

Q Technology Group Limited and Controlled Entities

(ABN 27 009 259 876)



2014 FINANCIAL REPORT



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This Annual Financial Report covers Q Technology Group Limited (formerly QRSciences Holdings Limited) and its controlled entities as a consolidated group. The Group's functional presentation currency is Australian Dollars.

CORPORATE DIRECTORY

DIRECTORS

Mr Bruce Higgins (Chairman, Non-Executive)
Mr Richard Stokes (Managing Director)
Mr Douglas Potter (Non- Executive)

CHIEF FINANCIAL OFFICER AND COMPANY SECRETARY

Mr Edmond Tern

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Melbourne Vic 3000

ASX CODE

QTG - Ordinary Shares

Q TECHNOLOGY GROUP LIMITED AND CONTROLLED ENTITIES

CHAIRMAN'S REPORT

Dear Shareholders

On behalf of the Directors I enclose the company results for the year ending 30 June 2014 within this annual report.

The Company's full year revenue increased by 7.9% to \$25.8 million. On a consolidated basis we reported a net loss after tax of \$0.8 million for the year ended 30 June 2014. Normalised results for the year resulted in a small profit of \$0.16 million before tax compared to \$1.3 million for comparative normalised period in 2013. Our trading in the first half recorded a small profit with the result and margins in the second half impaired by the exit of our relationship with Samsung. As a company we need to provide better and more robust performance though changes in both the business cycle and product evolution to meet market requirements.

Q Security Systems reported a loss in earnings before interest and tax and depreciation (EBITDA) of \$0.38 million. On a normalised basis the QSS EBITDA was positive at \$0.508 million.

Summary of financial result

	30 June 2014	30 June 2013	Change
Revenue	\$25.8 million	\$23.9 million	+ 7.9%
EBITDA	-\$0.4 million	-\$0.4 million	-
NPAT	-\$0.8 million	-\$2.0 million	+ 60.0%
EPS	(0.411) cents	(1.051) cents	+ 60.9%

QRSciences Security Pty Ltd (QSS)

Our QRSciences Security Pty Ltd business trading as Q Security Systems ("QSS") is focused on the importation and distribution of CCTV cameras, digital video recorders, security video management systems and access controls with offices located in Melbourne, Sydney, Brisbane, Adelaide and Perth. The company has a strong reputation for service excellence, high stock availability, fast and reliable delivery, expert technical support and end-to-end turn-key solutions.

The Company is a leader in the supply of all video and camera security needs, analytics, embedded video encoders and wireless transmitters, megapixel and IP cameras, robust video management software, integrated video analytics, comprehensive access control technology and world class alarms and security systems.

Revenues within the business were \$25.8 million. During the year we invested in the appointment of key staff with appointment of Chief Operating Officer, Rob Rosa and new key sales and procurement staff to target growth sectors of our market.

In early 2014 the board directed management to review our product and technology strategies to improve our business and improve margins in the business. As a result of the exit by QSS of our Samsung relationship our margins were lower than our historic trading for those products and I am pleased to advise that our margins have recovered into the new financial year due to new arrangements with leading suppliers.

Q TECHNOLOGY GROUP LIMITED AND CONTROLLED ENTITIES

CHAIRMAN'S REPORT

In FY14 Q4 we negotiated and commenced marketing several new supply arrangements that are at the forefront of video security solutions and maintain our leadership as a wholesale solutions provider. QSS now offers Tyco Security products, with product brands, DSC, American Dynamics, ExacQ, Kantech and Software House and in addition QSS has re-launched our OEM brand to the Australian market with the newly developed QVS Alumia cameras, which offer world leading technology. Other new supply arrangements include distribution of Allied Telesis, BPT Intercoms, Bosch CCTV & detectors, DVTEL, FLIR and the exclusivity of NUUO which further provide QSS an improved product mix for profitable growth.

Corporate

During the year we worked to reduce corporate costs. Our corporate salaries and directors fees were down 47.6% from \$ 0.924 million in 2013 to \$ 0.484 million in 2014. Our Managing Director & Group CEO, Rick Stokes undertakes his duties in a part time role to reduce corporate costs.

Corporate governance

Our compliance with corporate governance practices at Q Technology Group Limited is included within this report. The Board is confident that our governance structure is in place and is properly administered.

Management has continued to refine our risk management procedures and to implement our business strategies to leverage the capabilities of the company.

Outlook

Q Technology Group Limited has delivered a result that has underperformed on our expectations for the group in the 2014 financial year. The review and new strategy surrounding our products has been targeted to higher margin growth markets 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 components.

Our 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.

As a listed company we lack the required scale to carry the ASX listing costs and related overheads and deliver satisfactory earnings per share. We will continue to seek opportunities in the coming year to unlock value to shareholders either through merger with similar synergistic businesses or divestment. I look forward to discussing this report with shareholders at the Annual General Meeting.

On behalf of the Directors we wish to thank the senior management teams and all employees for their hard work, commitment and customer service focus across all segments during the year and also thank our customers and shareholders for their continuing support of Q Technology Group Limited.



Bruce E Higgins
Chairman
Q Technology Group Limited

29 September 2014

Q TECHNOLOGY GROUP LIMITED AND CONTROLLED ENTITIES

DIRECTOR'S REPORT

Your directors present their report, together with the financial statements for the Group, being the Company and its controlled entities for the financial year ended 30 June 2014.

Q Technology Group Limited ("QTG") is based in Melbourne, Victoria. It's wholly owned distribution business, QRSciences Security Pty Ltd trading as Q Security Systems ("QSS"). The business has 6 offices located throughout Australia with a presence in all state capital cities except Tasmania (served by Victorian office) and Northern Territory, (served by Queensland office).

Directors

The following persons were directors of Q Technology Group Limited during the whole of the financial year and up to the date of this report:

Mr Bruce Higgins, Chairman & Non Executive Director
Mr Richard Stokes, Managing Director
Mr Douglas Potter, Non Executive Director

Particulars of each director's experience and qualification are set out later in this report.

Principal Activities and Significant Changes in Nature of Activities

The principal activities of the consolidated group during the financial year were:

- The importation and distribution of CCTV cameras, digital video recorders and security video management systems through QSS.

There were no changes to in the nature of the consolidated group's principal activities during the financial year.

Dividends

No dividends have been paid or recommended for the financial year ended 30 June 2014 (2013:None).

Consolidated Result

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 primarily due to product rationalization and one off end of year provisions relating to the exit of Samsung products.

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

QTG undertakes all operating business through 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 along with relocating some branch offices to more suitable locations. Managing Director & 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.

Q TECHNOLOGY GROUP LIMITED AND CONTROLLED ENTITIES

DIRECTOR'S REPORT

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)	874	491	(375)	213	(162)
EBITDA Margin	-1.5%		1.9%	-1.5%		-0.7%
EBIT	(522)	874	352	(634)	213	(421)
EBIT Margin	-2.0%		1.4%	-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

	2014	2013
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.

Review of Operations

QSS has two product groups namely Q Video Systems and Q Alarm Supplies 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.

Q TECHNOLOGY GROUP LIMITED AND CONTROLLED ENTITIES

DIRECTOR'S REPORT

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 revenue 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 the exit of 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 discounted at margins of less than 20%. These trading actions which were 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 to the terms of the settlement agreement the Samsung account of \$1.2 million was paid in full during the first quarter of FY15.

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 an 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 resulted in one off provisions and reduced margins from 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 agreements 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.

