

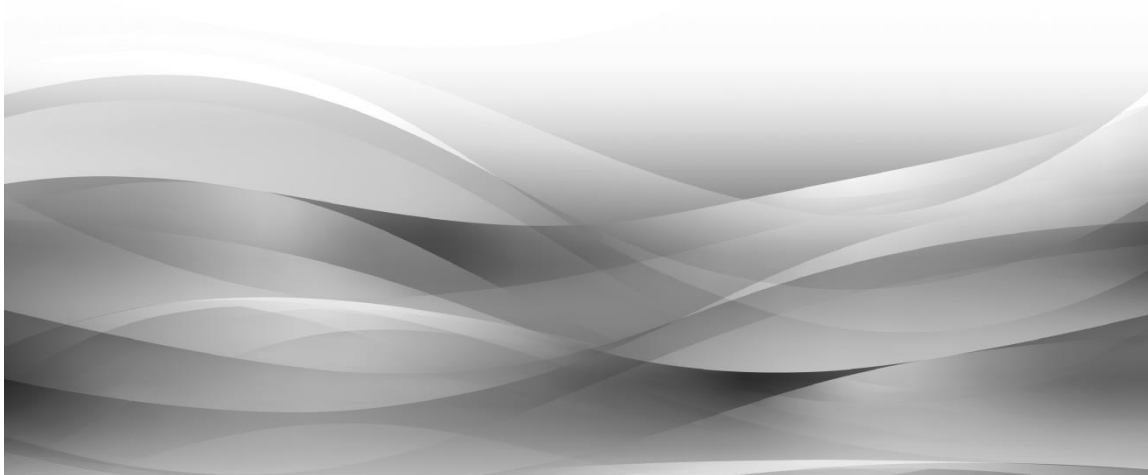
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Half Yearly Financial Report
31st December 2020



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Directors' Report

Your directors submit their report for the half-year ended 31 December 2020.

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

Review and Results of Operation

My Fellow Shareholders

I write to you again in the midst of these unprecedented times. Whilst there is a light at the end of the tunnel with the various vaccines coming on line, we are still in the grip of this pandemic and I fear it will be a while yet before things return to a semblance of normality. Whether we will ever revert to things as they were pre – 2020, no one knows.

The retail landscape has, I believe changed forever and we are adjusting to this new reality.

Our half-year shows a solid financial result, which has been boosted by government grants and a general reduction in overhead that we have undertaken, in order to cope with the new realities facing us.

Some of these changes are sustainable and some are one-offs.

We have used these times to consolidate and act in the most prudent manner in order to ensure the long-term viability of the company.

The most significant achievement in the last 6 months has been to pay down our bank debt of just over \$3.1m. This was possible due to the increases in our cash EBITDA and NPAT.

Our revenues are down significantly on last year although this has not affected our profitability. Our underlying EBITDA for the 6 months was \$4.8m whilst our NPAT for the same period was \$2.7m.

Despite this good financial result, we have not signed any new significant contracts in the first 6 months of the year although we are working on a number of opportunities which we anticipate will materialize in the second half of the year.

We are still in discussions regarding a possible exit for shareholders and I will update you all if anything further transpires in the future.

I wish you all the best and thank you for your continued support.

Shaun Rosen

Key highlights of our financial performance were:

Operating Report and Financial Highlights

	Dec-20	Dec-19	Percentage Increase/(Decrease)	
Revenue	\$11,264,807	\$14,994,010	↓	-25%
Gross Profit Percentage	90.2%	88.5%	↑	2%
Underlying EBITDA*	\$4,774,647	\$4,184,774	↑	14%
Net Profit After Tax	\$2,701,434	\$916,771	↑	195%
Earnings per Share (cents)	1.78	0.60	↑	197%
Number of Employees	154	176	↓	-13%

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

Directors' Report continued

Reconciliation of underlying EBITDA to Net Profit After Tax

	Dec-20	Dec-19
Underlying EBITDA	4,774,647	4,184,774
Interest received	7,710	7,711
Depreciation & Amortisation	(921,067)	(2,768,579)
Foreign exchange adjustment	(271,847)	(273,091)
Finance costs excluding SWAP	(218,399)	(279,108)
Fair value movement on SWAP (loss)/gain	(257)	1,314
Tax benefit/(expense)	(669,353)	43,750
Net Profit after tax	2,701,434	916,771

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 2020.

