



Half Yearly Financial Report
31st December 2016



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Directors' Report

Your directors submit their report for the half-year ended 31 December 2016.

Directors

The names of the company's directors in office during the half-year and until the date of this report are:

Shaun Rosen (Executive Chairman)
Clive Klugman (Executive Director)
Alan Treisman (Executive Director & Company Secretary)
Mark McGeachen (Executive Director)
Davy Rosen (Executive Director)

Review and Results of Operation

My fellow shareholders,

It's that time of the year again, and I am pleased to give you an update on our company's performance over the last 6 months.

We had a difficult 6 months in terms of revenue and EBITDA, but this was always predicted due to the company taking a view on sacrificing short term revenue in order to focus our efforts on R&D. It is always a challenge trying to balance the amount of energy put into R&D vs utilizing resources to generate revenue.

We have completed many of the projects we set out to do and we expect the second half of our financial year to pick up thus delivering a satisfactory result for the year.

We also paid a dividend for the second year in a row. The amount paid was \$724,967.

During the year, two of the founders of our recently acquired business, Intelligent Retail, David and Neil Mackley, retired from the business in a full time capacity. Both are still involved in the business, but in more of a non-executive role. Their contributions to the business are greatly appreciated and I wish them well for the future.

Key highlights of our financial performance were:

Operating Report and Financial Highlights

	Dec-16	Dec-15	Percentage Increase/(Decrease)	
Revenue	\$17,568,171	\$21,849,605	↓	-20%
Gross Profit Percentage	87.7%	82.6%	↑	6%
Underlying EBITDA*	\$3,392,044	\$4,249,923	↓	-20%
Net Profit After Tax	\$207,147	\$595,414	↓	-65%
Earnings per Share (cents)	\$0.14	\$0.40	↓	-65%
Number of Employees	248	245	↑	1%

*Underlying EBITDA excludes foreign exchange gains/losses on foreign denominated bank loan accounts and intercompany trade accounts, and share based expenses.

Non-IFRS Information

Underlying EBITDA

Underlying EBITDA is a more realistic and accurate method of determining the operating performance of the group than Net Profit After Tax. The reasons for this is that all the reconciling items such as interest, depreciation, foreign exchange gains or losses and options expense, have nothing to do with the operating performance of the group. Most of these items are non-cash items. In addition, each country has a different tax regime and tax rates, some countries are in tax loss position while others are not, and hence including tax figures will not show a consistent performance measurement of results of each segment or country.

Directors' Report continued

Reconciliation of underlying EBITDA to Net Profit after Tax

	Dec-16	Dec-15
Underlying EBITDA	3,392,044	4,249,923
Interest received	14,896	12,232
Depreciation & Amortisation	(2,289,211)	(2,663,744)
Foreign exchange adjustment	(186,279)	(301,604)
Finance costs excluding SWAP	(257,697)	(272,532)
Fair value movement on SWAP (loss)/gain	13,659	4,873
Share options expenses and earn-out paid to vendors of Intelligent Retail	-	(270,533)
Tax expenses	(480,265)	(163,201)
Net Profit after tax	207,147	595,414

Auditor's Independence Declaration

The lead auditor's independence declaration under sections 307C of the Corporations Act 2001 is set out on page 5 for the half-year ended 31 December 2016.

This report is made in accordance with a resolution of Directors, pursuant to section 306 (3) (a) of the Corporations Act 2001.

On behalf of the directors



Shaun Rosen, Director
Sydney, 15 March 2017

Auditor's Independence Declaration



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DECLARATION OF INDEPENDENCE BY ARTHUR MILNER TO THE DIRECTORS OF 3Q HOLDINGS LIMITED

As lead auditor for the review of 3Q Holdings Limited for the half-year ended 31 December 2016, I declare that, to the best of my knowledge and belief, there have been:

1. No contraventions of the auditor independence requirements of the *Corporations Act 2001* in relation to the review; and
2. No contraventions of any applicable code of professional conduct in relation to the review.

This declaration is in respect of 3Q Holdings Limited and the entities it controlled during the period.

A handwritten signature in black ink, appearing to read 'A Milner', is written over a light blue horizontal line.

