rates. The table indicates the impact on how profit and equity values reported at balance date would have been affected by changes in the relevant risk variable that management considers to be reasonably possible. These sensitivities assume that the movement in a particular variable is independent of other variables.

# Q TECHNOLOGY GROUP LIMITED AND CONTROLLED ENTITIES

## NOTES TO THE FINANCIAL STATEMENTS FOR YEAR ENDED 30 JUNE 2017

### NOTE 27: FINANCIAL RISK MANAGEMENT (continued)

	Consolidated Group	
	Profit / (Loss) \$'000	Other Equity \$'000
<b><u>Year ended 30 June 2017</u></b>		
+/- 2% in interest rates	+/- 24	+/- 64
+/- 5.9% in \$A/\$US	+/- 70	+/- 227
<b><u>Year ended 30 June 2016</u></b>		
+/- 2% in interest rates	+/- 64	+/- 64
+/- 11.8% in \$A/\$US	+/- 227	+/- 227

#### Fair Values

##### *Fair value estimation*

The fair values of financial assets and financial liabilities are presented in the following table and can be compared to their carrying values as presented in the statement of financial position. Fair values are those amounts at which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm's length transaction.

Fair values derived may be based on information that is estimated or subject to judgment, where changes in assumptions may have a material impact on the amounts estimated. Areas of judgment and the assumptions have been detailed below. Where possible, valuation information used to calculate fair value is extracted from the market, with more reliable information available from markets that are actively traded. In this regard, fair values for listed securities are obtained from quoted market bid prices. Where securities are unlisted and no market quotes are available, fair value is obtained using discounted cash flow analysis and other valuation techniques commonly used by market participants.

Differences between fair values and carrying amounts of financial instruments with fixed interest rates are due to the change in discount rates being applied by the market since their initial recognition by the Group. Most of these instruments which are carried at amortised cost (i.e. term receivables, held-to-maturity assets, loan liabilities) are to be held until maturity and therefore the fair value figures calculated bear little relevance to the Group.

# Q TECHNOLOGY GROUP LIMITED AND CONTROLLED ENTITIES

## NOTES TO THE FINANCIAL STATEMENTS FOR YEAR ENDED 30 JUNE 2017

### NOTE 27: FINANCIAL RISK MANAGEMENT (continued)

Consolidated Group		2017		2016	
		Net Carrying Amount \$'000	Fair Value \$'000	Net Carrying Amount \$'000	Fair Value \$'000
<b>Financial assets</b>					
Cash and cash equivalents	11	302	302	220	220
Trade and other receivables	12	2,157	2,157	4,397	4,397
<b>Total financial assets</b>		<b>2,459</b>	<b>4,617</b>	<b>4,617</b>	<b>4,617</b>
<b>Financial liabilities</b>					
Trade and other payables	17	3,310	3,310	6,152	6,152
Lease liability	18	-	-	-	-
Borrowings	18	2,111	2,111	3,449	3,449
<b>Total financial liabilities</b>		<b>5,421</b>	<b>5,421</b>	<b>9,601</b>	<b>9,601</b>

The fair values disclosed in the above table have been determined based on the following methodologies:

- (i) Cash and cash equivalents, trade and other receivables and trade and other payables including debtor finance facility are short-term instruments in nature whose carrying value is equivalent to fair value. Trade and other payables exclude amounts provided for annual leave, which is not considered a financial instrument.
- (ii) Unless otherwise stated, the carrying amounts of financial instruments reflect their fair value.

### NOTE 28: DEED OF CROSS GUARANTEE

Q Technology Group Limited and QRSciences Security Pty Ltd are parties to a deed of cross guarantee under which each company guarantees the debts of the others. By entering the deed, the wholly-owned entities have been relieved from the requirement to prepare a financial report and Director's report under class order 98/1418 issued by the Australian Securities and Investments Commission.

The consolidated statement of financial position as at 30 June 2017 represents the closed group who are parties to the deed of cross guarantee.

