

Q Technology Group Limited

ASX Preliminary final report – 30 June 2014

(Previous corresponding period is the year ended 30 June 2013)

Lodged with the ASX under Listing Rule 4.3A

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Results for Announcement to the Market

				\$'000
Revenue from continuing activities	Up	7.9%	to	25,827
Profit/(loss) from continuing activities before tax	up	64%	to	(732)
Profit/(loss) from continuing activities after tax	up	61%	to	(799)
Net profit/(loss) for the period attributable to members	down	606%	to	(799)

Dividends/distributions	Amount per security	Franked amount per security
Interim dividend	-	-
Final dividend	-	-
Total dividend for year	-	-
Total dividend for previous corresponding year	-	-

Report of Directors on Financial Results

- **Financial results in line with guidance**
- **Revenue growth 7.9%**
- **One-off margin sacrifice due to product rationalization**

Financial Results

For the full year the Group reported a \$ 0.732 million net loss before tax. Earnings before Interest, Tax and Depreciation (EBITDA) were a \$ 0.383 million loss. Revenues were up 7.9% to \$ 25.827 million and gross profit was down 5.6% to \$5.865 million due to product rationalization and one off end of year provisions relating to the exit of Samsung products.

Tight working capital management, and low corporation overheads had contributed \$0.402 million positive cash flow from operations for the Group for the full year 2014.

Q Technology Group ("QTG") now operates with operating entity, QRSciences Security Pty Ltd, trading as Q Security Systems ("QSS") where all revenue and the majority of operating costs reside. During the year QSS invested in growth initiatives with appointments of Chief Operating Officer, National Procurement Manger and National Product Manager positions along with relocating some branch offices to more suitable locations. Group CEO, Rick Stokes undertakes his duties in a part time role to reduce corporate costs. For the full year, QTG's corporate salaries and directors fees were down 47.6% from \$ 0.924 million in 2013 to \$ 0.484 million in 2014.

Financial Summary

\$'000

	2014			2013		
	Actual	Adjust	Normalized	Actual	Adjust	Normalized
Revenue	25,827		25,827	23,929		23,929
Gross Profit	5,865	405	6,269	6,212		6,212
GP Margin	22.7%		24.3%	26.0%		26.0%
EBITDA	(383)	469	86	(375)	213	(162)
EBITDA Margin	-1.5%		0.3%	-1.5%		-0.7%
EBIT	(522)	469	(53)	(634)	213	(421)
EBIT Margin	-2.0%		0.2%	-2.6%		-1.8%
Interest	(211)	14	(197)	(1,413)	942	(471)
Net Profit / (Loss) before tax continuing operations	(732)	888	156	(2,047)	1,155	(892)
Profit / (Loss) before tax discontinued operations				(115)		(115)
Profit on disposal of discontinued operations				2,320		2,320
Net Profit / (Loss) before tax	(732)	888	156	158	1,155	1,313

NON-RECURRING ITEMS

Samsung margin sacrifice	374	
Samsung sales incentives	31	
Samsung stock provision	200	
Legal expense	31	213
Finance break fees		942
Exit rental client base	223	
Prior year adjt - PAYG	15	
Prior year adjt - GE interest	14	
Sub-total	888	1,155

Normalized column reflects the adjustment of one off non-recurring items to enable assessment of the underlying business.

Operations

QSS has two product groups namely Q Video Systems QVS and Q Alarm Supplies QAS with offices in Brisbane, Sydney, Melbourne, Adelaide and Perth for complete coverage of all state capital cities except Tasmania (serviced by Victorian office) and Northern Territory, (serviced by Queensland office). QSS differentiates itself from competitors with a strong team of technical support personnel providing before and after sales service for our customers, which is particularly important with the industry migrating to IP network video solutions.

QSS has built a strong reputation for service excellence, high stock availability; fast and reliable delivery and expert technical support with a total end-to-end turn-key solution and is the second largest CCTV distributor in Australia. The business has achieved a strong growth record over the last five years and further opportunities are expected for growth as a specialist supplier of analytics-embedded video encoders and wireless transmitters, megapixel and networked cameras, robust video management software, comprehensive access control technology, and world class alarm systems.