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, 9 April 2021

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 2020, 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
Director

BDO Audit Pty Ltd

Sydney, 9 April 2021

Consolidated Statement of Profit or Loss and Other Comprehensive Income

For the half-year ended 31 December 2020

	Note	Half-year Ended 31 Dec 2020 \$	Half-year ended 31 Dec 2019 \$
Revenue	2(a)	11,264,807	14,994,010
Cost of sales		(1,106,468)	(1,723,913)
Gross profit		10,158,339	13,270,097
Other income	2(b)	1,074,552	105,151
Operating expenses		(1,194,600)	(1,826,321)
Employee benefit expenses		(5,255,934)	(7,356,442)
Earnings before tax, finance costs, depreciation, amortisation, share based payments and foreign exchange (losses)/ gains		4,782,357	4,192,485
Depreciation (inclusive of right-of-use assets)		(243,660)	(352,697)
Amortisation of intangibles		(677,407)	(2,415,882)
Finance costs		(218,656)	(277,794)
Foreign exchange (losses)/gains		(271,847)	(273,091)
Profit before income tax		3,370,787	873,021
Income tax (expense)/benefit		(669,353)	43,750
Profit after income tax for the half-year		2,701,434	916,771
Other comprehensive income: <i>Items that may be reclassified subsequently to profit or loss</i>			
Exchange difference on translating foreign operations (net of tax)		(674,609)	229,844
Total comprehensive income for the half-year		2,026,825	1,146,615
Profit attributable to:			
Owners of the parent		2,701,434	916,771
Total comprehensive income for the half-year is attributable to:			
Owners of the parent		2,026,825	1,146,615
Earnings per share			
Basic earnings per share (cents per share)		1.78	0.60
Diluted earnings per share (cents per share)		1.78	0.60

The accompanying notes form part of these Consolidated Financial Statements.

Consolidated Statement of Financial Position As at 31 December 2020

	Note	As at 31 Dec 2020 \$	As at 30 June 2020 \$
ASSETS			
Current Assets			
Cash and cash equivalents		2,403,654	3,733,953
Trade and other receivables		3,912,860	4,168,105
Other assets		1,119,595	1,083,975
Inventories		74,614	81,266
Current tax asset		25,273	-
Total Current Assets		7,535,996	9,067,299
Non-current Assets			
Property, plant and equipment		148,378	194,793
Trade and other receivables		120,542	-
Intangible assets		17,769,623	18,614,545
Right-of-use assets		2,644,833	3,055,927
Deferred tax assets		4,173,485	4,660,937
Total Non-current Assets		24,856,861	26,526,202
TOTAL ASSETS		32,392,857	35,593,501
LIABILITIES			
Current Liabilities			
Trade and other payables	5	7,255,470	8,413,062
Financial liabilities	6	1,021,349	4,058,085
Lease liabilities	8	509,953	497,411
Employee benefits		1,460,696	1,594,740
Current tax liabilities		891,159	662,838
Total Current Liabilities		11,138,627	15,226,136
Non-current Liabilities			
Financial liabilities	6	3,241,688	3,997,573
Lease liabilities	8	2,691,650	3,078,186
Employee benefits		7,501	5,040
Deferred tax liabilities		-	-
Total Non-current Liabilities		5,940,839	7,080,799
TOTAL LIABILITIES		17,079,466	22,306,935
NET ASSETS		15,313,391	13,286,566
EQUITY			
Issued capital	4	6,712,050	6,712,050
Reserves		2,816,151	3,490,760
Retained Earnings		5,785,190	3,083,756
TOTAL EQUITY		15,313,391	13,286,566

The accompanying notes form part of these Consolidated Financial Statements.

Consolidated Statement of Cash Flows For the half-year ended 31 December 2020

Note	Half-year ended 31 Dec 2020 \$	Half-year ended 31 Dec 2019 \$
Cash flows from operating activities		
Receipts from customers	11,720,728	16,525,062
Payments to suppliers and employees	(8,650,606)	(12,789,583)
Interest received	5	-
Interest paid	(202,463)	(217,131)
Interest paid on lease liabilities	(92,630)	(82,083)
Taxation paid	(189,650)	(526,843)
Government grant received (COVID-19)	435,910	-
Other income	87,278	28,653
Net cash inflows from operating activities	3,108,572	2,938,075
Cash flows from investing activities		
Purchase of property, plant and equipment	(2,441)	(60,940)
Payment of development costs	(843,919)	(2,054,188)
Loans from related parties	5,318	-
Net cash outflows from investing activities	(841,042)	(2,115,128)
Cash flows from financing activities		
Repayment of lease liabilities	(233,236)	(197,057)
Repayment of borrowings	(3,116,770)	(795,050)
Net cash outflows from financing activities	(3,350,006)	(992,107)
Net decrease in cash and cash equivalents	(1,082,476)	(169,160)
Cash and cash equivalents at beginning of the half-year	3,733,953	905,167
Exchange rate/translation adjustments	(127,281)	27,160
Reclassification of restricted cash	(120,542)	-
Cash and cash equivalents at end of period	2,403,654	763,167

