

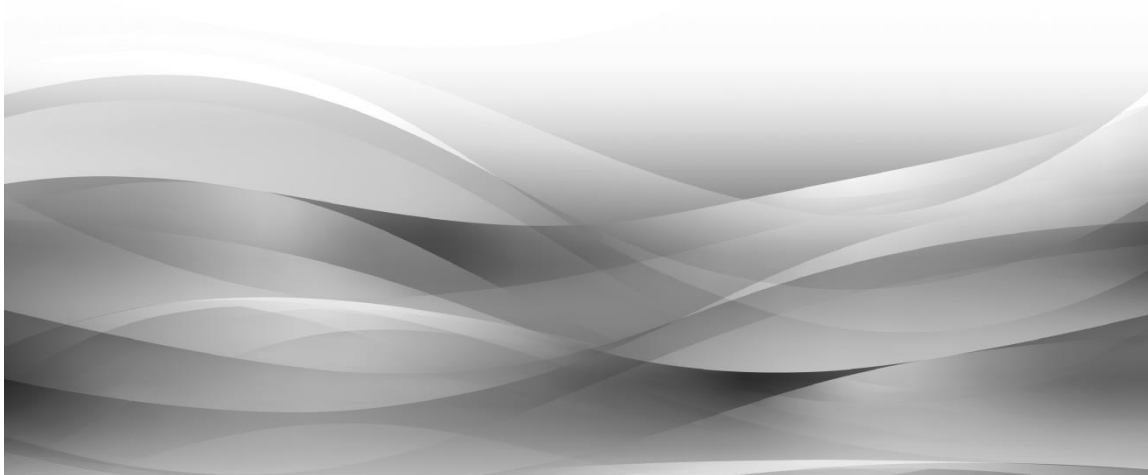
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Half Yearly Financial Report
31st December 2019



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Directors' Report

Your directors submit their report for the half-year ended 31 December 2019.

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 continued to demonstrate the ever-changing retail sector globally. We continue to evolve in order to meet the new technological requirements of our existing and new customers.

Whilst many of our competitors have found the current retail slowdown to be extremely tough, we have continually taken steps to ensure our company remains strong and continues to evolve.

We have been able to keep our revenues stable and despite a slight decrease (3%) from last year, we have managed to increase our EBITDA from \$3.6m last period to \$4.2m for this period, representing a 16% increase. This increase is partly attributed to a strategic fine tuning of the organization's overheads in the prior year together with the implementation of a new accounting standard (AASB16) which represents approximately \$300k (8%) of the increase.

New business from existing customers continues to be strong and we are engaged with numerous prospects that will hopefully translate into revenue going forward.

We are monitoring the Corona Virus situation and although we are feeling the impact in terms of our ability to travel, we have not felt any impact yet on our business. We expect that in the short term the impact on confidence may be eroded, but we are not in position to gauge the long-term impact (if there is going to be any at all).

Key highlights of our financial performance were:

Operating Report and Financial Highlights

	Dec-19	Dec-18	Percentage Increase/(Decrease)	
Revenue	\$14,994,010	\$15,528,406	↓	-3%
Gross Profit Percentage	88.5%	90.6%	↓	-2%
Underlying EBITDA*	\$4,184,774	\$3,600,253	↑	16%
Net Profit After Tax	\$916,771	\$848,262	↑	8%
Earnings per Share (cents)	\$0.60	0.60	↑	0%
Number of Employees	176	204	↓	-14%

* Underlying EBITDA, NPBT and NPAT excludes foreign exchange gains and losses on US\$ and GBP bank loans, 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 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.

Directors' Report continued

Reconciliation of underlying EBITDA to Net Profit After Tax

	Dec-19	Dec-18
Underlying EBITDA	4,184,774	3,600,253
Interest received	7,711	18,955
Depreciation & Amortisation	(2,477,036)	(2,214,097)
Depreciation from implementation of AASB16	(291,543)	-
Foreign exchange adjustment	(273,091)	15,696
Finance costs excluding SWAP	(279,108)	(238,374)
Fair value movement on SWAP (loss)/gain	1,314	(7,738)
Tax benefit/(expense)	43,750	(326,433)
Net Profit after tax	916,771	848,262

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 2019.

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, 13 March 2020

Auditor's Independence Declaration



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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 2019, 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.