QSS had a strong start in the financial year in the first half in contrast to the second half of the financial year which produced slower trading conditions coupled with changed Samsung supply arrangements affecting both sales and gross profit in the period. Sales in the second half of the year were \$ 12.6 million a decline of 4.5% over the first half; gross margin declined 15.4% in the second half to \$ 2.688 million reflecting the loss of margin in Samsung sales and the exit strategy taken by QSS in relation to Samsung.

The Company also incurred a one off provision of a bad debt of \$ 0.223 million associated with a Brisbane based customer who operated in a rental environment which has resulted in an insolvent business. QSS has now discontinued operations servicing customers operating rental based business models resulting in the one off provision.

In May we announced due to new master distribution arrangements by Samsung being adverse to QSS that the Company would launch new products and exit excess stock to reflect the new business product mix. The impact of this stock transition was loss of margin in Samsung products discontinued at margins of less than 20%. These trading actions while outside our normal course of trading impacted our margins in the second half with Samsung margin sacrifice of net \$0.405 million and stock provisions of \$ 0.200 million.

The Company incurred costs associated with reaching a final agreement in July 2014 with Samsung Techwin Korea to settle an outstanding account, which had been in dispute since February 2014. Pursuant the terms of the settlement agreement the Samsung account will be paid in full during the first quarter of FY15 noting that the first payment of US\$ 0.85 million was made in July and US\$ 0.383 million settled in August.

The Company has negotiated and commenced marketing several new supply arrangements that are at the forefront of video security solutions and maintain our position as a leading wholesale solutions provider. QSS has re-launched in-house brand to the Australian market with the newly developed QVS Alumia network cameras as a dynamic and profitable part of repositioning strategy of the QSS business. The changed relationship with Samsung drove the decision for one off provisions and reduced margins selling down Samsung products, the one off non-recurring costs associated with this strategy was \$ 0.405 million.

QSS continues to offer the world leading solution Tyco Security products, with product brands, DSC, American Dynamics, ExacQ, Hatrix, Kantech and Software House. During the year we announced distribution agreement as follows;

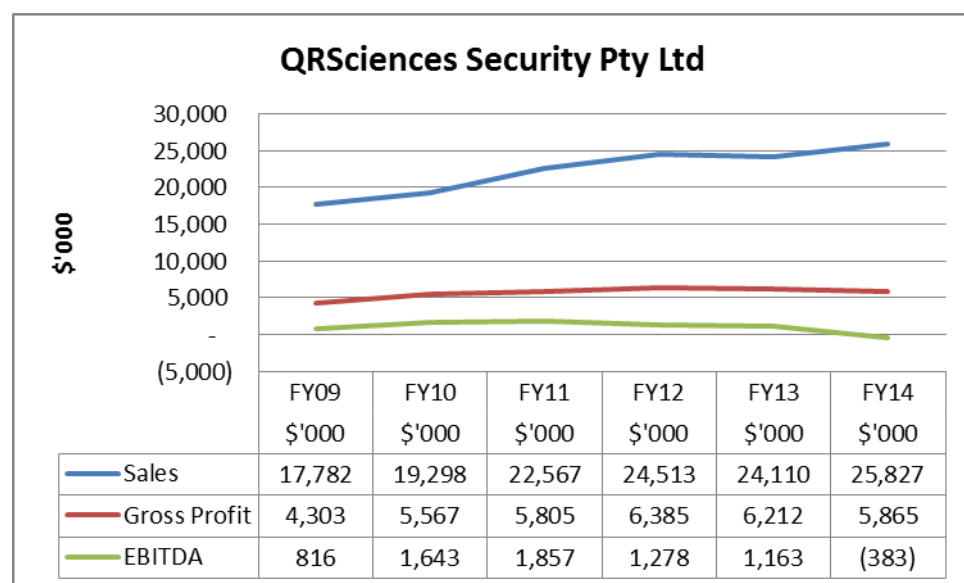
- NUUO, based in Taiwan to provide low to medium end network video management solutions
- Supply relationships and distribution of DVTEL, one of the world's leading IP and network video management platforms
- FLIR in the USA, a leader in thermal imaging camera technology
- Distribution of BOSCH brand CCTV and alarm detectors
- Distribution agreement with BPT Asia Pacific Intercoms who have around 30% of the market share in Australia in multi-tenant, multi block apartment complexes

All these new and optimized product ranges will provide an opportunity for the QSS business to compete more effectively in the major project market.