Arthur Milner
Partner

BDO East Coast Partnership

Sydney, 15 March 2017

Consolidated Statement of Profit or Loss and Other Comprehensive Income

For the half-year ended 31 December 2016

	Note	Half-year Ended 31 Dec 2016 \$	Half-year ended 31 Dec 2015 \$
Revenue	2(a)	17,568,171	21,849,605
Cost of sales		(2,166,241)	(3,791,096)
Gross profit		15,401,930	18,058,509
Other income	2(b)	73,354	55,811
Operating expenses		(2,586,980)	(2,643,785)
Employee benefit expenses		(9,481,363)	(11,208,379)
Earnings before tax, finance costs, depreciation, amortisation, share based payments and foreign exchange gains/(losses)		3,406,941	4,262,156
Depreciation		(150,048)	(189,014)
Amortisation of intangibles		(2,139,163)	(2,474,730)
Finance costs		(244,039)	(267,660)
Foreign exchange gains/(losses)		(186,279)	(301,604)
Share based payments/expenses		-	(39,789)
Earn-out paid to vendors of Intelligent Retail		-	(230,744)
Profit before income tax		687,412	758,615
Income tax expense		(480,265)	(163,201)
Profit after income tax for the half-year		207,147	595,414
Other comprehensive income:			
Exchange difference on translating foreign operations (net of tax)		277,539	902,873
Total comprehensive income for the half-year		484,686	1,498,287
Profit attributable to:			
Owners of the parent		207,147	595,414
Total comprehensive income for the half-year is attributable to:			
Owners of the parent		484,686	1,498,287
Earnings per share			
Basic earnings per share (cents per share)		0.14	0.40
Diluted earnings per share (cents per share)		0.14	0.40

The accompanying notes form part of these Consolidated Financial Statements.

Consolidated Statement of Financial Position

As at 31 December 2016

	Note	As at 31 Dec 2016 \$	As at 30 June 2016 \$
ASSETS			
Current Assets			
Cash and cash equivalents		1,551,832	1,583,840
Trade and other receivables		6,649,029	8,751,420
Other assets		1,548,908	1,696,806
Inventories		227,728	238,212
Current tax asset		274,530	146,295
Total Current Assets		10,252,027	12,416,573
Non-current Assets			
Property, plant and equipment		528,394	610,658
Trade and other receivables		4,481	10,482
Intangible assets		38,717,897	37,297,097
Deferred tax assets		5,934,956	6,364,582
Total Non-current Assets		45,185,728	44,282,819
TOTAL ASSETS		55,437,755	56,699,392
LIABILITIES			
Current Liabilities			
Trade and other payables	5	7,638,793	9,147,229
Financial liabilities	6	2,932,100	2,439,759
Employee benefits		1,758,793	1,807,804
Current tax liabilities		268,436	93,799
Total Current Liabilities		12,598,122	13,488,591
Non-current Liabilities			
Financial liabilities	6	8,044,885	8,250,590
Provisions		7,138	29,860
Deferred tax liabilities		8,788,034	8,690,494
Total Non-current Liabilities		16,840,057	16,970,944
TOTAL LIABILITIES		29,438,179	30,459,535
NET ASSETS		25,999,576	26,239,857
EQUITY			
Issued capital	4	6,712,050	6,712,050
Reserves		2,654,645	2,377,106
Retained Earnings		16,632,881	17,150,701
TOTAL EQUITY		25,999,576	26,239,857

The accompanying notes form part of these Consolidated Financial Statements.