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

Martin Coyle
Partner

BDO East Coast Partnership

Sydney, 13 March 2020

Consolidated Statement of Profit or Loss and Other Comprehensive Income

For the half-year ended 31 December 2019

	Note	Half-year Ended 31 Dec 2019 \$	Half-year ended 31 Dec 2018 \$
Revenue	2(a)	14,994,010	15,528,406
Cost of sales		(1,723,913)	(1,456,809)
Gross profit		13,270,097	14,071,597
Other income	2(b)	105,151	100,317
Operating expenses		(1,826,321)	(2,359,495)
Employee benefit expenses		(7,356,442)	(8,193,211)
Earnings before tax, finance costs, depreciation, amortisation, share based payments and foreign exchange (losses)/ gains		4,192,485	3,619,208
Depreciation (inclusive of right-of-use assets)		(352,697)	(116,638)
Amortisation of intangibles		(2,415,882)	(2,097,459)
Finance costs		(277,794)	(246,112)
Foreign exchange (losses)/ gains		(273,091)	15,696
Profit before income tax		873,021	1,174,695
Income tax benefit/(expense)		43,750	(326,433)
Profit after income tax for the half-year		916,771	848,262
Other comprehensive income: <i>Items that may be reclassified subsequently to profit or loss</i>			
Exchange difference on translating foreign operations (net of tax)		229,844	780,584
Total comprehensive income for the half-year		1,146,615	1,628,846
Profit attributable to:			
Owners of the parent		916,771	848,262
Total comprehensive income for the half-year is attributable to:			
Owners of the parent		1,146,615	1,628,846
Earnings per share			
Basic earnings per share (cents per share)		0.60	0.60
Diluted earnings per share (cents per share)		0.60	0.60

The accompanying notes form part of these Consolidated Financial Statements.

Consolidated Statement of Financial Position As at 31 December 2019

	Note	As at 31 Dec 2019 \$	As at 30 June 2019 \$
ASSETS			
Current Assets			
Cash and cash equivalents		763,167	905,167
Trade and other receivables		3,914,570	4,217,454
Other assets		1,505,707	1,199,464
Inventories		94,916	90,669
Total Current Assets		6,278,360	6,412,754
Non-current Assets			
Property, plant and equipment		244,994	279,593
Intangible assets		41,124,157	41,196,173
Right-of-use assets	8	3,453,604	-
Deferred tax assets		1,855,537	1,723,553
Total Non-current Assets		46,678,292	43,199,319
TOTAL ASSETS		52,956,652	49,612,073
LIABILITIES			
Current Liabilities			
Trade and other payables	5	8,434,467	8,354,591
Financial liabilities	6	1,531,112	2,221,487
Lease liabilities	8	388,944	-
Employee benefits		1,590,732	1,649,616
Current tax liabilities		597,234	1,153,644
Total Current Liabilities		12,542,489	13,379,337
Non-current Liabilities			
Financial liabilities	6	4,374,366	4,461,005
Lease liabilities	8	3,155,354	-
Employee benefits		3,039	17,953
Deferred tax liabilities		1,623,358	1,642,347
Total Non-current Liabilities		9,156,117	6,121,305
TOTAL LIABILITIES		21,698,606	19,500,642
NET ASSETS		31,258,046	30,111,431
EQUITY			
Issued capital	4	6,712,050	6,712,050
Reserves		3,606,877	3,377,033
Retained Earnings		20,939,119	20,022,348
TOTAL EQUITY		31,258,046	30,111,431

The accompanying notes form part of these Consolidated Financial Statements.

Consolidated Statement of Cash Flows For the half-year ended 31 December 2019

Note	Half-year ended 31 Dec 2019 \$	Half-year ended 31 Dec 2018 \$
Cash flows from operating activities		
Receipts from customers	16,525,062	19,525,598
Payments to suppliers and employees	(12,789,583)	(14,941,294)
Interest received	-	24
Interest paid	(217,131)	(248,828)
Interest paid on lease liabilities	(82,083)	-
Taxation paid	(526,843)	(301,201)
Other income	28,653	83,297
Net cash inflows from operating activities	2,938,075	4,117,596
Cash flows from investing activities		
Purchase of property, plant and equipment	(60,940)	(66,642)
Payment of development costs	(2,054,188)	(2,419,641)
Loans from/(to) related parties	-	6,695
Net cash outflows from investing activities	(2,115,128)	(2,479,588)
Cash flows from financing activities		
Repayment of lease liabilities	(197,057)	-
Repayment of borrowings	(795,050)	(2,116,519)
Net cash outflows from financing activities	(992,107)	(2,116,519)
Net decrease in cash and cash equivalents	(169,160)	(478,511)
Cash and cash equivalents at beginning of the half-year	905,167	1,381,807
Exchange rate/translation adjustments	27,160	(38,913)
Cash and cash equivalents at end of period	763,167	864,383

The accompanying notes form part of these Consolidated Financial Statements.