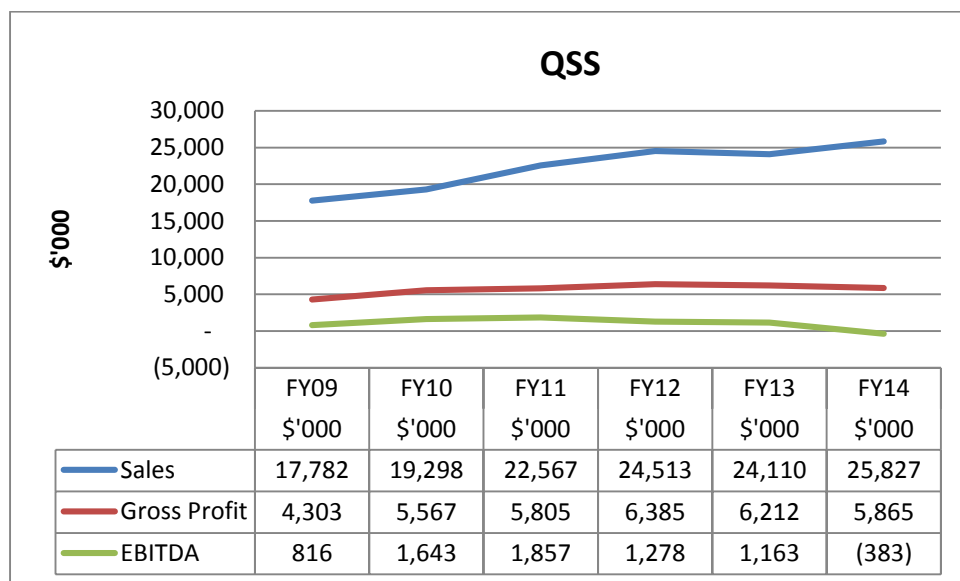
All of the recently acquired and current products distributed and supported by QSS are expected to improve our ability to assemble and deliver a wide mix of optimum wholesale security product solutions to complement the functionality of each sensor, controller or network component.

Q TECHNOLOGY GROUP LIMITED AND CONTROLLED ENTITIES

DIRECTOR'S REPORT

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). On a normalized basis the QSS EBITDA was positive at \$0.508 million.



Finance Facilities and Lending Covenants

The Company funds its working capital requirements through Bank of Melbourne. On 30 June 2014, the Company entered into a revised Bank Facility Agreement with Bank of Melbourne, 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. As a consequence, Bank of Melbourne issued a breach notice noting interest cover breach and that no action is to be taken as 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 AND CONTROLLED ENTITIES

DIRECTOR'S REPORT

Future developments, prospects, and business strategies

The Company has refined our product and suppliers relationships as set out above and we considered that these changes will improve our business. . The Company will continue to service its current customer base and in addition, will target sales in major projects. To enable this strategy, the Company has invested in our sales and technical resources.

Environmental Issues

The Group is not involved in any activities that have a marked influence on the environment within its area of operation. As such, the directors are not aware of any material issues affecting the Group or its compliance with the relevant environmental agencies or regulatory authorities.

Significant Changes in State of Affairs

No significant changes in the company's state of affairs occurred during the financial year.

Matters subsequent to the end of the financial year

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 21 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 AND CONTROLLED ENTITIES

DIRECTOR'S REPORT

Information relating to Directors and Company Secretary

Bruce Higgins

- Chairman Non-Executive Director

Experience and Qualifications

- Mr Higgins is an experienced non-executive director, chairman and former chief executive of both private and listed companies within Australia and internationally. His experience spans 25 years in diverse companies ranging from engineering, manufacturing and professional services to larger contracting businesses. Bruce was the recipient of Ernst & Young "Entrepreneur of the Year" award in Southern California in June 2005.

Mr Higgins has a Bachelor Degree in Electronic Engineering, MBA in Technology Management and is a Chartered Professional Engineer and Fellow of the Australian Institute of Company Directors.

Interest in Shares and Options

- 500,000 Ordinary shares in Q Technology Group Limited

Special Responsibilities

- Non-Executive Chairman of Board
Chairman of Remuneration Committee

Directorships held in other listed entities during the last three years

- Currently Chairman of Legend Corporation Limited (appointed October 2007), Chairman of HUB24 Limited (appointed October 2012).

Previously Non-Executive Director of FeOre Limited (August 2011 – August 2013).

Richard Stokes

- Managing Director Chief Executive Officer

Experience and Qualifications

- Mr Stokes joined the Company in a Consulting role on 9 February 2007 where he was the CEO of the acquired business Baxall Australia. Mr Stokes became the CEO and a Director of Q Technology Group Limited on 19 December 2007.

Mr Stokes has been involved in the electrical and security industry for some 24 years where he has successfully developed and operated numerous electrical contracting and security distribution businesses. He was the founder of Vicam CCTV systems which revolutionised the delivery of CCTV products in the Australian market.

Interest in Shares and Options

- 3,183,078 ordinary shares in Q Technology Group.

Special Responsibilities

- Chief Executive Officer
Member of Risk and Audit Committee

Directorships held in other listed entities during the last three years

- Nil

Q TECHNOLOGY GROUP LIMITED AND CONTROLLED ENTITIES

DIRECTOR'S REPORT

Douglas Potter

Experience and Qualifications

- Non-Executive Director

- Mr Potter, Managing Director of Helmsman Funds Management Limited, is responsible for the fund raising as well as originating, managing and exiting investments.

Mr Potter has experience as a director on a number of private companies including not for profit boards.

Mr Potter holds a Bachelor of Economics from University of Sydney and has completed an Advanced Insolvency Course through the Insolvency Practitioners Association of Australia. He is a member of the Institute of Chartered Accountants in Australia and the Australian Private Equity & Venture Capital Association.

Interest in Shares and Options

- Nil

Special Responsibilities

- Chairman of Risk and Audit Committee
Member of Remuneration Committee.

Directorships held in other listed entities during the last three years

- Nil.

Edmond Tern, Company Secretary

Experience and Qualifications

Mr. Tern was appointed as Company Secretary / Chief Financial Officer on 27 November 2012. Mr. Tern is a CPA and has held senior finance positions with various organizations across different industries.

Special Responsibilities

Chief Financial Officer, Q Technology Group Limited

Meetings of Directors

During the financial year, meetings of directors (including committees of directors) were held. Attendances by each director during the year were as follows:

	Directors' meetings		Risk and Audit Committee		Remuneration Committee	
	Number eligible to Attend	Number attended	Number eligible to attend	Number attended	Number eligible to attend	Number attended
Bruce Higgins	10	10	-	-	3	3
Richard Stokes	10	10	7	7	-	-
Douglas Potter	10	9	7	7	3	3

Q TECHNOLOGY GROUP LIMITED AND CONTROLLED ENTITIES

DIRECTOR'S REPORT

Indemnifying Officers or Auditor

During or since the end of the financial year, the Company has given an indemnity or entered into an agreement to indemnify, or paid or agreed to pay insurance premiums as follows:

- The Company has paid premiums to insure each of the following directors against liabilities for costs and expenses incurred by them in defending legal proceedings arising from their conduct whilst acting in the capacity of directors of the Company, other than conduct involving a wilful breach of duty in relation to the Company. The premiums for insuring Mr B Higgins, Mr D Potter, Mr R Stokes and the officers amounted to \$30,000.

Options

At the date of this report, the unissued ordinary shares of Q Technology Group Limited under option are as follows:

Grant Date	Date of Expiry	Exercise Price	Number under option
23 December 2013	22 December 2016	\$0.02	2,700,000

Option holders do not have any rights to participate in any issues of shares or other interests in the company or any other entity.

There have been no unissued shares or interests under option of any controlled entity within the Group during or since the end of reporting period.

For details of options issued to directors and executives as remuneration, please refer to Remuneration Report.