Consolidated Statement of Cash Flows

For the half-year ended 31 December 2016

	Note	Half-year ended 31 Dec 2016 \$	Half-year ended 31 Dec 2015 \$
Cash flows from operating activities			
Receipts from customers		20,974,551	26,076,022
Payments to suppliers and employees		(16,969,317)	(20,616,173)
Interest received		332	975
Interest Paid		(302,703)	(387,815)
Taxation paid		(15,228)	(128,869)
Other income		141,690	98,707
Net cash inflows from operating activities		3,829,325	5,042,847
Cash flows from investing activities			
Purchase of property, plant and equipment		(76,618)	(146,204)
Payment for purchase of business, net of cash acquired		-	(230,744)
Payment of development costs		(3,240,451)	(2,340,388)
Loans (to)/from related parties		(20,563)	(465,122)
Net cash outflows from investing activities		(3,337,632)	(3,182,458)
Cash flows from financing activities			
Repayment of dividend		(724,967)	-
Repayment of borrowings		(250,000)	(1,685,550)
Proceeds from borrowings		506,000	544,713
Net cash inflows/(outflows) from financing activities		(468,967)	(1,140,837)
Net increase/(decrease) in cash and cash equivalents		22,726	719,552
Cash and cash equivalents at beginning of the half-year		1,583,840	2,754,064
Exchange rate/translation adjustments		(54,734)	99,861
Cash and cash equivalents at end of period		1,551,832	3,573,477

The accompanying notes form part of these Consolidated Financial Statements.

Consolidated Statement of Changes in Equity For the half-year ended 31 December 2016

	Issued Capital	Reserves	Retained Earnings	Total
	\$	\$	\$	\$
Balance at 1 July 2015	6,672,263	2,437,900	16,415,667	25,525,830
Share based payments	39,789	-	-	39,789
Total comprehensive income for the half year	-	902,873	595,414	1,498,287
Balance at 31 December 2015	6,712,052	3,340,773	17,011,081	27,063,906
Balance at 1 July 2016	6,712,050	2,377,106	17,150,701	26,239,857
Dividend paid	-	-	(724,967)	(724,967)
Total comprehensive income for the half year	-	277,539	207,147	484,686
Balance at 31 December 2016	6,712,050	2,654,645	16,632,881	25,999,576

The accompanying notes form part of these Consolidated Financial Statements.

Notes to the Consolidated Financial Statements

1 Significant Accounting Policies

Basis of Preparation

The half-year financial report has been prepared in accordance with the Corporations Act 2001, applicable Accounting Standards, including AASB 134 'Interim Financial Reporting' and other mandatory professional reporting requirement, as appropriate for-profit orientated entities.

The half year financial report covers the consolidated group of 3Q Holdings Limited and controlled entities. 3Q Holdings Limited is an unlisted public company, incorporated and domiciled in Australia. The half year financial report has been prepared in Australian Dollars.

The half-year financial report does not include notes of the type normally included in an annual financial report and therefore cannot be expected to provide as full an understanding of the financial performance, financial position and financing and investing activities of the consolidated entity as the full financial report. Accordingly, it is recommended that the half-year financial report should be read in conjunction with the annual financial report for the year ended 30 June 2016.

The same accounting policies and methods of computation have been followed in this half-year financial report as compared with the most recent annual financial report.

2 Revenues and other income

	Half-year Ended 31 Dec 2016 \$	Half-year ended 31 Dec 2015 \$
(a) Revenues		
Sales of goods/hardware	1,035,448	979,069
Rendering of services	6,597,832	9,892,054
Maintenance fees	7,367,815	8,149,374
Licence fees	2,214,788	2,594,735
Other revenue	352,288	234,373
	<u>17,568,171</u>	<u>21,849,605</u>
(b) Other income		
Interest income	14,896	12,232
Other income	58,458	43,579
	<u>73,354</u>	<u>55,811</u>

Notes to the Consolidated Financial Statements continued

3 Dividends Paid and Proposed

Dividends declared and paid during the financial year were as follows:

	Consolidated Group	
	Half-year Ended 31 Dec 2016 \$	Half-year ended 31 Dec 2015 \$
Final	724,967	-
	724,967	-

On 5 August 2016, the 3Q Board determined to pay a third dividend once the 2016 results of the Group had been finalised and some key banking and other performance indicators assessed.

The record date for the dividend was 13 December 2016, and dividends were paid to shareholders on 30 December 2016 of 0.4905c per ordinary share for a total of \$724,967.

The dividend was fully franked.

There are no dividends payable or receivable at reporting date.

