Half Yearly Financial Report
31st December 2018

Contents

Directors' Report

Your directors submit their report for the half-year ended 31 December 2018.

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 (Non-Executive Director)
Alan Treisman (Executive Director & Company Secretary)
Mark McGeachen (Executive Director)
Davy Rosen (Executive Director)

Review and Results of Operation

My fellow shareholders,

The last 6 months have again demonstrated the profound transformation the retail sector is undergoing globally. Despite a general contraction in retailer investment, we succeeded in maintaining similar revenues to the same period last year, with only a slight impact to EBITDA, which was down by $211k (6%). We have also taken the opportunity to fine tune our organisational structure to better respond to market opportunities, with a clear focus on profitability and controlled overheads.

As retailers adjust to the "new normal" consumer expectations and trading patterns, we saw an interim slowdown in activity in the US and UK in particular. This has given the company the opportunity to increase our R&D efforts globally which we believe will have a positive knock on effect in increasing our future revenues. While early days, this strategy has started to demonstrate results and during the last few months, a few significant deals have been signed in the UK, US and Australia representing revenues of over $11m. These wins include a major SaaS project in the US with a 5-year term commitment, and a UK deal extending a previous contract relationship.

Key highlights of our financial performance were:

Operating Report and Financial Highlights

	Dec-18	Dec-17		Percentage Increase/(Decrease)
Revenue	$15,528,406	$15,766,443	↓	-2%
Gross Profit Percentage	90.6%	89.8%	↑	1%
Underlying EBITDA*	$3,600,253	$3,810,770	↓	-6%
Net Profit After Tax	$848,262	$1,646,116	↓	-48%
Earnings per Share (cents)	0.60	1.10	↓	-45%
Number of Employees	204	209	↓	-2%

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

Reconciliation of underlying EBITDA to Net Profit After Tax

	Dec-18	Dec-17
Underlying EBITDA	**3,600,253**	**3,810,770**
Interest received	18,955	18,109
Depreciation & Amortisation	(2,214,097)	(2,471,558)
Foreign exchange adjustment	15,696	(173,659)
Finance costs excluding SWAP	(238,374)	(334,182)
Fair value movement on SWAP (loss)/gain	(7,738)	11,864
Share based expenses	-	(236,025)
Tax benefit/(expense)	(326,433)	1,020,797
Net Profit after tax	**848,262**	**1,646,116**

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 2018.

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, 6 March 2019

Tel: +61 2 9251 4100
Fax: +61 2 9240 9821
www.bdo.com.au

Level 11, 1 Margaret St
Sydney NSW 2000
Australia

DECLARATION OF INDEPENDENCE BY MARTIN COYLE TO THE DIRECTORS OF 3Q HOLDINGS LIMITED

As lead auditor for the review of 3Q Holdings Limited for the half-year ended 31 December 2018, 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 half-year period.

Martin Coyle
Partner

BDO East Coast Partnership

Sydney, 6 March 2019

Consolidated Statement of Profit or Loss and Other Comprehensive Income
For the half-year ended 31 December 2018

	Note	Half-year Ended 31 Dec 2018 $	Half-year ended 31 Dec 2017 $
Revenue	2(a)	15,528,406	15,766,443
Cost of sales		(1,456,809)	(1,608,034)
Gross profit		14,071,597	14,158,409
Other income	2(b)	100,317	56,203
Operating expenses		(2,359,495)	(2,694,421)
Employee benefit expenses		(8,193,211)	(7,691,311)
Earnings before tax, finance costs, depreciation, amortisation, share based payments and foreign exchange gains/(losses)		3,619,208	3,828,880
Depreciation		(116,638)	(116,791)
Amortisation of intangibles		(2,097,459)	(2,354,767)
Finance costs		(246,112)	(322,319)
Foreign exchange gains/(losses)		15,696	(173,659)
Share based payment expenses		-	(236,025)
Profit before income tax		1,174,695	625,319
Income tax benefit/(expense)		(326,433)	1,020,797
Profit after income tax for the half-year		848,262	1,646,116
Other comprehensive income:			
Items that may be reclassified subsequently to profit or loss			
Exchange difference on translating foreign operations (net of tax)		780,584	(216,114)
Total comprehensive income for the half-year		1,628,846	1,430,002
Profit attributable to:			
Owners of the parent		848,262	1,646,116
Total comprehensive income for the half-year is attributable to:			
Owners of the parent		1,628,846	1,430,002
Earnings per share			
Basic earnings per share (cents per share)		0.60	1.10
Diluted earnings per share (cents per share)		0.60	1.10