Proceedings on Behalf of Company

No person has applied to the Court under section 237 of the *Corporations Act 2001* for leave to bring proceedings on behalf of the company, or to intervene in any proceedings to which the company is a party, for the purpose of taking responsibility on behalf of the company for all or part of those proceedings.

No proceedings have been brought or intervened in on behalf of the company with leave of the Court under section 237 of the *Corporations Act 2001*.

Q TECHNOLOGY GROUP LIMITED AND CONTROLLED ENTITIES

DIRECTOR'S REPORT

Non-audit Services

The Board of Directors, in accordance with advice from the audit committee, is satisfied that the provision of non-audit services during the year is compatible with the general standard of independence for auditors imposed by the Corporations Act 2001. The directors are satisfied that the services disclosed below did not compromise the external auditor's independence for the following reasons:

- All non-audit services are reviewed and approved by the audit committee prior to commencement to ensure they do not adversely affect the integrity and objectivity of the auditor; and
- the nature of the services provided does not compromise the general principles relating to auditor independence in accordance with APES 110: Code of Ethics for Professional Accountants set by the Accounting Professional and Ethical Standards Board.
- No other services or fees were paid or payable to RSM Bird Cameron Partners for non-audit services provided during the year ended 30 June 2014. Refer to Note 8 of financial report for details of auditors' remuneration.

Auditor's Independence Declaration

The lead auditor's independence declaration for the year ended 30 June 2014 has been received and is included in the Financial Report.

ASIC Class Order 98/100 Rounding of Amounts

The company is an entity to which ASIC Class Order 98/100 applies and, accordingly, amounts in the financial statements and directors' report have been rounded to the nearest thousand dollars.

Q TECHNOLOGY GROUP LIMITED AND CONTROLLED ENTITIES

REMUNERATION REPORT - AUDITED

Remuneration Policy

The remuneration policy of Q Technology Group Limited has been designed to align key management personnel (“KMP”) objectives with shareholder and business objectives by providing a fixed remuneration component and offering specific long-term incentives based on key performance areas affecting the consolidated Group’s financial results.

The Board of Q Technology Group Limited believes the remuneration policy to be appropriate and effective in its ability to attract and retain the best key management personnel to run and manage the consolidated group, as well as create goal congruence between directors, executives and shareholders.

The Board’s policy for determining the nature and amount of remuneration for KMP of the consolidated group is as follows:

- The remuneration policy is to be developed by the remuneration committee and approved by the Board after professional advice is sought from independent external consultants.
- KMP receive a combination of base salary (which is based on factors such as length of service and experience), superannuation, fringe benefits, options and performance incentives.
- Performance incentives are generally only paid once predetermined key performance indicators have been met.
- Incentives paid in the form of options or rights are intended to align the interests of the directors and company with those of the shareholders. In this regard, KMP are prohibited from limiting risk attached to those instruments by use of derivatives or other means.
- The remuneration committee reviews KMP packages annually by reference to the consolidated group’s performance, executive performance and comparable information from industry sectors.

The performance of KMP is measured against criteria agreed bi-annually with each executive and is based predominantly on the forecast growth of the consolidated group’s profits and shareholders’ value. All bonuses and incentives must be linked to predetermined performance criteria. The Board may, however, exercise its discretion in relation to approving incentives, bonuses and options, and can recommend changes to the committee’s recommendations. Any changes must be justified by reference to measurable performance criteria. The policy is designed to attract the highest calibre of executives and reward them for performance results leading to long-term growth in shareholder wealth.

KMP receive a superannuation guarantee contribution required by the government, which for the FY2014 financial year was 9.25% of the individual’s average weekly ordinary time earnings (AWOTE), and do not receive any other retirement benefits. Some individuals, however, have chosen to sacrifice part of their salary to increase payments towards superannuation.

All remuneration paid to KMP is valued at the cost to the company and expensed.

The Board’s policy is to remunerate Non-Executive Directors at market rates for time, commitment and responsibilities. The remuneration committee determines payments to the Non-Executive Directors and reviews their remuneration annually, based on market practice, duties and accountability. Independent external advice is sought when required. The maximum aggregate amount of fees that can be paid to Non-Executive Directors is subject to approval by shareholders at the Annual General Meeting.

Q TECHNOLOGY GROUP LIMITED AND CONTROLLED ENTITIES

REMUNERATION REPORT - AUDITED

KMP are also entitled and encouraged to participate in the employee share and option arrangements to align directors' interests with shareholders' interests.

Options granted under the arrangement do not carry dividend or voting rights. Each option is entitled to be converted into one ordinary share once the interim or final financial report has been disclosed to the public and is valued using the Black-Scholes methodology.

KMP or closely related parties of KMP are prohibited from entering into hedge arrangements that would have the effect of limiting the risk exposure relating to their remuneration.

In addition, the Board's remuneration policy prohibits directors and KMP from using Q Technology Group Limited shares as collateral in any financial transaction, including margin loan arrangements.

Engagement of Remuneration Consultants

No remuneration consultant was engaged during the year.

Performance-based Remuneration

The key performance indicators (KPIs) are set annually, with a certain level of consultation with KMP. The measures are specifically tailored to the area each individual is involved in and has a level of control over. The KPIs target areas the Board believes hold greater potential for group expansion and profit, covering financial and non-financial as well as short and long-term goals. The level set for each KPI is based on budgeted figures for the Group and respective industry standards.

Performance in relation to the KPIs is assessed annually, with bonuses being awarded depending on the number and deemed difficulty of the KPIs achieved. Following the assessment, the KPIs are reviewed by the remuneration committee in light of the desired and actual outcomes, and their efficiency is assessed in relation to the Group's goals and shareholder wealth, before the KPIs are set for the following year.

In determining whether or not a KPI has been achieved, Q Technology Group Limited bases the assessment on audited figures; however, where the KPI involves comparison of the Group, or a division within the Group, to the market, independent reports are obtained from organisations such as Standard & Poor's.

Relationship between Remuneration Policy and Company Performance

The remuneration policy has been tailored to increase goal congruence between shareholders, directors and executives. Two methods have been applied to achieve this aim, the first being a performance-based bonus based on key performance indicators, and the second being the issue of options to executives to encourage the alignment of personal and shareholder interests when considered appropriate.

The following table shows the gross revenue and profits for the last five years for the listed entity, as well as the share prices at the end of the respective financial years.

	2014 \$'000	2013 \$'000	2012 \$'000	2011 \$'000	2010 \$'000
Revenue	25,827	30,335	49,083	39,842	19,298
Net Profit/(loss)	(799)	157	(2,168)	(4,998)	4,615
Share price at year-end (cents)	3.0	1.1	3.5	4.0	5.0

Q TECHNOLOGY GROUP LIMITED AND CONTROLLED ENTITIES

REMUNERATION REPORT - AUDITED

Net loss in 2014 included one off costs associated with change in distribution arrangement with Samsung, being a loss of margin and incentive payments associated in low margin sales of \$ 405k and a one off increase to the obsolete stock provision of \$ 200k. A further \$ 233k provision for a bad debt relating to a customer who went into liquidation and operated in an equipment rental business environment.

In 2013 the result was affected by a positive gain of \$ 2.320 million on disposal of the API Locksmith business this gain helped offset the once off legal expenses and finance break fee of \$942k payable on the exit of the API business. The net debt of the group decreased from \$ 13 million to \$ 3.4 million post the API transaction.

The 2012 result of a net loss of \$ 2.168 million was adversely affected by \$1.12 million in costs associated with the termination of the scheme of arrangement with GWA Limited, relocation costs associated with the relocation of the national warehouse from Sydney to Melbourne and inventory impairments in the Q Video Systems business.