# Q TECHNOLOGY GROUP LIMITED AND CONTROLLED ENTITIES

## NOTES TO THE FINANCIAL STATEMENTS FOR YEAR ENDED 30 JUNE 2017

### NOTE 29: COMPANY DETAILS

The registered office of the company is:

Q Technology Group Limited 5/435 Williamstown Road, Port Melbourne VIC 3207

The principal places of business are:

Q Technology Group Limited 5/435 Williamstown Road, Port Melbourne VIC 3207

QRSciences Security Pty Ltd 5/435 Williamstown Road, Port Melbourne VIC 3207

# Q TECHNOLOGY GROUP LIMITED AND CONTROLLED ENTITIES

## DIRECTORS' DECLARATION

The Directors of the company declare that:

1. The financial statements and notes, as set out on pages 30 to 80, are in accordance with the *Corporations Act 2001* and:
  - a. comply with Australian Accounting Standards which, as stated in accounting policy Note 1 to financial statements, constitutes compliance with International Financial Reporting Standards (IFRS), and
  - b. give a true and fair view of the financial position as at 30 June 2017 and of the performance for the year ended on that date of the consolidated group.
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.
3. The Directors have been given the declarations required by s 295A of the *Corporations Act 2001* from the Chief Executive Officer and Chief Financial Officer.

The company and wholly owned subsidiary QRSciences Security Pty Ltd, have entered into a deed of cross guarantee under which the company and its subsidiary guarantee the debts of each other.

At the date of this declaration, there are reasonable grounds to believe that the companies which are parties to this deed of cross guarantee will be able to meet any obligation or liabilities to which they are, or may become, subject to virtue of the deed.

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



Howard Whitesmith  
Managing Director  
29 August 2017

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**INDEPENDENT AUDITOR'S REPORT****TO THE MEMBERS OF****Q TECHNOLOGY GROUP LIMITED***Opinion*

We have audited the financial report of Q Technology Group Limited ("the Company") and its subsidiaries ("the Group"), which comprises the consolidated statement of financial position as at 30 June 2017, the consolidated income statement, the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies, and the directors' declaration.

In our opinion the accompanying financial report of the Group is in accordance with the Corporations Act 2001, including:

- (i) giving a true and fair view of the Group's financial position as at 30 June 2017 and of its financial performance for the year then ended; and
- (ii) complying with Australian Accounting Standards and the Corporations Regulations 2001.

*Basis for Opinion*

We conducted our audit in accordance with Australian Auditing Standards. Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Financial Report* section of our report. We are independent of the Group in accordance with the auditor independence requirements of the Corporations Act 2001 and the ethical requirements of the Accounting Professional and Ethical Standards Board's APES 110 *Code of Ethics for Professional Accountants* (the Code) that are relevant to our audit of the financial report in Australia. We have also fulfilled our other ethical responsibilities in accordance with the Code.

We confirm that the independence declaration required by the Corporations Act 2001, which has been given to the directors of the Company, would be in the same terms if given to the directors as at the time of this auditor's report.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

*Material Uncertainty Related to Going Concern*

We draw attention to Note 1(t) in the financial report, which indicates that the Group incurred a net loss of \$1,885,000 during the year ended 30 June 2017 and, as of that date, the Group's current liabilities exceeded its current assets by \$117,000. As stated in Note 1(t), these events or conditions, along with other matters as set forth in Note 1(t), indicate that a material uncertainty exists that may cast significant doubt on the Group's ability to continue as a going concern. Our opinion is not modified in respect of this matter.