The accompanying notes form part of these Consolidated Financial Statements.

Consolidated Statement of Financial Position
As at 31 December 2018

	Note	As at 31 Dec 2018 $	As at 30 June 2018 $
ASSETS			
Current Assets			
Cash and cash equivalents		864,383	1,381,807
Trade and other receivables		4,391,140	6,010,109
Other assets		1,583,333	1,589,653
Inventories		124,707	143,076
Current tax asset		105,114	104,716
Total Current Assets		7,068,677	9,229,361
Non-current Assets			
Property, plant and equipment		333,627	283,504
Intangible assets		40,766,811	39,069,430
Deferred tax assets		8,403,835	6,765,927
Total Non-current Assets		49,504,273	46,118,861
TOTAL ASSETS		56,572,950	55,348,222
LIABILITIES			
Current Liabilities			
Trade and other payables	5	8,172,835	8,602,569
Financial liabilities	6	1,513,597	2,863,990
Employee benefits		1,712,829	1,700,488
Current tax liabilities		1,040,693	903,743
Total Current Liabilities		12,439,954	14,070,790
Non-current Liabilities			
Financial liabilities	6	5,231,713	5,728,992
Provisions		13,710	13,705
Deferred tax liabilities		8,345,553	6,822,270
Total Non-current Liabilities		13,590,976	12,564,967
TOTAL LIABILITIES		26,030,930	26,635,757
NET ASSETS		30,542,020	28,712,465
EQUITY			
Issued capital	4	6,712,050	6,712,050
Reserves		3,301,231	2,520,647
Retained Earnings		20,528,739	19,479,768
TOTAL EQUITY		30,542,020	28,712,465

The accompanying notes form part of these Consolidated Financial Statements.

Consolidated Statement of Cash Flows
For the half-year ended 31 December 2018

	Note	Half-year ended 31 Dec 2018 $	Half-year ended 31 Dec 2017 $
Cash flows from operating activities			
Receipts from customers		19,525,598	16,718,098
Payments to suppliers and employees		(14,941,294)	(13,163,536)
Interest received		24	1,163
Interest Paid		(248,828)	(350,459)
Taxation paid		(301,201)	(66,619)
Other income		83,297	42,784
Net cash inflows from operating activities		4,117,596	3,181,431
Cash flows from investing activities			
Purchase of property, plant and equipment		(66,642)	(47,877)
Payment of development costs		(2,419,641)	(2,914,936)
Loans from/(to) related parties		6,695	(47,233)
Net cash outflows from investing activities		(2,479,588)	(3,010,046)
Cash flows from financing activities			
Repayment of borrowings		(2,116,519)	(750,000)
Proceeds from borrowings		-	680,688
Net cash outflows from financing activities		(2,116,519)	(69,312)
Net (decrease)/increase in cash and cash equivalents		(478,511)	102,073
Cash and cash equivalents at beginning of the half-year		1,381,807	1,383,099
Exchange rate/translation adjustments		(38,913)	5,461
Cash and cash equivalents at end of period		864,383	1,490,633

The accompanying notes form part of these Consolidated Financial Statements.