The 2011 result of a loss of \$ 4.998 million was adversely affected by the one off integration costs associated with the API business of \$ 1.3 million for the period and the write down of the value of the goodwill of the API business of \$ 4 million.

The 2010 result of a profit of \$ 4.615 million was driven by the strong results in Q Video Systems and Q Alarm supplies with a NPAT of \$ 1.257 million and a gain on the disposal of the investment in Spectrum San Diego of \$ 3.341 million. The Company also exited the asset DVOP-OB in the USA for US\$ 215k and QR Sciences Pty Ltd in Perth for US\$ 150k.

The directors note that the share price during the year traded at a discount to the value of the assets of the group.

Performance Conditions Linked to Remuneration

The Group seeks to emphasise reward incentives for results and continued commitment to the Group through the provision of various cash bonus reward schemes, specifically the incorporation of incentive payments based on the achievement of revenue and profit targets, return on equity ratios, and continued employment with the Group. This condition provides management with a performance target which focuses upon organic sales growth utilising existing group resources.

The performance related proportions of remuneration based on these targets are included in the following table. The objective of the reward schemes is to both reinforce the short and long-term goals of the Group and provide a common interest between management and shareholders. There has been no alteration to the terms of the bonuses paid since grant date.

The satisfaction of the performance conditions are based on a review of the audited financial statements of the Group, as such figures reduce any risk of contention relating to payment eligibility. The Board does not believe that performance conditions should include a comparison with factors external to the Group at this time.

Q TECHNOLOGY GROUP LIMITED AND CONTROLLED ENTITIES

REMUNERATION REPORT - AUDITED

Employment Details of Members of Key Management Personnel and Other Executives

The following table provides employment details of persons who were, during the financial year, members of key management personnel of the consolidated group. The table also illustrates the proportion of remuneration that was performance and non-performance based and the proportion of remuneration received in the form of options.

Group KMP	Position held as at 30 June 2014 and any change during the year	Contract Details (Duration and Termination)	Proportions of elements of remuneration related to performance			Proportions of elements of remuneration not related to performance	
			Non-salary cash-based incentives %	Shares/ Units %	Options/ Rights %	Fixed Salary/Fees %	Total %
Bruce Higgins	Chairman	Letter of appointment	-	-	-	100	100
Douglas Potter	Non-Executive Director	Letter of appointment	-	-	-	100	100
Richard Stokes	Managing Director and Chief Executive Officer	Ongoing agreement (part-time) 6 months' notice required to terminate. Entitled to 3 months' gross salary.	-	-	-	100	100
Edmond Tern	Chief Financial Officer and Company Secretary Commenced 27 November 2012	Ongoing agreement 3 months' notice required to terminate. Entitled to 3 months' gross salary.	8.3	-	-	91.7	100
Robert Rosa	Chief Operating Officer, QRSciences Security Pty Ltd commenced 1 November 2013	Ongoing agreement 3 months' notice required to terminate. Entitled to 3 months' gross salary.	-	-	3.2	96.8	100

On appointment to the board, all non-executive directors enter into a service agreement with the company in the form of a letter of appointment. The letter summarises the board policies and terms, including compensation, relevant to the office of director.

The employment terms and conditions of all KMP are formalized in contracts of employment. Each of these agreement provide for the provision of performance related cash bonuses, other benefits including car allowances, mobile telephone and laptop, and participation, when eligible.

Terms of employment of other KMP require that the relevant group entity provide an executive contracted person with a minimum of one month's notice prior to termination of contract. Termination payments are not payable on resignation or under the circumstances of unsatisfactory performance.

Non-Executive Directors are subject to similar contracts requiring one month's notice to be given on termination. Termination payments are at the discretion of the remuneration committee.

Q TECHNOLOGY GROUP LIMITED AND CONTROLLED ENTITIES

REMUNERATION REPORT - AUDITED

Changes in Directors and Executives Subsequent to Year-end

No changes in Directors and Executives subsequent to year-end.

Table of Benefits and Payments for the year ended 30 June 2014 Directors and other Key Management Personnel

		Short-term benefits				Post-employment benefits		Long-term benefits		Equity-settled share-based payments		Cash-settled shared-based payments	Termination benefits	Total
		Salary, fees and leave	Profit share and bonuses	Non-monetary	Other	Pension and Superannuation	Other	Incentive plans	LSL	Shares / Units	Options / Rights			
												\$000	\$000	\$000
Non-executive directors														
Bruce Higgins 1	2014	80	-	-	-	-	-	-	-	-	-	-	-	80
	2013	80		-	20	-	-	-	-	-	-	-	-	100
Douglas Potter	2014	45	-	-	-	-	-	-	-	-	-	-	-	45
	2013	45	-	-	-	-	-	-	-	-	-	-	-	45
Michael O’Leary 2	2014													-
	2013	19												19
Executive Director														
Richard Stokes	2014	138	-	-	-	12	-	-	-	-	-	-	-	150
	2013	214	15	-	-	22	-	-	-	-	-	-	-	251
Other Key Management Personnel														
Adrian McKenzie 3	2014	1												1
	2013	106	15	-	-	15	-	-	-	-	-	-	-	136
Edmond Tern 4	2014	150	15			15								180
	2013	98	15	-	-	10	-	-	-	-	-	-	-	123
Robert Rosa 5	2014	110	-	-	-	9	-	-	-	-	4	-	-	123
	2013	-	-	-	-	-	-	-	-	-	-	-	-	-
Total	2014	524	15	-	-	37	-	-	-	-	4	-	-	580
Total	2013	562	45	-	20	47	-	-	-	-	-	-	-	674

1 Mr Higgins appointed on 21 December 2010

2 Mr O'Leary resigned on 27 November 2012

3 Mr McKenzie resigned on 27 November 2012

4 Mr Tern joined on 22 October 2012

5 Mr Rosa joined QRScieneces Security Pty Ltd on 1 November 2013

Q TECHNOLOGY GROUP LIMITED AND CONTROLLED ENTITIES

REMUNERATION REPORT - AUDITED

Securities Received that are not Performance Related

No members of key management personnel are entitled to receive securities which are not performance-based as part of their remuneration package.

Cash Bonuses, Performance-related Bonuses and Share-based Payments

The terms and conditions relating to options and bonuses granted as remuneration during the year to key management personnel and other executives during the year are as follows:

Executive	Remuneration Type	Grant Date	Grant Value	Reason for grant
Edmond Tern	Cash	Oct-2013	\$15,000	Performance bonus per employment contract
Robert Rosa	Options	Dec-2013	\$4,121	Performance incentive per employment contract

Description of Options Issued as Remuneration

Details of the options granted as remuneration to those KMP listed in the previous table are as follows:

Grant Date	Entitlement on Exercise	Dates Exercisable	of Exercise Price	Value of Option at Grant Date	Amount Paid/Payable by Recipient
23 December 2013	1:1 Ordinary	From vesting date to 22 December 2016	\$0.02	\$0.012	\$0.00

Q TECHNOLOGY GROUP LIMITED AND CONTROLLED ENTITIES

REMUNERATION REPORT - AUDITED

KMP Options and Rights Holdings

The number of options over ordinary shares held by each KMP of the Group during the financial year is as follows:

	Balance at beginning of year	Granted as remuneration during the year	Exercised during the year	Other changes during the year	Balance at end of year	Vested during the year	Vested and exercisable	Vested and unexercisable
30 June 2014								
Richard Stokes	-	-	-	-	-	-	-	-
Bruce Higgins	-	-	-	-	-	-	-	-
Douglas Potter	-	-	-	-	-	-	-	-
Rob Rosa	-	2,700,000	-	-	2,700,000	-	-	-
Total	-	2,700,000	-	-	2,700,000	-	-	-
30 June 2013								
Richard Stokes	-	-	-	-	-	-	-	-
Bruce Higgins	-	-	-	-	-	-	-	-
Douglas Potter	-	-	-	-	-	-	-	-
Total	-	-	-	-	-	-	-	-

Q TECHNOLOGY GROUP LIMITED AND CONTROLLED ENTITIES

REMUNERATION REPORT - AUDITED

KMP Shareholdings

The number of ordinary shares in Q Technology Group Limited held by each KMP of the Group during the financial year is as follows:

	Balance at beginning of year	Granted as remuneration during the year	Issued on exercise of options during the year	Other changes during the year	Balance at end of year
30 June 2014					
Richard Stokes	3,183,078	-	-	-	3,183,078
Bruce Higgins	500,000	-	-	-	500,000
Douglas Potter	-	-	-	-	-
Robert Rosa ¹	-	-	-	2,000,000	2,000,000
Total	3,683,078	-	-	-	5,683,078
30 June 2013					
Richard Stokes	3,183,078	-	-	-	3,183,078
Bruce Higgins	500,000	-	-	-	500,000
Douglas Potter	-	-	-	-	-
Total	3,683,078	-	-	-	3,683,078

- ¹ On 1 November 2013, Mr Robert Rosa was appointed as Chief Operating Officer of QRSciences Security Pty Ltd.

Other KMP Transactions

There have been no other transactions involving equity instruments other than those described in the tables above.

This Report of the Directors, incorporating the Remuneration Report, is signed in accordance with a resolution of the Board of Directors.



Bruce Higgins, Chairman
29 September 2014

AUDITOR'S INDEPENDENCE DECLARATION

As lead auditor for the audit of the financial report of Q Technology Group Limited for the year ended 30 June 2014, I declare that, to the best of my knowledge and belief, there have been no contraventions of:

- (i) the auditor independence requirements of the *Corporations Act 2001* in relation to the audit; and
- (ii) any applicable code of professional conduct in relation to the audit.

RSM Bird Cameron Partners

RSM BIRD CAMERON PARTNERS

Philip A Ransom

P A RANSOM

Partner

Melbourne, VIC
29 September 2014

Q TECHNOLOGY GROUP LIMITED AND CONTROLLED ENTITIES

CORPORATE GOVERNANCE STATEMENT

Q Technology Group Limited's Corporate Governance Arrangements

The Board is responsible for ensuring the existence of an effective corporate governance environment to safeguard the interests of the Company and its shareholders. This statement outlines the main corporate governance practices that were in place during the year ended 30 June 2014.

The Board considers there to be an unambiguous and positive relationship between the creation and delivery of long-term shareholder value and high-quality corporate governance. Accordingly, in pursuing its objective, the Board has committed to corporate governance arrangements that strive to foster the values of integrity, respect, trust and openness among and between board members, management, employees, customers and suppliers.

Q Technology Group Limited ("QTG") and its subsidiaries operate as a single economic entity with a unified Board and management. As such, the Board's corporate governance arrangements apply to all entities within the economic group

QTG is listed on the Australian Securities Exchange ("ASX"). Accordingly, unless stated otherwise in this document, the Board's corporate governance arrangements comply with the recommendations of the ASX Corporate Governance Council (including the 2010 amendments) as well as current standards of best practice for the entire financial year ended 30 June 2014.

Board Composition

The Board comprises one executive Director and two non-executive Directors. The Board meets regularly and is responsible for providing strategic direction, identifying significant business risks, approving major investment proposals and acquisitions, establishing goals and monitoring the achievement of these goals.

Day to day management of the Group's affairs and the implementation of corporate strategy and policy initiatives are formally delegated by the Board to the Chief Executive Officer and senior executives.

The skills, experience and expertise relevant to the position of each director, and their term of office at the date of the annual report, are included in the Directors' Report.

Directors of QTG are considered to be independent when they are independent of management and free from any business or other relationship that could materially interfere with, or could reasonably be perceived to materially interfere with, the exercise of their unfettered and independent judgment.

In the context of director independence, "materiality" is considered from both the Company and individual director perspective. The determination of materiality requires consideration of both quantitative and qualitative elements. An item is presumed to be quantitatively immaterial if it is equal or less than 10% of the appropriate base amount.

It is presumed to be material (unless there is qualitative evidence to the contrary) if it is equal to or greater than 10% of the appropriate base amount. Qualitative factors considered include whether a relationship is strategically important, the competitive landscape, the nature of the relationship and the contractual or other arrangement governing it and other factors that point to the actual ability of the director in question to shape the direction of the Company's loyalty.

Q TECHNOLOGY GROUP LIMITED AND CONTROLLED ENTITIES

CORPORATE GOVERNANCE STATEMENT

In accordance with the definition of the independence above, and the materiality threshold set, the following table indicates the directors of QTG considered as independent:

Names	Role	Non-Executive	Independent
Mr Rick Stokes	Chief Executive Officer	No	No
Mr Douglas Potter	Non-Executive Director	Yes	No
Mr Bruce Higgins	Non-Executive Chairman	Yes	Yes

Mr Douglas Potter, being Managing Director of Helmsman Funds Management Limited (“HFML”), is deemed to be, not an independent director due to Helmsman Capital Fund Trust IIA of which HFML is trustee being a substantial shareholder of the Group.

There are procedures in place, agreed by the Board, to enable directors in furtherance of their duties to seek independent professional advice at the Company’s expense.

The responsibilities and terms of appointment held by each director in office at the date of this report are as follows:

Name	Position
Mr Rick Stokes	CEO/Director Executive Service Agreement
Mr Douglas Potter	Directorship is tied to Helmsman who has a greater than 20%. stake in Q Technology Group Limited Letter of appointment setting out duties and responsibilities.
Mr Bruce Higgins	Chairman Letter of Appointment setting out duties and responsibilities

The Board considers its current composition is the most appropriate blend of skills and expertise, relevant to the Company’s business. The Board will consider the structure of the Board going forward and the need to have a majority of independent directors.

Performance Evaluation

An annual performance evaluation of the Board and all Board members was conducted by the Board for the financial year ended 30 June 2014. A questionnaire was provided for all Board members to provide feedback on how the Board had performed. The results from the questionnaire were collated and presented to the Board for discussion and formalisation of improvement recommendations for the next year.

A performance assessment for senior executives last took place in June 2014.

Board Committees: To facilitate achieving its objectives. The Board has established two sub committees comprising board members – the Risk and Audit committee and Remuneration committee. Each of these committees has formal terms of reference that outline the committee’s roles and responsibilities, and the authorities delegated to it by the Board.

Q TECHNOLOGY GROUP LIMITED AND CONTROLLED ENTITIES

CORPORATE GOVERNANCE STATEMENT

Nomination Committee

The Company has not assigned a Nomination Committee, which is a departure from ASX Corporate Governance Council best practice recommendation 2.4. The full Board is responsible for establishing criteria for Board membership, reviewing Board membership and nominating Directors for appointment to the Board. Candidates are initially appointed by the Board and must stand for election at the next general meeting of shareholders.

Directors are selected on the basis of qualification, skills and experience, and are subject to retirement by rotation in accordance with the Company's constitution.

Independent Professional Advice

Directors have the right to seek independent professional advice at the Company's expense in the furtherance of their duties as Directors. Approval must be obtained from the chairman prior to incurring any such expense on behalf of the Company.