All of the recently acquired and current products distributed and supported by QSS are expected to improve our ability to assemble and deliver a wide mix of optimum wholesale security product solutions to complement the functionality of each sensor, controller or network component.

Currency exchange movement, particularly USD which QSS transacts for imported product purchases showed some volatility throughout the year. This movement required careful monitoring and price list management on a timely basis. The Company continued to experience some time lag in passing on price increases to the market and this coupled with creditors revaluation in December and June periods had contributed to the lower than expected profitability.

For the year, QSS achieved an EBITDA loss of \$0.38 million (\$0.094 million last year) on revenue of \$25.8 million (\$24.1 million last year).



QTG entered into a revised Bank Facility Agreement with Bank of Melbourne on 30 June 2014 providing the Company more flexibility in the funding available for working capital. The revised facility is a combination of debtor funding, trade financing and bank guarantee funding with a maximum drawdown of \$ 4.5 million. The impact of the one off provisions and adjustments noted above has resulted in a breach of the interest cover covenant set for the Bank facilities to 30 June 2014. We note that the results after one off adjustments show full compliance with all covenants on a proforma basis.

The net asset position for QTG is \$ 6.1 million.

Outlook

QSS business is in a much stronger market position to take advantage of growth prospects in the market and management are excited by the market opportunities going forward.

QSS has invested heavily in the last year in new people and locations and has reinvigorated supplier relationships, introducing several new products and technologies. It is the Board's view that QSS is ready to deliver a stronger budget this year to deliver an improved financial performance in FY2015.

The Board recognizes that the current operations lack sufficient scale for a listed entity and will continue to investigate merger and sale opportunities for the QSS business to improve shareholder value.

Q Technology Group Limited
Preliminary Statement of Comprehensive Income
For the year ended 30 June 2014

Consolidated Group		
	2014	2013
Note	\$'000	\$'000
Revenue	25,827	23,929
Other Income	1,102	652
Changes in Inventory	1,039	(1,638)
Purchases	(21,001)	(16,079)
Employee benefits expense	(4,652)	(4,493)
Depreciation and amortisation expense	(115)	(139)
Finance costs	(343)	(1,694)
Occupancy Costs	(736)	(508)
Legal fees	(58)	(255)
Insurance	(193)	(298)
Advertising and promotion	(212)	(197)
Motor vehicle	(82)	(94)
Travel expenses	(80)	(95)
Other expenses	(1,228)	(1,138)
Profit/(Loss) before income tax	(732)	(2,047)
Income tax expense	(67)	-
Net Profit/(Loss) from continuing operations	(799)	(2,047)
Discontinued Operations:		
Profit on disposal from discontinued operations	-	2,320
Profit/(Loss) from discontinued operations after tax	-	(115)
Net Profit/(Loss) for the year attributable to members of Q Technology Group Limited	(799)	158
Other comprehensive income for the year		
Total comprehensive income for the year	(799)	158
Earnings per share		
From continuing and discontinued operations:		
Basic earnings/(loss) per share (cents)	(0.411)	0.081
Diluted earnings/(loss) per share (cents)	(0.411)	0.081
From continuing operations:		
Basic earnings/(loss) per share (cents)	(0.411)	(1.051)
Diluted earnings/(loss) per share (cents)	(0.411)	(1.051)
From discontinuing operations:		
Basic earnings/(loss) per share (cents)	-	1.133

Q Technology Group Limited
Notes to the Preliminary Statement of Comprehensive Income
for the year ended 30 June 2014

OPERATING PROFIT/LOSS

	Note	Consolidated Group	
		2014	2013
Expenses		\$'000	\$'000
Cost of sales		19,963	17,718
Finance costs:			
Interest - external parties		211	196
Interest - other related entities		-	1,217
Bank charges		109	160
Amortisation of prepaid finance costs		23	121
Total finance costs		343	1,694
Employee benefits expenses:			
Defined contribution superannuation expense		333	317
Other employee benefits expense		4,319	4,176
Total employee benefits expense		4,652	4,493
Bad and doubtful debts:			
Trade receivables		257	36
Inventory adjustments:			
Write-down of inventories to net realisable value		171	289