Consolidated Statement of Changes in Equity For the half-year ended 31 December 2019

	Issued Capital	Reserves	Retained Earnings	Total
	\$	\$	\$	\$
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	-	-	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
Balance at 1 July 2019	6,712,050	3,377,033	20,022,348	30,111,431
Total comprehensive income for the half year	-	229,844	916,771	1,146,615
Balance at 31 December 2019	6,712,050	3,606,877	20,939,119	31,258,046

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 2019.

Other than for the adoption of AASB Interpretation 23 and AASB 16 (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 2019 \$	Half-year ended 31 Dec 2018 \$
(a) Revenues		
Sales of goods/hardware	460,143	347,709
Rendering of services	4,609,136	5,629,387
Maintenance fees	8,201,494	8,058,961
Licence fees	1,563,420	1,304,643
Other revenue	159,817	187,706
	14,994,010	15,528,406
(b) Other income		
Interest income	7,711	18,955
Other income	97,440	81,362
	105,151	100,317

3 Dividends Paid and Proposed

There are no dividends payable or receivable at reporting date.

4 Issued Capital

	Number	\$
June 2019		
(a) Ordinary shares		
Fully paid	152,266,603	6,712,050
	<u>152,266,603</u>	<u>6,712,050</u>
 (b) Movements in ordinary share on issue		
Balance at the beginning of the year	153,046,603	6,712,050
Staff shares cancelled	(780,000)	-
Balance at the end of 30 June 2019	<u>152,266,603</u>	<u>6,712,050</u>
 December 2019		
(a) Ordinary shares		
Fully paid	151,531,603	6,712,050
	<u>151,531,603</u>	<u>6,712,050</u>
 (b) Movements in ordinary shares on issue		
Balance at the beginning of the year	152,266,603	6,712,050
Staff shares cancelled	(735,000)	-
Balance at the end of 31 December 2019	<u>151,531,603</u>	<u>6,712,050</u>

5 Trade and other payables

	As At 31 Dec 2019 \$	As At 30 June 2019 \$
Current		
Trade payables	2,654,694	2,444,472
Deferred revenue	4,958,007	5,191,594
Other payables	251,884	358,728
Payable to related party	569,882	359,797
	8,434,467	8,354,591

6 Financial Liabilities

	As At 31 Dec 2019 \$	As At 30 June 2019 \$
Current		
Secured:		
Bank loans	1,526,810	2,215,870
Derivative financial liability	4,302	5,617
	1,531,112	2,221,487
Non-current		
Secured:		
Bank loans	4,374,366	4,461,005
	4,374,366	4,461,005
Total financial liabilities	5,905,478	6,682,492

7 Fair Values of Financial Instruments

	31 Dec 2019 \$	30 June 2019 \$
Recurring fair value measurements		
The following financial instruments are subject to recurring fair value measurements:		
Derivative liabilities	4,302	5,617
- Interest rate swaps - Level 2	4,302	5,617

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 2019, the consolidated entity had no level 1 and 3 financial instruments.

During the half-year ended 31 December 2019, 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

AASB 16 Leases

The Group has adopted AASB 16 from 1 July 2019. The standard replaces AASB 117 'Leases' and for lessees eliminates the classifications of operating leases and finance leases. Except for short-term leases and leases of low-value assets, right-of-use assets and corresponding lease liabilities are recognised in the statement of financial position. Straight-line operating lease expense recognition is replaced with a depreciation charge for the right-of-use assets and an interest expense on the recognised lease liabilities (included in finance costs). In the earlier periods of the lease, the expenses associated with the lease under AASB 16 will be higher when compared to lease expenses under AASB 117. However, EBITDA (Earnings Before Interest, Tax, Depreciation and Amortisation) results improved by approximately \$300k as the operating expense is now replaced by interest expense and depreciation in profit or loss. For classification within the statement of cash flows, the interest portion is disclosed in operating activities and the principal portion of the lease payments are separately disclosed in financing activities. For lessor accounting, the standard does not substantially change how a lessor accounts for leases.