The accompanying notes form part of these Consolidated Financial Statements.

Consolidated Statement of Changes in Equity For the half-year ended 31 December 2020

	Issued Capital	Reserves	Retained Earnings	Total
	\$	\$	\$	\$
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
Balance at 1 July 2020	6,712,050	3,490,760	3,083,756	13,286,566
Total comprehensive income for the half year	-	(674,609)	2,701,434	2,026,825
Balance at 31 December 2020	6,712,050	2,816,151	5,785,190	15,313,391

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 2020.

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, unless otherwise stated.

The Directors have prepared the half-year financial report on a going concern basis, which assumes continuity of normal business activities and the realisation of assets and settlement of liabilities in the ordinary course of business.

A major component of the Group's current liabilities relates to prepaid maintenance, deferred revenue and staff leave entitlements of \$5,874,871 (30 June 2020: \$6,684,621) which is not expected to be paid in cash. Furthermore, for the period ended 31 December 2020, the Group recorded EBITDA of \$4,774,647 (2019: EBITDA of \$4,184,774), with a profit after tax for the period of \$2,701,434 (2019: \$916,771). The Group also generated net cash inflows from operating and investing activities of \$2,267,530 (2019: \$822,947) and had cash reserves of \$2,403,654 as at 31 December 2020 (30 June 2020: \$3,733,953). Accordingly, the directors are confident the Group will continue as a going concern and therefore the half-year financial report has been prepared on a going concern basis.

2 Revenues and other income

	Half-year Ended 31 Dec 2020 \$	Half-year ended 31 Dec 2019 \$
(a) Revenues		
Sales of goods/hardware	248,921	460,143
Rendering of services	3,163,410	4,609,136
Maintenance fees	7,143,150	8,201,494
Licence fees	527,151	1,563,420
Other revenue	182,175	159,817
	11,264,807	14,994,010
(b) Other income		
Interest income	7,710	7,711
Government grant (COVID-19)	927,180	-
Other income	139,662	97,440
	1,074,552	105,151

Notes to the Consolidated Financial Statements continued

3 Dividends Paid and Proposed

There are no dividends payable or receivable at reporting date.

4 Issued Capital

	Number	\$
June 2020		
(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 share 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 30 June 2020	<u>151,531,603</u>	<u>6,712,050</u>
December 2020		
(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	151,531,603	6,712,050
Staff shares cancelled	-	-
Balance at the end of 31 December 2020	<u>151,531,603</u>	<u>6,712,050</u>

5 Trade and other payables

	As At 31 Dec 2020 \$	As At 30 June 2020 \$
Current		
Trade payables	2,309,463	2,378,085
Deferred revenue	4,414,175	5,089,881
Other payables	-	371,240
Payable to related party	531,832	573,856
	7,255,470	8,413,062

6 Financial Liabilities

	As At 31 Dec 2020 \$	As At 30 June 2020 \$
Current		
Secured:		
Bank loans	1,000,000	3,616,770
Other financial liabilities	21,447	441,671
Derivative financial (asset) / liability	(98)	(356)
	1,021,349	4,058,085
Non-current		
Secured:		
Bank loans	3,085,875	3,818,053
Other financial liabilities	155,813	179,520
	3,241,688	3,997,573
Total financial liabilities	4,263,037	8,055,658

Bank Loan

The bank loan facilities include the following key terms and balances:

- ▀ The facilities are secured by a first charge over the assets of the Group, held by the Commonwealth Bank of Australia.
- ▀ On 9 February 2021 the company varied its facility agreement with Commonwealth Bank of Australia which changed the margin rate on the Tranche A and B facility from 2.75% to 1.75% as well as instituting a new line fee of 0.25% on the facility limit of the Tranche A and B facility.
- ▀ A reset fee of 0.15% on the amortising facility and bullet non-revolving cash advance facility is payable on the outstanding amount of a draw where the interest period is less than 3 months.
- ▀ The three-year amortising facility is made up of an AUD\$ loan with a balance of A\$732,383 at 31 December 2020, a US\$ loan with a balance of US\$1,065,900 (AUD\$1,382,861) at 31 Dec 2020, and a GBP loan with a balance of GBP1,002,862 (AUD\$1,777,680) at 31 December 2020. These facilities are amortising and bear interest at a variable rate with a margin of 2.75% up to 8 February 2021, changing to 1.75% from 9 February 2021 onwards.
- ▀ Interest for the AUD\$ loan is capped at 1.5% until 29 November 2022, plus a margin rate. As at 31 December 2020, AUD\$400,000 of the AUD\$ loan was capped.
- ▀ For the US\$ loan, the interest rates are capped at 1.5% until 29 November 2022, and the GBP loan is also capped at 1.5% until 29 November 2022. As at 31 December 2020, US\$736,000 and GBP550,000 were subjected to capped rates.

- At 31 December 2020, the balance outstanding on the three year bullet non-revolving cash advance facility was GBP 108,852(AUD\$192,952).

7 Fair Values of Financial Instruments

	31 Dec 2020 \$	30 June 2020 \$
Recurring fair value measurements		
The following financial instruments are subject to recurring fair value measurements:		
Derivative liabilities	(98)	(356)
- Interest rate swaps - Level 2	<u>(98)</u>	<u>(356)</u>

Fair value hierarchy

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

- quoted prices (unadjusted) and active markets for identical assets or liabilities (level 1).
- 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
- 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 2020, the consolidated entity had no level 1 and 3 financial instruments.

During the half-year ended 31 December 2020, 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 Right-of-use Assets and Lease Liabilities

A right-of-use asset is recognised at the commencement date of a lease. The right-of-use asset is measured at cost, which comprises the initial amount of the lease liability, adjusted for, as applicable, any lease payments made at or before the commencement date net of any lease incentives received, any initial direct costs incurred, and, except where included in the cost of inventories, an estimate of costs expected to be incurred for dismantling and removing the underlying asset, and restoring the site or asset.

A lease liability is recognised at the commencement date of a lease. The lease liability is initially recognised at the present value of the lease payments to be made over the term of the lease, discounted using the interest rate implicit in the lease or, if that rate cannot be readily determined, the Group's incremental borrowing rate. Lease payments comprise of fixed payments less any lease incentives receivable, variable lease payments that depend on an index or a rate, amounts expected to be paid under residual value guarantees, exercise price of a purchase option when the exercise of the option is reasonably certain to occur, and any anticipated termination penalties. The variable lease payments that do not depend on an index or a rate are expensed in the period in which they are incurred.

8 Right-of-use Assets and Lease Liabilities (continued)

	31 Dec 2020	30 June 2020
	\$	\$
Lease Liability		
Current		
Lease Liability	509,953	497,411
	<u>509,953</u>	<u>497,411</u>
Non-Current		
Lease Liability	2,691,650	3,078,186
	<u>2,691,650</u>	<u>3,078,186</u>
Total Lease Liabilities	<u>3,201,603</u>	<u>3,575,597</u>

- ▀ 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 4.71% & 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 4.71%

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 2020 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, 9 April 2021

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 2020, 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, a summary of 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 accompanying half-year financial report of the Group does not comply with the *Corporations Act 2001* including:

- (a) Giving a true and fair view of the Group's financial position as at 31 December 2020 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*.

Basis for conclusion

We conducted our review in accordance with ASRE 2410 *Review of a Financial Report Performed by the Independent Auditor of the Entity*. Our responsibilities are further described in the *Auditor's Responsibilities for the Review of the Financial Report* section of our report. We are independent of the Company 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 (including Independence Standards)* (the Code) that are relevant to the audit of the annual 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 the same terms if given to the directors as at the time of this auditor's review report.

Responsibility of the directors for the 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

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to enable the preparation of the half-year financial report that gives a true and fair view and is free from material misstatement, whether due to fraud or error.

Auditor's responsibility for the review of the financial report

Our responsibility is to express a conclusion on the half-year financial report based on our review. ASRE 2410 requires us to conclude whether 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 2020 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*.

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.

BDO Audit Pty Ltd

BDO


Martin Coyle
Director

Sydney, 9 April 2021