

**Half yearly report
31 December 2016**

Q Technology Group Limited

ABN 27 009 259 876

Results for announcement to the market \$A'000
Extracts from this report for announcement to the market.

Revenues from ordinary activities	Up	2.5%	to	10,178
Net loss from ordinary activities after tax attributable to members	Down	20.8%	to	(596)
Net loss for the period attributable to members	Down	20.8%	to	(596)
Dividends	Amount per security		Franked amount per security	
Interim dividend	Nil		Nil	
Previous corresponding period	Nil		Nil	
+Record date for determining entitlements to the dividend	No dividend has been declared or paid.			
Brief explanation of any of the figures reported above and short details of any other item(s) of importance not previously released to the market:				
Refer attached Half Year financial report				

	Current period	Previous corresponding Period
Net Tangible Assets Backing		
Net tangible asset backing per ordinary security	0.24 ¢	1.0 ¢

These accounts are not subject to audit dispute or qualification. The review report is attached as part of the Interim Report.

HALF YEAR FINANCIAL REPORT

31 DECEMBER 2016

ABN 27 009 259 876



and Controlled Entities

Q Technology Group Limited and Controlled Entities
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Interim Financial Report

DIRECTORS' REPORT

This Interim Financial Report covers Q Technology Group 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 (Managing Director)
Mr Edmond Tern (Non Executive Director)
Mr Howard Whitesmith (Non Executive Director)

AUDITORS

RSM Australia Partners
Level 21, 55 Collins Street
Melbourne VIC 3000
Telephone: +61 3 9286 8000
Facsimile: +61 3 9286 8199

**CHIEF FINANCIAL OFFICER
& COMPANY SECRETARY**

Mr Andrew Phillips

BANKERS

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

REGISTERED OFFICE

5/435 Williamstown Road
Port Melbourne Victoria 3207
Telephone: +61 3 9676 7000
Email: enquiries@qtechnologygroup.com.au

SOLICITORS

Minter Ellison
Rialto Towers, 525 Collins Street
Melbourne Victoria 3000

SHARE REGISTRY

Computershare
Yarra Falls
452 Johnston Street
Abbotsford Victoria 3067

STOCK EXCHANGE

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

WEBSITE

www.qtechnologygroup.com.au
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ASX CODE

QTG - Ordinary Shares

Q Technology Group Limited and Controlled Entities
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DIRECTORS' REPORT

Your directors submit the financial report of the consolidated group for the half-year ended 31 December 2016.

Directors

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

Douglas Potter, Chairman and Non-executive Director
Rob Rosa, Managing Director
Edmond Tern, Non-executive Director
Howard Whitesmith, Non-executive Director (appointed 5 October 2016)

Principal Activities

The principal activities of the consolidated group during the financial year were the importation and distribution of CCTV cameras, digital video recorders, security video management systems and professional services.

Significant Changes in the State of Affairs

There had been no significant change in the state of affairs.

Review of Operations

Half-Year	31-Dec-16	31-Dec-15
	\$'000	\$'000
Revenue	10,178	9,925
Gross Profit	2,294	2,384
GP Margin	22.5%	24.0%
EBITDA	(397)	(631)
EBITDA Margin	-3.9%	-6.4%
EBIT	(430)	(661)
EBIT Margin	-4.2%	-6.7%
Finance costs	(166)	(93)
Net Profit / (Loss)	(596)	(753)

Q Technology Group Limited ("the Group") generated revenues of \$10.2 million in the first half of the financial year. This was an increase of 2.5% over the prior corresponding period.

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The Group continually reviews its product sourcing to be able to partner with the best suppliers of security equipment. QSS remains the primary distributor of DVTEL by FLIR, one of the most widely used VMS platforms in the Australian & NZ market place with over 1000 existing sites.

QSS continues to distribute the Bosch range of CCTV and alarm equipment as well as the NUUO range of CCTV products together with our own brand of "Alumia" product.

The group continues to actively manage a dispute with a supplier who, as advised in the AGM Chairman's address, applied payments for new deliveries against outstanding debts. This inhibited our access to high moving product lines and impacted sales in Q2. Notwithstanding that, we expect to release a new exclusive Sunell range of NVR's and associated products in March which will increase sales in the second half.

In addition, continued centralization of procurement and logistics resulted in a reduced head count in Q2 which will flow through to the bottom line in FY17.