8 Adoption of Significant Accounting Policies (continued)

Changes in significant accounting policies (continued)

AASB 16 Leases (continued)

Impact of adoption

AASB 16 was adopted using the modified retrospective approach and as such the comparatives have not been restated. The impact of adoption at 1 July 2019 was as follows:

	1 July 2019
	\$
Operating and financial lease commitments as at 30 June 2019 (AASB 117)	1,580,733
Operating and financial lease commitments discount based on the weighted average incremental borrowing rate (AASB 16)	(513,758)
Add: adjustments as a result of a different treatment of extension options (AASB 16)	2,079,598
Less: short-term leases not recognised as a right-of-use asset (AASB 16)	(146,823)
Less: low-value leases not recognised as a right-of-use-asset (AASB 16)	(36,570)
Right-of-use assets (AASB 16)	2,963,180
Lease liabilities - current (AASB 16)	379,232
Lease liabilities - non-current (AASB 16)	2,583,948

The incremental borrowing rates for Sydney office lease is 5.75% & 5.54% for Sydney motor vehicle lease;
The incremental borrowing rates for US office lease is 4.19% & 5.34% for US motor vehicle lease;
The incremental borrowing rates for NZ office lease is 6%;
The incremental borrowing rates for India office lease is 4.19%.

Impact of AASB 16	Half-year Ended 31 Dec 2019 Applying AASB 16 \$	Half-year Ended 31 Dec 2019 Applying AASB 117 \$	Movement \$
Statement of Profit or Loss			
Operating expenses	1,826,321	2,119,078	292,757
Finance cost	277,794	195,711	(82,083)
Depreciation	352,697	61,154	(291,543)
Statement of Financial Position			
Right-of-use-asset	3,453,604	-	3,453,604
Lease liability	(3,544,298)	-	(3,544,298)
Net deferred tax	232,179	207,237	24,942
Statement of Cash Flows			
Cash flows from operating activities	2,938,075	2,741,018	197,057
Cash flows used in financing activities	(992,107)	(795,050)	(197,057)

8 Adoption of Significant Accounting Policies (continued)

Changes in significant accounting policies (continued)

AASB 23 Uncertainty over Income Tax Treatments

The Group has adopted AASB Interpretation 23 Uncertainty over Income Tax Treatments for the first time in the current period. Interpretation 23 sets out how to determine the accounting tax position when there is uncertainty over income tax treatments. The Interpretation requires an entity to:

- ▣ Determine whether uncertain tax positions are assessed separately or as a group; and
- ▣ Assess whether it is probable that a tax authority will accept an uncertain tax treatment used, or proposed to be used, by an entity in its income tax filings.
 - If yes, the Group should determine its accounting tax position consistently with the tax treatment used or planned to be used in its income tax filings.
 - If no, the Group should reflect the effect of uncertainty in determining its accounting tax position using either the most likely amount or the expected value method.

Management regularly reviews the various facts and circumstances applied to third party transactions along with other 3Q related entities and engages tax specialists where required to assess the appropriate tax treatment. Whilst judgement is required in identifying uncertainties over income tax treatments, Management are not currently aware of any material uncertain tax positions at the reporting date.

9 Reclassification of comparatives

Comparative figures have been adjusted to confirm to changes in presentation for the current financial year.

During the preparation of the financial statements for the current period, a reclassification of the prior period deferred tax assets and deferred tax liabilities balances has been processed in order to more accurately offset these balances for each tax jurisdiction across the Group.

Summary of reclassifications

	Current Year Report 30 June 2019 \$	Prior Year Report 30 June 2019 \$	Movement \$
Statement of Financial Position			
Deferred tax assets	1,723,553	7,745,831	6,022,278
Deferred tax liabilities	(1,642,347)	(7,664,625)	(6,022,278)
Net assets	30,111,431	30,111,431	-

The reclassification above had no impact on the reported results or the financial position of the Group.

Notes to the Consolidated Financial Statements continued

10 Contingent Assets and Liabilities

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

11 Events subsequent to the reporting date

There were no material events subsequent to the reporting date.

12 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 2019 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, 13 March 2020

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

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 2019, 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 2019 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 2019 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
A handwritten signature in black ink, appearing to read 'Martin Coyle', is written over the printed name.

Martin Coyle
Partner

Sydney, 13 March 2020