Consolidated Statement of Changes in Equity
For the half-year ended 31 December 2018

	Issued Capital	Reserves	Retained Earnings	Total
	$	$	$	$
Balance at 1 July 2017	6,712,050	1,685,847	16,298,439	24,696,336
Share based payments	-	236,025	-	236,025
Total comprehensive income for the half year	-	(216,114)	1,646,116	1,430,002
Balance at 31 December 2017	6,712,050	1,705,759	17,944,555	26,362,364
Balance at 1 July 2018 (reported)	6,712,050	2,520,647	19,479,768	28,712,465
Adjustment on initial application of AASB 15, net of tax (note 8)	-	-	200,709	200,709
Balance at 1 July 2018 (restated)	6,712,050	2,520,647	19,680,477	28,913,174
Total comprehensive income for the half year	-	780,584	848,262	1,628,846
Balance at 31 December 2018	6,712,050	3,301,231	20,528,739	30,542,020

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 its 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 2018.

Other than for the adoption of AASB 15 and AASB 9 (refer note 8), 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 2018 $	Half-year ended 31 Dec 2017 $
(a) Revenues		
Sales of goods/hardware	347,709	474,362
Rendering of services	5,629,387	6,465,167
Maintenance fees	8,058,961	7,117,063
Licence fees	1,304,643	1,556,421
Other revenue	187,706	153,430
	15,528,406	**15,766,443**
(b) Other income		
Interest income	18,955	18,109
Other income	81,362	38,094
	100,317	**56,203**

3 Dividends Paid and Proposed

There are no dividends payable or receivable at reporting date.

4 Issued Capital

	Number	$
June 2018		
(a) Ordinary shares		
Fully paid	153,046,603	6,712,050
Partially paid	-	-
	153,046,603	6,712,050
(b) Movements in ordinary share on issue		
Balance at the beginning of the year	147,801,603	6,712,050
Staff shares issued	5,245,000	-
Balance at the end of June 2018	**153,046,603**	**6,712,050**
December 2018		
(a) Ordinary shares		
Fully paid	153,046,603	6,712,050
Unpaid	-	-
	153,046,603	6,712,050
(b) Movements in ordinary shares on issue		
Balance at the beginning of the year	153,046,603	6,712,050
Staff shares issued	-	-
Balance at the end of the half year	**153,046,603**	**6,712,050**

5 Trade and other payables

	As At 31 Dec 2018 $	As At 30 June 2018 $
Current		
Trade payables	2,338,973	2,822,524
Deferred revenue	5,059,188	4,891,681
Other payables	381,056	428,562
Payable to related party	393,618	459,802
	8,172,835	**8,602,569**

6 Financial Liabilities

	As At 31 Dec 2018 $	As At 30 June 2018 $
Current		
Secured:		
Bank loans	1,530,353	2,888,482
Derivative financial liability	(16,756)	(24,492)
	1,513,597	**2,863,990**
Non-current		
Secured:		
Bank loans	5,231,713	5,728,992
	5,231,713	**5,728,992**
Total financial liabilities	**6,745,310**	**8,592,982**

7 Fair Values of Financial Instruments

	31 Dec 2018 $	30 June 2018 $
Recurring fair value measurements		
The following financial instruments are subject to recurring fair value measurements:		
Derivative liabilities	(16,756)	(24,492)
- Interest rate swaps - Level 2	(16,756)	(24,492)

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 2018, the consolidated entity had no level 1 and 3 financial instruments.

During the half-year ended 31 December 2018, 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 Adoption of Significant Accounting Policies

Changes in significant accounting policies

The Group has adopted AASB 15 Revenue from Contracts with Customers and AASB 9 Financial Instruments from 1 July 2018. As a result of these new accounting standards becoming effective, the below significant accounting policies have been amended.

Due to the transition methods chosen by the Group in applying these standards, comparative information throughout these financial statements have not been restated to reflect the requirements of the new accounting standards.

Other than the impacts disclosed below, there were no other significant effects on the initial application of these new accounting standards.