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## Key Audit Matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the financial report of the current period. These matters were addressed in the context of our audit of the financial report as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. In addition to the matter described in the Material Uncertainty Related to Going Concern section, we have determined the matters described below to be the key audit matters to be communicated in our report

Key Audit Matter	How our audit addressed this matter
<p><b>Inventory Valuation</b> Refer to Note 13 in the financial statements</p>	
<p>The Group's inventory balance, as disclosed in Note 13, consists primarily of finished goods of CCTV and alarm products and solutions held for distribution.</p> <p>Inventory is valued at the lower of cost or net realisable value. The assessment of the net realisable value of inventory requires a significant degree of management judgment. It includes assumptions concerning the provision for obsolescence, as well as future market conditions based on changing customer needs and market trends.</p> <p>On the basis of the factors set out above, the valuation of inventory, and provision for inventory obsolescence, was considered to be a key audit matter.</p>	<p>Our audit procedures in relation to the existence and valuation of inventory included:</p> <ul style="list-style-type: none"> <li>• Evaluating management assumptions and estimates applied to the provision for obsolescence through analysis of historical sales levels by inventory product from the date the product was purchased in conjunction with assessing the quantity of products;</li> <li>• Assessing the company's application of its policy for determining the provision for obsolescence;</li> <li>• Performing analytical procedures in respect of inventory holdings and inventory turnover; and</li> <li>• Testing the sales prices of inventory to ensure inventory is not being sold at less than cost.</li> </ul>
<p><b>Recognition of Revenue</b> Refer to Note 1(m) in the financial statements</p>	
<p>The Group earns revenue through the sale of CCTV and alarm products and solutions. Revenue was considered a key audit matter because it is the most significant account balance in the consolidated income statement and it was assessed to have an increased risk associated with cut-off.</p> <p>Revenue from the sale of goods is recognised when the risks and rewards of ownership have been transferred to the customer, which generally occurs at the point of delivery.</p> <p>Complexity arises in respect of the determination of whether revenue has been recognised in the correct financial reporting period, where goods are not collected by customers from stores when purchased, and where goods are shipped before the end of the financial year but not received until after the end of financial year in consideration of ownership responsibility whilst goods are in transit.</p>	<p>Our audit procedures in relation to the cut-off of revenue included:</p> <ul style="list-style-type: none"> <li>• Assessing whether the Group's revenue recognition policies were in compliance with Australian Accounting Standards;</li> <li>• Evaluating the operating effectiveness of management's controls related to revenue recognition; and</li> <li>• Assessing sales transactions before and after year-end to ensure that revenue is recognised in the correct period.</li> </ul>

### *Other Information*

The directors are responsible for the other information. The other information comprises the information included in the Group's annual report for the year ended 30 June 2017, but does not include the financial report and the auditor's report thereon.

Our opinion on the financial report does not cover the other information and accordingly we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial report, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial report or our knowledge obtained in the audit or otherwise appears to be materially misstated.

If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

### *Responsibilities of the Directors for the Financial Report*

The directors of the Company are responsible for the preparation of the financial report that gives a true and fair view in accordance with Australian Accounting Standards and the Corporations Act 2001 and for such internal control as the directors determine is necessary to enable the preparation of the financial report that gives a true and fair view and is free from material misstatement, whether due to fraud or error.

In preparing the financial report, the directors are responsible for assessing the ability of the Group to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the Group or to cease operations, or have no realistic alternative but to do so.

### *Auditor's Responsibilities for the Audit of the Financial Report*

Our objectives are to obtain reasonable assurance about whether the financial report as a whole is free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with the Australian Auditing Standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of this financial report.

A further description of our responsibilities for the audit of the financial report is located at the Auditing and Assurance Standards Board website at: [www.auasb.gov.au/auditors\\_responsibilities/ar2.pdf](http://www.auasb.gov.au/auditors_responsibilities/ar2.pdf). This description forms part of our auditor's report.

## **Report on the Remuneration Report**

### *Opinion on the Remuneration Report*

We have audited the Remuneration Report included in the directors' report for the year ended 30 June 2017.

In our opinion, the Remuneration Report of Q Technology Group Limited, for the year ended 30 June 2017, complies with section 300A of the Corporations Act 2001.

*Responsibilities*

The directors of the Company are responsible for the preparation and presentation of the Remuneration Report in accordance with section 300A of the Corporations Act 2001. Our responsibility is to express an opinion on the Remuneration Report, based on our audit conducted in accordance with Australian Auditing Standards.