Identifying and Managing Business Risks

The Board regularly monitors the operational and financial performance of the Company and economic entity, and also reviews and (where necessary) receives independent external advice on areas of operational and financial risks. Appropriate risk management strategies are developed to mitigate all identified risks of the business.

Trading Policy

The Company's securities dealing policy regarding directors and employees trading in its securities is set by the Board. The policy restricts directors and employees from trading on material information until it has been released to the market and adequate time has been given for this to be reflected in the securities' prices.

Risk and Audit Committee

The Risk and Audit Committee is responsible for the nomination of the external auditors, and for reviewing the adequacy of existing external audit arrangements, including the scope and quality of the audit.

The Risk and Audit Committee consists of the following directors:

Mr D Potter, Chairman
Mr R Stokes

Mr Potter, the Chairman, is deemed to be, not independent, which is a departure from ASX Corporate Governance Council best practice recommendation 4.2. The Board considers the current composition of the Risk and Audit Committee is the most appropriate blend of skills and expertise, relevant to the Company's business. The Company will review the composition of the Risk and Audit Committee on an on-going basis.

For qualifications of Risk and Audit Committee members and details on the number of meetings of the Risk and Audit Committee held during the year and the attendees at those meetings, refer to the Director's Report.

Q TECHNOLOGY GROUP LIMITED AND CONTROLLED ENTITIES

CORPORATE GOVERNANCE STATEMENT

Risk Management

The Board considers identification and management of key risks associated with the business as vital to maximise shareholder wealth. A yearly assessment of the business risk profile is undertaken and reviewed by the Board, covering all aspects of the business from the operational level through to strategic level risks.

Internal controls to negate the identified risks are assessed and reviewed by the Board.

Remuneration Committee

The Remuneration Committee of the Board is responsible for reviewing and approving the remuneration packages, if any, and policies applicable to the Directors and the Executive Chairman. This responsibility extends to share option schemes and incentive performance packages.

The Remuneration Committee consists of the following directors:

Mr B Higgins, Chairman
Mr D Potter

Executives and staff are also entitled to participate in the employee share and option arrangements.

The remuneration package of each Executive Director and Executive includes a performance based component.

A more detailed explanation of the Company's remuneration policies and framework, performance based remuneration, and the amount of remuneration for all Directors (including Non-Executive Directors) and other key management personnel including all monetary and non-monetary components, are detailed in the Remuneration Report.

All remuneration paid to key management personnel is valued at the cost to the Company and expensed. Shares given to key management personnel are valued as the difference between the market price on the date of issue and the amount paid by the key management personnel. Options are valued using the Black-Scholes methodology. There are no retirement benefits for Non-Executive Directors.

The Board has a remuneration structure that will result in the Company attracting and retaining the best people to run the business. As part of this strategy it will also provide Executives with the necessary incentives to work to grow long term shareholder value. For details on the number of meetings of the Remuneration Committee held during the year and the attendees at those meetings, refer to the Director's Report.

Q TECHNOLOGY GROUP LIMITED AND CONTROLLED ENTITIES

CORPORATE GOVERNANCE STATEMENT

Ethical Standards

The Board is committed to its core governance values of integrity, respect, trust and openness among and between board members, management, employees, customers and suppliers. These values are enshrined in the Board's Code of Conduct policy. The Board acknowledges and emphasises the importance of all directors and employees maintaining the highest standards of corporate governance practice and ethical conduct.

A code of conduct has been established requiring directors and employees to:

- Act honestly and in good faith
- Exercise due care and diligence in fulfilling the functions of office;
- Avoid conflicts and make full disclosure of any possible conflict of interest;
- Comply with both the letter and spirit of the law;
- Encourage the reporting and investigating of unlawful; and unethical behaviour, and
- Comply with the securities trading policy outlined in the code of conduct.

A copy of the Company's code of conduct for directors and key officers is available on the company website.

Diversity Policy

Diversity includes, but is not limited to, gender, age, ethnicity and cultural background. The company is committed to diversity and recognises the benefits arising from employee and board diversity and the importance of benefiting from all available talent. Accordingly, the company has established a diversity policy and has established the following objectives in relation to gender diversity.

The aim is to achieve these objectives over the coming 2 to 3 years as positions become vacant and appropriate skilled candidates are available.

	Actual 2014		Objective	
	No.	%	No.	%
Women in management roles	0	0	1	2
Women employees in the company	8	10	10	20

Q TECHNOLOGY GROUP LIMITED AND CONTROLLED ENTITIES

CORPORATE GOVERNANCE STATEMENT

Continuous Disclosure and Shareholder Communication

The Company has a Continuous Disclosure policy that sets out who is responsible for ensuring compliance with the Continuous Disclosure and all communication with the ASX. All information disclosed to the ASX is posted on the company website as soon as it is disclosed to the ASX.

The Board of Directors aims to ensure that the shareholders are informed of all major developments affecting the Company's state of affairs. Information is communicated to shareholders as follows:

- The annual report is available to all shareholders. The Board ensures that the annual report includes relevant information about the operations of the Company during the year, changes in the state of affairs of the Company and details of future developments, in addition to the other disclosures required by the Corporations Law.
- Half year financial statements prepared in accordance with the requirements of Accounting Standards and the Corporations Act 2001 and subject to an audit review are lodged with the Australian Securities and Investments Commission and Australian Stock Exchange Limited.
- Proposed major changes in the Company which may impact on share ownership rights are submitted to a vote of shareholders.

The Board encourages full participation of shareholders at the Annual General Meeting to ensure a high level of accountability and identification with the Company's strategy and goals. Important issues are presented to the shareholders as resolutions. The shareholders are responsible for voting on the appointment of Directors

Other

The best practice recommendations of the ASX Corporate Governance Council require the Company to formalise and make publicly available (preferably on its website) a number of different charters and policies.

Subject to the exceptions outlined below, the Company will adopt the ASX Corporate Governance Council's Corporate Governance Principles and Recommendations released in 2007 ("Recommendations") to determine an appropriate system of control and accountability to best fit its business and operations commensurate with these guidelines.

Q TECHNOLOGY GROUP LIMITED AND CONTROLLED ENTITIES

CORPORATE GOVERNANCE STATEMENT

The Company's compliance with Recommendations is summarised in the table below:

Recommendation	ASX P & R ¹	If not, why not ²	Recommendation	ASX P & R ¹	If not, why not ²
Recommendation 1.1	Yes		Recommendation 4.2	No	Yes
Recommendation 1.2	Yes		Recommendation 4.3	Yes	
Recommendation 1.3	Yes		Recommendation 4.4	Yes	
Recommendation 2.1	No	Yes	Recommendation 5.1	Yes	
Recommendation 2.2	Yes		Recommendation 5.2	Yes	
Recommendation 2.3	Yes		Recommendation 6.1	Yes	
Recommendation 2.4	No	Yes	Recommendation 6.2	Yes	
Recommendation 2.5	Yes		Recommendation 7.1	Yes	
Recommendation 2.6	Yes		Recommendation 7.2	Yes	
Recommendation 3.1	Yes		Recommendation 7.3	Yes	
Recommendation 3.2	Yes		Recommendation 7.4	Yes	
Recommendation 3.3	Yes		Recommendation 8.1	Yes	
Recommendation 3.4	Yes		Recommendation 8.2	No	Yes
Recommendation 3.5	Yes		Recommendation 8.3	Yes	
Recommendation 4.1	Yes				

¹ Indicates where the Company has followed the Recommendations and summarised those practices below.

² Indicates where the Company has provided a 'if not, why not' disclosure below

In acknowledging the Key Messages of the first review of the corporate governance reporting under the Revised Recommendations by ASX Markets Supervision ("ASXMS"), the Company has provided additional disclosure for each of the 29 recommendations. Where the Company has departed from a Recommendation, the Company has provided substantive reasons and refers to material containing additional disclosure, as relevant.