Q Technology Group Limited
Notes to the Preliminary Statement of Comprehensive Income
for the year ended 30 June 2014

	Consolidated Group	
Note	2014	2013
	\$'000	\$'000
Income Tax		
Numerical reconciliation of income tax expense/ (benefit) to prima facie tax payable. The differences are reconciled as follows:		
Profit/(Loss) from continuing activities before income tax expense	(732)	273
Prima facie tax expense/(benefit) at 30%	(220)	82
Tax effect of amounts which are not deductible (taxable) in calculating taxable income:		
Non-deductible expenses	10	34
Current year tax losses not brought to account	277	580
Gain on disposal of discontinued operations	-	(696)
Income tax expense attributable to operating profit/(loss)	67	-

Q Technology Group Limited
Preliminary Statement of Financial Position
as at 30 June 2014

	Consolidated Group	
	2014	2013
Note	\$'000	\$'000
<u>ASSETS</u>		
<u>CURRENT ASSETS</u>		
Cash and cash equivalents	223	320
Trade and other receivables	4,452	5,075
Inventories	6,787	8,026
Other current assets	244	213
TOTAL CURRENT ASSETS	11,706	13,634
<u>NON-CURRENT ASSETS</u>		
Property, plant and equipment	414	457
Deferred tax assets	975	955
TOTAL NON-CURRENT ASSETS	1,389	1,412
TOTAL ASSETS	13,095	15,046
<u>LIABILITIES</u>		
<u>CURRENT LIABILITIES</u>		
Trade and other payables	4,958	5,906
Borrowings	1,547	1,936
Provisions	379	318
TOTAL CURRENT LIABILITIES	6,884	8,160
<u>NON-CURRENT LIABILITIES</u>		
Borrowings	7	25
Provisions	71	17
Deferred tax liabilities	111	23
TOTAL NON-CURRENT LIABILITIES	189	65
TOTAL LIABILITIES	7,073	8,225
NET ASSETS	6,022	6,821
<u>EQUITY</u>		
Issued capital	72,385	72,385
Reserves	52	52
Retained earnings	(66,415)	(65,616)
TOTAL EQUITY	6,022	6,821

Q Technology Group Limited
Notes to the Preliminary Statement of Financial Position
as at 30 June 2014

BORROWINGS

As at 30th June 2014, the Company had borrowings of \$1.4 million secured by trade receivables through invoice discounting facilities to fund its working capital requirements.

On 30th June 2014, the Company had the following banking facilities in place with Bank of Melbourne:

Facilities Type	\$'000
Multi-option line of credit consisting:	
Invoice discounting	3,000
80% of approved receivables	
Invoice discounting plus	1,000
40% of approved inventory	
Bank guarantee	500
Asset Finance	300

Financial Covenant

Financial covenants require under these facilities are:

- EBIT to interest cover of at least 1.5 times
- Gearing ratio of less than 1.5 times
- Current ratio of at least 1.2 times.

As at 30 June 2014, due to one-off adjustments, the interest cover covenant was not met. Consequently, Bank of Melbourne issued breach notice noting interest cover breach and informed that no action is to be taken at this point in time. Under the agreement, interest cover resets on 1st July 2014 with next compliance measurement due on 30th September 2014. The Group expect to be in compliance with all future financial covenants.

Q Technology Group Limited
Preliminary Statement of Changes in Equity
for the year ended 30 June 2014

	Issued Capital	Retained Earnings	Reserves	Total
	\$'000	\$'000	\$'000	\$'000
Balance at 1 July 2013	72,385	(65,616)	52	6,821
Loss attributable to members of the parent entity	-	(799)	-	(799)
Other comprehensive income for the period	-	-	-	-
Total comprehensive income for the year	72,385	(66,415)	52	6,022
Transactions with owners, in their capacity as owner, and other transfers	-	-	-	-
Balance at 30 June 2014	72,385	(66,415)	52	6,022
 Balance at 1 July 2012	 72,406	 (65,774)	 52	 6,684
Profit attributable to members of the parent entity	-	158	-	158
Other comprehensive income for the period	-	-	-	-
Total comprehensive income for the year	72,406	(65,616)	52	6,842
Transactions with owners, in their capacity as owner, and other transfers:				
Shares issued (bought back) during the period	(21)	-	-	(21)
Balance at 30 June 2013	72,385	(65,616)	52	6,821