8 Adoption of Significant Accounting Policies (continued)

AASB 15 Revenue from Contracts with Customers

AASB 15 Revenue from Contracts with Customers replaces AASB 118 Revenue, AASB 111 Construction Contracts and several other revenue-related Interpretations. The new Standard has been applied as at 1 July 2018 using the modified retrospective approach. Under this method, the cumulative effect of initial application is recognised as an adjustment to the opening balance of retained earnings at 1 July 2018 and comparatives are not restated.

In accordance with the transition guidance, AASB 15 has only been applied to contracts that are incomplete as at 1 July 2018. The Group has performed an assessment of its contracts with customers in accordance with AASB 15 and has determined the following impacts and changes to its accounting policies as a result of adoption.

The Groups product offerings include the sale of perpetual software licenses which may also include additional charges for other services such as installation, maintenance and product training. Those contracts for perpetual software licences whereby the customer has an unrestricted ability to use the software are now recognised at a point in time when the software license has been transferred to the customer and set up and installed. Where these contracts include other installation, maintenance and product training services, these services are individually accounted for as a separate performance obligation where they can be readily performed by another services provider. The revenue recognition polices for these services remain consistent with AASB 118 Revenue.

Impact on the financial statements

The effect of applying the modified retrospective basis resulted in an opening retained earnings adjustment of $200,709 at 1 July 2018 for the cumulative effect of applying AASB 15 up to 30 June 2018.

Without the adoption of AASB 15, the net impact to the Group’s reported revenue and retained earnings, as at, and for the half-year ended 31 December 2018 was immaterial.

AASB 9 Financial Instruments

AASB 9 Financial Instruments replaces AASB 139 Financial Instruments: Recognition and Measurement requirements. It makes major changes to the previous guidance on the classification and measurement of financial assets and introduces an ‘expected credit loss’ (‘ECL’) model for impairment of financial assets. When adopting AASB 9, the Group elected not to restate prior periods.

AASB 9 did not have a significant impact on the Group’s accounting policies. Trade and other receivables that were classified as loans and receivables under AASB 139 are now classified at amortised cost. The effect of adopting AASB 9 on the carrying amounts of financial assets at 1 July 2018 relates solely to the new impairment requirements applying the ECL model. As the ECL assessment has resulted in an immaterial credit loss, no impairment allowance has been recognised by the Group as at 1 July 2018 and comparatives have not been restated.

As the effect of the application of AASB 15 and AASB 9 was not material, further details of the new significant accounting policies will be set out in the Group’s consolidated financial statements, as at, and for the year ending 30 June 2019.

9 Contingent Assets and Liabilities

There were no material contingent assets and liabilities at the reporting date.

10 Events subsequent to the reporting date

There were no material events subsequent to the reporting date.

11 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 2018 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, 6 March 2019

Tel: +61 2 9251 4100
Fax: +61 2 9240 9821
www.bdo.com.au

Level 11, 1 Margaret St
Sydney NSW 2000
Australia

INDEPENDENT AUDITOR'S REVIEW REPORT

To the members of 3Q Holdings Limited

Report on the Half-Year Financial Report

Conclusion

We have reviewed the half-year financial report of 3Q Holdings Limited (the Company) and its subsidiaries (the Group), which comprises the consolidated statement of financial position as at 31 December 2018, 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 then ended, and notes comprising a statement of accounting policies and other explanatory information, and the directors' declaration.

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 the Group is not in accordance with the *Corporations Act 2001* including:

(a) Giving a true and fair view of the Group's financial position as at 31 December 2018 and of its financial performance for the half-year ended on that date; and

(b) Complying with Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*.

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 Group's financial position as at 31 December 2018 and its financial 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 the Group, 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 the Group, would be in the same terms if given to the directors as at the time of this auditor's review report.

BDO East Coast Partnership

BDO

Martin Coyle
Partner

Sydney, 6 March 2019