The board is once again pleased to advise the continued improvement in inventory holding. Gross inventory reduced \$3.1m in the first half which was an exceptional result. The cash freed up from reducing inventory was used to repay creditors which reduced by over 50% in the period, down from \$6.15m at 30 June to \$2.92m at 31 December. The loss in the first half was partly contributed to by lower margins on clearing older inventory and margins are expected to increase in the second half.

Corporate update

There was no change in the Corporate structure in the six months ended 31 December, 2016.

Financial Position and Lending Covenants

The company continues to have an effective \$4.0m invoice discounting facility with the Classic Funding Group which meets the needs of the business.

Events Occurring After the Reporting Period

No matters or circumstances have arisen since the end of the reporting period which significantly affects the operations of the Group, results of these operations, or the state of affairs of the Group in future financial periods.

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.


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DIRECTORS' REPORT

Auditor's Declaration

The auditor's independence declaration under s 307C of the *Corporations Act 2001* is set out on page 6 for the half-year ended 31st December 2016.

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

A handwritten signature in black ink, appearing to read 'Rob Rosa', consisting of two distinct, stylized characters.

Rob Rosa
Managing Director and Chief Executive
Dated this 23 February 2017

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AUDITOR'S INDEPENDENCE DECLARATION

As lead auditor for the review of the financial report of Q Technology Group Limited for the half year ended 31 December 2016, 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 review; and
- (ii) any applicable code of professional conduct in relation to the review.

RSM

RSM AUSTRALIA PARTNERS

P A Ransom

P A RANSOM

Partner

Melbourne, VIC
23 February 2017

Q Technology Group Limited and Controlled Entities
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CONSOLIDATED INCOME STATEMENT
FOR THE HALF-YEAR ENDED 31 December 2016

	Note	Consolidated Group	
		31-Dec-2016	31-Dec-2015
		\$'000	\$'000
Revenue		10,178	9,925
Interest income		2	2
Other Income		163	302
Purchases		(10,444)	(6,316)
Changes in inventory		2,559	(1,225)
Employee benefits expense		(2,203)	(2,330)
Depreciation and amortisation expense		(33)	(30)
Finance costs		(166)	(93)
Other expenses		(653)	(986)
Profit/(Loss) before income tax		(596)	(753)
Income tax (expense)/benefit		-	-
Net Profit/(Loss) for the period	2	(596)	(753)
Profit/(Loss) attributable to:			
- Members of the parent entity		(596)	(753)
- Non-controlling interest			
		(596)	(753)
Earnings per share			
From continuing operations:			
- Basic earnings per share (cents)		(0.12)	(0.324)
- Diluted earnings per share (cents)		(0.12)	(0.324)

The accompanying notes form part of these financial statements.

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

FOR THE HALF-YEAR ENDED 31 December 2016

	Note	Consolidated Group	
		31-Dec-2016 \$'000	31-Dec-2015 \$'000
Profit/(Loss) for the period		(596)	(753)
Other comprehensive income			
Other comprehensive income for the period, net of tax			
Total comprehensive income for the period		<u>(596)</u>	<u>(753)</u>
Total comprehensive income attributable to:			
- Members of the parent entity		(596)	(753)
- Non-controlling interest			
		<u>(596)</u>	<u>(753)</u>

The accompanying notes form part of these financial statements.

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

AS AT 31 December 2016

	Consolidated Group	
Note	31 Dec 2016 \$'000	30 Jun 2016 \$'000
<u>ASSETS</u>		
<u>CURRENT ASSETS</u>		
Cash and cash equivalents	258	220
Trade and other receivables	3,098	4,397
Inventories	3,564	6,123
Other current assets	127	129
TOTAL CURRENT ASSETS	7,047	10,869
<u>NON-CURRENT ASSETS</u>		
Property, plant and equipment	270	305
Deferred tax assets	-	-
TOTAL NON-CURRENT ASSETS	270	305
TOTAL ASSETS	7,316	11,174
 <u>LIABILITIES</u>		
<u>CURRENT LIABILITIES</u>		
Trade and other payables	2,925	6,152
Borrowings	2,502	3,449
Provisions	380	434
TOTAL CURRENT LIABILITIES	5,807	10,035
<u>NON-CURRENT LIABILITIES</u>		
Provisions	30	96
TOTAL NON-CURRENT LIABILITIES	30	96
TOTAL LIABILITIES	5,837	10,131
 NET ASSETS	 1,480	 1,043
 <u>EQUITY</u>		
Issued capital	74,153	73,121
Reserves	-	-
Accumulated losses	(72,673)	(72,078)
TOTAL EQUITY	1,480	1,043

The accompanying notes form part of these financial statements.