**RSM AUSTRALIA PARTNERS**



**P A RANSOM**

Partner

Melbourne, Victoria

Dated: 29 August 2017

# Q TECHNOLOGY GROUP LIMITED AND CONTROLLED ENTITIES

## ADDITIONAL INFORMATION FOR LISTED PUBLIC COMPANIES

The shareholder information set out below was applicable as at 30 June 2017.

### Shareholding

#### a. Distribution of Shareholders

Category (size of holding)	Total holders	Ordinary Shares
1 – 1,000	173	81,448
1,001 – 5,000	242	644,784
5,001 – 10,000	114	879,865
10,001 – 100,000	329	12,749,129
100,001 – and over	170	590,264,084
<b>Total</b>	<b>1,028</b>	<b>604,619,310</b>

b. The number of shareholders with less than marketable parcels is 910.

c. The names of the substantial shareholders listed in the holding company's register as at 30 June 2017 are:

Shareholder	Number of ordinary shares
Bond Street Custodians Limited (Helmsman Capital Fund Trust IIA)	260,231,704
NINETEEN25 PTY LIMITED <VH SUPERANNUATION FUND A/C>	50,000,000
Cherryoak Investments Pty Ltd	45,000,000
ROSA INVESTMENT GROUP PTY LTD <ROSA SUPER FUND A/C>	33,008,964

#### a. Voting Rights

The voting rights attached to each class of equity security are as follows:

Ordinary shares	Each ordinary share is entitled to one vote when a poll is called, otherwise each member present at a meeting or by proxy has one vote on a show of hands.
Options	No voting rights.

# Q TECHNOLOGY GROUP LIMITED AND CONTROLLED ENTITIES

## ADDITIONAL INFORMATION FOR PUBLICLY LISTED COMPANIES

### b. 20 Largest Shareholders — Ordinary Shares

	Number of Ordinary Fully Paid Shares Held	% Held of Issued Ordinary Capital
BOND STREET CUSTODIANS LIMITED <HELMSMAN CAP FUND TST IIA>	260,231,704	43.04
NINETEEN25 PTY LIMITED <VH SUPERANNUATION FUND A/C>	50,000,000	8.27
CHERRYOAK INVESTMENTS PTY LTD <C & N FAMILY A/C>	45,000,000	7.44
ROSA INVESTMENT GROUP PTY LTD <ROSA SUPER FUND A/C>	33,008,964	5.46
MR PETER HIGGINS + MRS JAYNE HIGGINS <SUPER FUND A/C>	30,000,000	4.96
MR EDMOND MINFUI TERN	21,586,263	3.57
TALSTON PTY LTD <J P CORNISH P/L S/FUND A/C>	20,000,000	3.31
MR STEPHEN JOHN HART	10,425,000	1.72
MS BROOKE BOROS	8,580,164	1.42
SPANDAY PTY LTD <TENNYSON RETIREMENT S/F A/C>	4,940,000	0.82
CANDIDE INVESTMENTS PTY LTD <CANDIDE SUPER FUND A/C>	4,000,000	0.66
CAPITAL H MANAGEMENT PTY LTD	3,851,000	0.64
MR RYAN COLBRAN	3,799,919	0.63
MRS PENELOPE JANE BLIGH	3,330,000	0.55
CANDIDE INVESTMENTS PTY LTD	3,000,000	0.50
MR JAMES PATRICK SIMON MCFARLANE	2,500,000	0.41
MR ALBERT SERCHONG CHEN	2,461,236	0.41
LIDLAW HONMARA PTY LTD <MORAHAN FAMILY S/F>	2,256,668	0.37
MRS LILIA SANTOS (SANTOS FAMILY A/C)	2,250,000	0.37
PINDIMS PTY LTD (THE PEACOCK SF NO2 A/C)	2,083,334	0.34
<b>Totals: Top 20 holders of ORDINARY FULLY PAID SHARES (TOTAL)</b>	<b>513,304,252</b>	<b>84.90</b>
<b>Total Remaining Holders Balance</b>	<b>91,315,058</b>	<b>15.10</b>