4 Issued Capital

	Consolidated Group	
	Number	\$
June 2016		
(a) Ordinary shares		
Fully paid	147,801,603	6,712,050
Partially paid	-	-
	147,801,603	6,712,050
(b) Movements in ordinary share on issue		
Balance at the beginning of the year	147,228,893	6,672,263
Staff shares cancelled	572,710	39,787
Balance at the end of June 2016	147,801,603	6,712,050
December 2016		
(a) Ordinary shares		
Fully paid	147,801,603	6,712,050
Partially paid	-	-
	147,801,603	6,712,050
(b) Movements in ordinary shares on issue		
Balance at the beginning of the year	147,801,603	6,712,050
Balance at the end of the half year	147,801,603	6,712,050

Notes to the Consolidated Financial Statements continued

5 Trade and other payables

	As At 31 Dec 2016 \$	As At 30 June 2016 \$
Current		
Trade payables	2,874,792	3,546,889
Deferred revenue	4,448,489	4,720,576
Other payables	411,663	535,785
Payable to related party	(96,151)	343,979
	7,638,793	9,147,229

6 Financial Liabilities

	As At 31 Dec 2016 \$	As At 30 June 2016 \$
Current		
Secured:		
Bank loans	2,911,460	2,405,460
Derivative financial liability	20,640	34,299
	2,932,100	2,439,759
Non-current		
Secured:		
Bank loans	8,044,885	8,250,590
	8,044,885	8,250,590
Total financial liabilities	10,976,985	10,690,349

7 Fair Values of Financial Instruments

	31 Dec 2016	30 June 2016
	\$	\$
Recurring fair value measurements		
The following financial instruments are subject to recurring fair value measurements:		
Derivative liabilities	20,640	34,299
- Interest rate swaps - Level 2	20,640	34,299

Fair value hierarchy

AASB 13 Fair Value Measurement requires disclosure of fair value measurements by level in the fair value measurement hierarchy as follows:

- (a) quoted prices (unadjusted) and active markets for identical assets or liabilities (level 1).
- (b) inputs other than quoted price included within level 1 that are observable for the assets or liability, either directly (as process) or indirectly (derived from process) (level 2), and
- (c) inputs for the assets or liability that are not based on observable market data (unobservable inputs) (level 3).

Transfers

During the half-year ended 31 December 2016, the consolidated entity had no level 1 and 3 financial instruments.

During the half-year ended 31 December 2016, there were no transfers between levels 1 and 2 of the fair value hierarchy.

Valuation techniques used to derive level 2 fair values

The fair value of derivatives not traded in an active market (interest rate swaps) are determined using discounted cash flow calculations. Future cash flows are estimated based on forward interest rates (from observable yield curves at the end of the reporting period) and contract interest rates discounted at a rate that reflects the credit risk of various counterparties.

8 Contingent Assets and Liabilities

There were no material contingent assets and liabilities at balance sheet date

9 Events subsequent to the reporting date

There were no material events subsequent to balance sheet date.

10 Company Details

Registered Office

Level 14, Tower 2, 101 Grafton Street
Bondi Junction
NSW 2022
Australia

Directors' Declaration

In the directors' opinion:

- the attached financial statements and notes thereto comply with the *Corporations Act 2001*, Australian Accounting Standard AASB 134 '*Interim Financial Reporting*', the *Corporate Regulations 2001* and other mandatory professional reporting requirements;
- the attached financial statements and notes thereto give 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
- there are reasonable grounds to believe that the consolidated entity will be able to pay its debts as and when they become due and payable.

Signed in accordance with a resolution of directors made pursuant to section 303(5) of the *Corporations Act 2001*.

On behalf of the directors,



Shaun Rosen
Director

Sydney, 15 March 2017

Auditor's Independent Review Report



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INDEPENDENT AUDITOR'S REVIEW REPORT

To the members of 3Q Holdings Limited

Report on the Half-Year Financial Report

We have reviewed the accompanying half-year financial report of 3Q Holdings Limited, which comprises the consolidated statement of financial position as at 31 December 2016, the consolidated statement of profit or loss and other comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the half-year ended on that date, notes comprising a statement of 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's 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 3Q Holdings 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 3Q Holdings Limited, would be in the same terms if given to the directors as at the time of this auditor's review 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 3Q Holdings 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*.

BDO East Coast Partnership

A handwritten signature in black ink, appearing to read 'AM', is written over the printed name 'Arthur Milner'.

Arthur Milner
Partner

Sydney, 15 March 2017