Q TECHNOLOGY GROUP LIMITED AND CONTROLLED ENTITIES

CORPORATE GOVERNANCE STATEMENT

The “if not, why not” disclosure of the Company is summarised in the table below:

Recommendation	Explanation of Departure from Recommendation
2.1	Owing to the size and current composition of the Board from a recent departure, the Board has not comprised of a majority of independent directors since April 2012. The Board will consider the structure of the Board going forward and need to have a majority of independent directors.
2.4	Owing to the size and composition of the Board, it is not appropriate to establish an independent nomination committee, or to establish a formal nomination policy at this stage.
4.2	Owing to the size, composition, and skill mix of the Board, the Company’s audit committee is not chaired by an independent director and does not comprise at least three members.
8.2	Owing to the size and current composition of the Board, the Company’s remuneration committee does not comprise at least three members.

As the Company’s activities develop in size, nature and scope, the Company’s corporate governance policies and processes will continue to be reviewed and improved as resources permit.

Board Roles and Responsibilities

The Board is accountable to the shareholders for creating and delivering shareholder value through governance of the company’s business activities. The discharge of these responsibilities is facilitated by the Board delivering to shareholders timely and balanced disclosures about the company’s performance.

As a part of its corporate governance arrangements, the Board has established a strategy for engaging and communicating with shareholders that includes:

- regular meetings with institutional shareholders;
- quarterly reporting to all shareholders; and
- actively encouraging shareholders to attend and participate in the company’s Annual General Meeting

The Board has delegated to the Chief Executive Officer (CEO), Mr R Stokes, all authorities appropriate and necessary to achieve the Board’s objective to create and deliver long-term shareholder value. Notwithstanding these delegations of authority by the Board, the CEO remains accountable to the Board for the authority delegated to him and for the performance of the company’s business activities at all times. As noted above, the Board regularly monitors the decisions and actions of the CEO as well as the performance of the company’s business activities.

Independent directors have the right to seek independent professional advice on any matter connected with the discharge of their responsibilities as directors at the company’s expense. Written approval must be obtained from the Chair prior to incurring any expense on behalf of the company.

Shareholder Rights

Shareholders are entitled to vote on significant matters impacting on the business, which include the election and remuneration of directors, changes to the constitution and receipt of annual and interim financial statements. The Board actively encourages shareholders to attend and participate in the Annual General Meetings of QTG, to lodge questions to be responded to by the Board and/or the CEO, and are able to appoint proxies.

Q TECHNOLOGY GROUP LIMITED AND CONTROLLED ENTITIES

CONSOLIDATED INCOME STATEMENT FOR YEAR ENDED 30 JUNE 2014

		Consolidated Group	
		2014 \$'000	2013 \$'000
Continuing Operations	Note		
Revenue	3	25,827	23,929
Other Income	3	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 benefit	5	(67)	-
Net Profit/(Loss) from continuing operations		(799)	(2,047)
Discontinued Operations:			
Profit on disposal from discontinued operations	6	-	2,320
Profit/(Loss) from discontinued operations after tax	6	-	(115)
Net Profit/(Loss) for the year	4	(799)	158
Profit/(Loss) attributable to:			
- Members of the parent entity		(799)	158
		(799)	158
Earnings per share			
From continuing and discontinued operations:			
- Basic earnings per share (cents)	10	(0.411)	0.081
- Diluted earnings per share (cents)	10	(0.411)	0.081
From continuing operations:			
- Basic earnings per share (cents)	10	(0.411)	(1.051)
- Diluted earnings per share (cents)	10	(0.411)	(1.051)
From discontinuing operations:			
- Basic earnings per share (cents)	10	-	1.133
- Diluted earnings per share (cents)	10	-	1.133

The accompanying notes form part of these financial statements

Q TECHNOLOGY GROUP LIMITED AND CONTROLLED ENTITIES

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME FOR YEAR ENDED 30 JUNE 2014

	Consolidated Group	
	2014	2013
Notes	\$'000	\$'000
Profit/(Loss) for the period	(799)	158
Other comprehensive income for the year:	-	-
Total comprehensive income for the year	(799)	158
Total comprehensive income attributable to:		
- Members of the parent entity	(799)	158
	(799)	158

The accompanying notes form part of these financial statements

Q TECHNOLOGY GROUP LIMITED AND CONTROLLED ENTITIES

CONSOLIDATED STATEMENT OF FINANCIAL POSITION FOR YEAR ENDED 30 JUNE 2014

		Consolidated Group	
		2014	2013
	Note	\$'000	\$'000
<u>ASSETS</u>			
<u>CURRENT ASSETS</u>			
Cash and cash equivalents	11	223	320
Trade and other receivables	12	4,452	5,075
Inventories	13	6,787	8,026
Other current assets	16	244	213
TOTAL CURRENT ASSETS		11,706	13,634
<u>NON-CURRENT ASSETS</u>			
Property, plant and equipment	15	414	457
Deferred tax assets	19	864	932
TOTAL NON-CURRENT ASSETS		1,278	1,389
TOTAL ASSETS		12,984	15,023
<u>LIABILITIES</u>			
<u>CURRENT LIABILITIES</u>			
Trade and other payables	17	4,958	5,906
Borrowings	18	1,547	1,936
Provisions	20	379	318
TOTAL CURRENT LIABILITIES		6,884	8,160
<u>NON-CURRENT LIABILITIES</u>			
Borrowings	18	7	25
Provisions	20	71	17
TOTAL NON-CURRENT LIABILITIES		78	42
TOTAL LIABILITIES		6,962	8,202
NET ASSETS		6,022	6,821
<u>EQUITY</u>			
Issued capital	21	72,385	72,385
Reserves		-	52
Accumulated losses		(66,363)	(65,616)
TOTAL EQUITY		6,022	6,821

The accompanying notes form part of these financial statements

Q TECHNOLOGY GROUP LIMITED AND CONTROLLED ENTITIES

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY FOR YEAR ENDED 30 JUNE 2014

	Note	Issued Capital \$'000	Accumulated losses \$'000	Options Reserve \$'000	Total \$'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					
Dividends paid and provided for		-	-	-	-
Shares issued during the period		-	-	-	-
Transfers from reserves to accumulated losses		-	52	(52)	-
Balance at 30 June 2014		72,385	(66,363)	-	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	(65,615)	52	6,842
Transactions with owners, in their capacity as owner, and other transfers					
Dividends paid or provided for		-	-	-	-
Shares issued (bought back) during the period		(21)	-	-	(21)
Balance at 30 June 2013		72,385	(65,616)	52	6,821

The accompanying notes form part of these financial statements

Q TECHNOLOGY GROUP LIMITED AND CONTROLLED ENTITIES

CONSOLIDATED STATEMENT OF CASHFLOWS FOR YEAR ENDED 30 JUNE 2014

		Consolidated Group	
		2014	2013
	Note	\$000	\$000
<u>CASH FLOWS FROM OPERATING ACTIVITIES</u>			
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	25(a)	402	(3,458)
<u>CASH FLOWS FROM INVESTING ACTIVITIES</u>			
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
<u>CASH FLOWS FROM FINANCING ACTIVITIES</u>			
Proceeds from borrowings		238	255
Repayment of borrowings		(172)	(6,646)
Net cash provided by/(used in) financing activities		66	(6,419)
Net (decrease)/increase in cash held		376	2,682
Cash and cash equivalents at beginning of financial year		(1,591)	(4,273)
Cash and cash equivalents at end of financial year	11	(1,215)	(1,591)

The accompanying notes form part of these financial statements

Q TECHNOLOGY GROUP LIMITED AND CONTROLLED ENTITIES

NOTES TO THE FINANCIAL STATEMENTS FOR YEAR ENDED 30 JUNE 2014

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

These consolidated financial statements and notes represent those of Q Technology Group Limited and controlled entities ('Consolidated Group' or 'Group').