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CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
FOR THE HALF-YEAR ENDED 31 December 2016

	Note	Issued Capital Ordinary \$'000	Retained (Losses) \$'000	Options Reserve \$'000	Total \$'000
Balance at 1 July 2016		73,121	(72,077)	-	1,044
Profit for the period			(596)		(596)
Total other comprehensive income for the period					
Total Comprehensive Income for the period		73,121	(72,673)	-	448
Shares issued / (bought back) during period		1,032			1,032
Dividends paid or provided for					
Balance at 31 December 2016		74,153	(72,673)	-	1,480
Balance at 1 July 2015		72,385	(68,627)	-	3,758
Profit for the period			(753)		(753)
Total other comprehensive income for the period					
Total Comprehensive Income for the period		72,385	(69,380)	-	3,005
Shares issued / (bought back) during period		745			745
Dividends paid or provided for					
Balance at 31 December 2015		73,130	(69,380)	-	3,750

The accompanying notes form part of these financial statements.

Q Technology Group Limited and Controlled Entities
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CONSOLIDATED STATEMENT OF CASH FLOWS

FOR THE HALF-YEAR ENDED 31 December 2016

	Note	Consolidated Group 31-Dec-2016 \$'000	31-Dec-2015 \$'000
CASH FLOWS FROM OPERATING ACTIVITIES			
Receipts from customers (inclusive of GST)		12,804	10,422
Payments to suppliers and employees (inclusive of GST)		(12,689)	(10,905)
Interest received		2	2
Finance costs		(166)	(93)
Income tax paid			
Net cash (used in)/provided by operating activities		(49)	(574)
CASH FLOWS FROM INVESTING ACTIVITIES			
Proceeds from sale of property, plant and equipment		2	24
Purchase of property, plant and equipment		-	(46)
Net cash (used in)/provided by investing activities		2	(22)
CASH FLOWS FROM FINANCING ACTIVITIES			
Repayment of borrowings		-	-
Shares issue		1,032	745
Proceeds from borrowings		-	273
Net cash (used in) financing activities		1,032	1,018
Net increase/(decrease) in cash and cash equivalents held		985	422
Cash and cash equivalents at beginning of period		(2,959)	(2,614)
Cash and cash equivalents at end of period		(1,974)	(2,192)
Reconciliation of cash and cash equivalents			
Cash at bank		258	167
Invoice discounting facility	3	(2,232)	(2,359)
		(1,974)	(2,192)

The accompanying notes form part of these financial statements.

Q Technology Group Limited and Controlled Entities
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NOTES TO THE FINANCIAL STATEMENTS
FOR THE HALF-YEAR ENDED 31 December 2016

NOTE 1: BASIS OF PREPARATION

These general purpose interim financial statements for the interim half-year reporting period ended 31 December 2016 have been prepared in accordance with requirements of the *Corporations Act 2001* and Australian Accounting Standards including AASB 134: Interim Financial Reporting.

This interim financial report is intended to provide users with an update on the latest annual financial statements of Q Technology Group Ltd and its controlled entities (the Group). As such, it does not contain information that represents relatively insignificant changes occurring during the half-year within the Group. It is therefore recommended that this financial report be read in conjunction with the annual financial statements of the Group for the year ended 30 June 2016, together with any public announcements made during the following half-year.

The same accounting policies and methods of computation have been followed in this interim financial report as were applied in the most recent annual financial statements.

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 half year ended 31 December 2016 the consolidated entity reported operating losses of \$596,000 (HY2015 \$753,000 loss) and the consolidated entity reported net cash outflows from operating activities of \$49,000 (HY2015 - \$574,000 cash outflows).

This indicates 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 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;
- The introduction of new products are forecast to add additional new revenue streams in the second half of the financial year;
- Creditors reduced by over 50% during the period, from \$6.15m at 30 June 2016 to \$2.95m at 31 December 2016;
- At 31 December 2016, the consolidated entity's current assets were \$1,240,000 in excess of its current liabilities, an improvement of \$406,000 during the period; and
- At 31 December 2016, net assets were \$1,480,000, an improvement of \$437,000 during the period.