Q Technology Group Limited
Preliminary Cashflow Statement
for the year ended 30 June 2014

	Consolidated Group	
	2014	2013
Note	\$000	\$000
CASH FLOWS FROM OPERATING ACTIVITIES		
Receipts from customers	30,023	33,184
Payments to suppliers and employees	(29,280)	(34,951)
Interest received	2	3
Finance costs	(343)	(1,694)
Net cash provided by/(used in) operating activities	402	(3,458)
CASH FLOWS FROM INVESTING ACTIVITIES		
Proceeds from sale of property, plant and equipment	-	37
Disposal of subsidiary		12,725
Purchase of property, plant and equipment	(92)	(203)
Net cash provided by/(used in) investing activities	(92)	12,559
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from borrowings	237	255
Repayment of borrowings	(172)	(6,674)
Net cash provided by/(used in) financing activities	65	(6,419)
Net (decrease)/increase in cash held	375	2,682
Cash and cash equivalents at beginning of financial year	(1,591)	(4,273)
Cash and cash equivalents at end of financial year	(1,216)	(1,591)

Q Technology Group Limited
Note to Preliminary Cashflow Statement
for the year ended 30 June 2014

	2014	2013
	\$ 000	\$ 000
RECONCILIATION OF NET CASH INFLOW FROM OPERATING ACTIVITIES TO OPERATING RESULT AFTER INCOME TAX		
Operating profit/(loss) after income tax	(799)	158
Depreciation and amortisation	115	139
Net gain on sale of investments	-	(2,230)
Net loss/(gain) on sale of plant and equipment	20	(10)
Change in operating assets and liabilities		
(Decrease)/Increase in receivables	623	(808)
(Decrease)/Increase in inventories	1,239	(1,729)
(Decrease)/Increase in other assets	(31)	4
(Increase)/Decrease in payables	(948)	744
(Increase)/Decrease in deferred tax	68	2
(Increase)/Decrease in other provisions	115	272
Net cash inflow from operating activities	<u>402</u>	<u>(3,458)</u>

Changes in accounting policy

The following new and revised Standards have been adopted in the current period:

- AASB 13 Fair Value Measurement
- AASB 119 Employee Benefits

The financial impact of the adoption of the above Standards was immaterial to the entity.

Segment note

The Company operates in the security systems distribution industry and in one geographic area, being Australia.

The Company has a single external customer group with revenue more than 10 per cent of total revenues.

Discontinuing operations

NIL

Events occurring after reporting date

Since the end of the financial year the Company had reached a settlement agreement with Samsung Techwin, Korea to settle an outstanding account, which had been in dispute since February 2014. Pursuant the terms of the settlement agreement the Samsung account will be paid in full during the first quarter of FY15. The matter is now closed after full settlements made on 21st August 2014.

The Company received a breach notice from the Bank of Melbourne on 19 August 2014 noting that the Company had failed to meet the interest cover of 1.5 times as at 30 June 2014. The same notice confirmed that no action is to be taken at this point in time. As interest cover resets with the new financial year, the Board believes current business plan is able to comply with bank covenants.

Q Technology Group Limited
Supplementary Appendix 4E information

Additional dividend/distribution information

Details of dividends/distributions declared or paid during or subsequent to the year ended 30 June 2014 are as follows:

Not applicable.

Dividend/distribution reinvestment plans

Not Applicable

Retained Earnings

	2014 \$'000
Retained earnings at the beginning of the financial year	(65,616)
Net (loss) attributable to members of QTG	(799)
Dividends provided for or paid	-
Retained earnings at the end of the financial year	<u>(66,415)</u>

NTA Backing

	2014	2013
Net tangible asset backing per ordinary share	\$0.031	\$0.035

Controlled entities acquired or disposed of

Not applicable

Associates and Joint Venture entities

Not applicable

Foreign Accounting standards

Not applicable.

Audit

This report is based on accounts currently being audited.