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.

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NOTES TO THE FINANCIAL STATEMENTS
FOR THE HALF-YEAR ENDED 31 December 2016

NOTE 2: PROFIT/ (LOSS) FOR THE PERIOD

The following revenue and expense items are relevant in explaining the financial performance for the interim period:

	Note	31-Dec-2016 \$'000	31-Dec-2015 \$'000
Realised gains/(losses) on foreign currency		191	7
Unrealised gains/(losses) on foreign currency		32	152

NOTE 3: BORROWINGS

The Group has an invoice discounting facility with the Classic Funding Group for up to \$4.0m. At 31 December 2016 it is drawn down to \$2.2m. There are no covenants associated with this facility.

Total borrowings at 31 December 2016:

Facility	Balance \$'000
Invoice Discounting	2,231
Short term loans	270
Total	<u><u>2,501</u></u>

NOTE 4: OPERATING SEGMENTS

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

NOTE 5: CONTINGENT LIABILITIES

There has been no change in contingent liabilities since the end of the last annual reporting period.

NOTE 6: EVENTS OCCURRING AFTER THE REPORTING PERIOD

No matters or circumstances have arisen since the end of the reporting period which significantly affects the operations of the Group, results of these operations, or the state of affairs of the Group in future financial periods.

Q Technology Group Limited and Controlled Entities
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DIRECTOR'S DECLARATION

In accordance with a resolution of the Directors of Q Technology Group Limited, the directors of the company declare that:

1. The financial statements and notes, as set out on pages 7 to 13 are in accordance with the *Corporations Act 2001*, including:
 - a. complying with Accounting Standard AASB 134: Interim Financial Reporting; and
 - b. giving a true and fair view of the consolidated entity's financial position as at 31 December 2016 and of its performance for the half-year ended on that date.
2. In the directors' opinion there are reasonable grounds to believe that the company will be able to pay its debts as and when they become due and payable.



Rob Rosa
Managing Director
Date: 23 February 2017

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

We have reviewed the accompanying half-year financial report of Q Technology Group Limited which comprises the consolidated statement of financial position as at 31 December 2016, the consolidated income statement, consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the half-year ended on that date, notes comprising a summary of significant accounting policies and other explanatory information, and the directors' declaration of the consolidated entity comprising the company and the entities it controlled at the half-year end or from time to time during the half-year.

Directors' Responsibility for the Half-Year Financial Report

The directors of the company are responsible for the preparation of the half-year 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 half-year financial report that is free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express a conclusion on the half-year financial report based on our review. We conducted our review in accordance with Auditing Standard on Review Engagements ASRE 2410 *Review of a Financial Report Performed by the Independent Auditor of the Entity*, in order to state whether, on the basis of the procedures described, we have become aware of any matter that makes us believe that the half-year financial report is not in accordance with the *Corporations Act 2001* including: giving a true and fair view of the consolidated entity's financial position as at 31 December 2016 and its performance for the half-year ended on that date; and complying with Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*. As the auditor of Q Technology Group Limited, ASRE 2410 requires that we comply with the ethical requirements relevant to the audit of the annual financial report.

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

Independence

In conducting our review, we have complied with the independence requirements of the *Corporations Act 2001*. We confirm that the independence declaration required by the *Corporations Act 2001*, which has been given to the directors of Q Technology Group Limited, would be in the same terms if given to the directors as at the time of this auditor's report.

Conclusion

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

- (a) giving a true and fair view of the consolidated entity's financial position as at 31 December 2016 and of its performance for the half-year ended on that date; and
- (b) complying with Accounting Standard AASB 134 *Interim Financial Reporting* and *Corporations Regulations 2001*.

Emphasis of Matter

We draw attention to Note 1 in the half-year financial report, which indicates the consolidated entity incurred a net loss of \$596,000 (HY2015 - \$753,000 loss) and the consolidated entity incurred net cash outflows from operating activities of \$49,000 (HY2015 - \$574,000 cash outflows). As stated in Note 1, these conditions, along with other matters as set forth in Note 1, indicate that a material uncertainty exists that may cast significant doubt on the consolidated entity's ability to continue as a going concern. Our conclusion is not modified in respect of this matter.

RSM

RSM AUSTRALIA PARTNERS



P A RANSOM

Partner

Melbourne, VIC
23 February 2017