The separate financial statements and notes of Q Technology Group Limited have not been presented within this financial report as permitted by amendments made to the *Corporations Act 2001*.

The financial information for the parent entity as disclosed in Note 2 to the financial statements has been prepared on the same basis as the consolidated financial statements.

The financial statements are authorised for issue on 29 September 2014 by the directors of the company.

Basis of Preparation

The financial statements are general purpose financial statements that have been prepared in accordance with Australian Accounting Standards, Australian Accounting Interpretations, other authoritative pronouncements of the Australian Accounting Standards Board (AASB), and the Corporations Act 2001. The Group is a for-profit entity for financial reporting purposes under Australian Accounting Standards.

Australian Accounting Standards set out accounting policies that the AASB has concluded would result in financial statements containing relevant and reliable information about transactions, events and conditions. Compliance with Australian Accounting Standards ensures that the financial statements and notes also comply with International Financial Reporting Standards as issued by the IASB. Material accounting policies adopted in the preparation of these financial statements are presented below and have been consistently applied unless stated otherwise

Except for the cash flow information, the financial statements have been prepared on an accruals basis and is based on historical costs, modified, where applicable, by the measurement at fair value of selected non-current assets, financial assets and financial liabilities.

A. Principles of Consolidation

The consolidated financial statements incorporate the assets, liabilities and results of entities controlled by Q Technology Group Limited at the end of the reporting period. A controlled entity ('subsidiary') is any entity over which Q Technology Group Limited has the power to govern the financial and operating policies so as to obtain benefits from the entity's activities. Control will generally exist when the parent owns, directly or indirectly through subsidiaries, more than half of the voting power of an entity. In assessing the power to govern, the existence and effect of holdings of actual and potential voting rights are also considered.

Where controlled entities have entered or left the Group during the year, the financial performance of those entities are included only for the period of the year that they were controlled. A list of controlled entities is contained in Note 14 to the financial statements.

In preparing the consolidated financial statements, all inter-group balances and transactions between entities in the consolidated group have been eliminated on consolidation. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with those adopted by the parent entity.

Q TECHNOLOGY GROUP LIMITED AND CONTROLLED ENTITIES

NOTES TO THE FINANCIAL STATEMENTS FOR YEAR ENDED 30 JUNE 2014

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Non-controlling interests, being the equity in a subsidiary not attributable, directly or indirectly, to a parent, are shown separately within the Equity section of the consolidated Statement of Financial Position and Statement of Comprehensive Income. The non-controlling interests in the net assets comprise their interests at the date of the original business combination and their share of changes in equity since that date.

Business Combinations

Business combinations occur where an acquirer obtains control over one or more businesses.

A business combination is accounted for by applying the acquisition method unless it is a combination involving entities or businesses under common control.

The business combination will be accounted for from the date that control is attained, whereby the fair value of the identifiable assets acquired and liabilities (including contingent liabilities) assumed recognised (subject to certain limited exemptions).

When measuring the consideration transferred in the business combination, any asset or liability resulting from a contingent consideration arrangement is also included. Subsequent to initial recognition, contingent consideration classified as equity is not measurable and its subsequent settlement is accounted for with equity. Contingent consideration classified as an asset or liability is remeasured each reporting period to fair value, recognising any change to fair value in profit or loss, unless the change in value can be identified as existing at acquisition date.

All transaction costs incurred in relation to the business combination are expensed to the statement of comprehensive income. The acquisition of a business may result in the recognition of goodwill or a gain from a bargain purchase.

Q TECHNOLOGY GROUP LIMITED AND CONTROLLED ENTITIES

NOTES TO THE FINANCIAL STATEMENTS FOR YEAR ENDED 30 JUNE 2014

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

B. Income tax

The income tax expense/(income) for the year comprises current income tax expense (income) and deferred tax expense (income).

Current income tax expense charged to profit or loss is the tax payable on taxable income. Current tax liabilities/(assets) are measured at the amounts expected to be paid to/(recovered from) the relevant taxation authority.

Deferred income tax expense reflects movements in deferred tax asset and deferred tax liability balances during the year as well unused tax losses.

Current and deferred income tax expense/(income) is charged or credited outside profit or loss when the tax relates to items that are recognised outside profit or loss.

Deferred tax assets and liabilities are calculated at the tax rates that are expected to apply to the period when the asset is realised or the liability is settled and their measurement also reflects the manner in which management expects to recover or settle the carrying amount of the related asset or liability. With respect to non-depreciable items of property, plant and equipment measured at fair value and items of investment property measured at fair value, the related deferred tax liability or deferred tax asset is measured on the basis that the carrying amount of the asset will be recovered entirely through sale.

Deferred tax assets and liabilities are calculated at the tax rates that are expected to apply to the period when the asset is realised or the liability is settled, based on tax rates enacted or substantively enacted at the end of the reporting period. Their measurement also reflects the manner in which management expects to recover or settle the carrying amount of the related asset or liability.

Deferred tax assets relating to temporary differences and unused tax losses are recognised only to the extent that it is probable that future taxable profit will be available against which the benefits of the deferred tax asset can be utilised.

Where temporary differences exist in relation to investments in subsidiaries, branches, associates and joint ventures, deferred tax assets and liabilities are not recognised where the timing of the reversal of the temporary difference can be controlled and it is not probable that the reversal will occur in the foreseeable future.

Current tax assets and liabilities are offset where a legally enforceable right of set-off exists and it is intended that net settlement or simultaneous realisation and settlement of the respective asset and liability will occur. Deferred tax assets and liabilities are offset where: (a) a legally enforceable right of set-off exists; and (b) the deferred tax assets and liabilities relate to income taxes levied by the same taxation authority on either the same taxable entity or different taxable entities where it is intended that net settlement or simultaneous realisation and settlement of the respective asset and liability will occur in future periods in which significant amounts of deferred tax assets or liabilities are expected to be recovered or settled.

Q TECHNOLOGY GROUP LIMITED AND CONTROLLED ENTITIES

NOTES TO THE FINANCIAL STATEMENTS FOR YEAR ENDED 30 JUNE 2014

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Tax Consolidation

Q Technology Group Limited and its wholly-owned Australian subsidiaries have formed an income tax consolidated group under tax consolidation legislation. Each entity in the Group recognises its own current and deferred tax assets and liabilities. Such taxes are measured using the 'stand-alone taxpayer' approach to allocation. Current tax liabilities (assets) and deferred tax assets arising from unused tax losses and tax credits in the subsidiaries are immediately transferred to the head entity.

The Group formed an income tax consolidated group to apply from 1 July 2010. The tax consolidated group has entered a tax funding arrangement whereby each company in the Group contributes to the income tax payable by the Group in proportion to their contribution to the Group's taxable income. Differences between the amounts of net tax assets and liabilities derecognised and the net amounts recognised pursuant to the funding arrangement are recognised as either a contribution by, or distribution to the head entity.

C. Inventories

Inventories are measured at the lower of cost and net realisable value. Costs are assigned to individual items of inventory on the basis of weighted average costs. Net realisable value is the estimated selling price in the ordinary course of business less the estimated costs necessary to make the sale.

D. Property, plant and equipment

Each class of property, plant and equipment is carried at cost as indicated less, where applicable, any accumulated depreciation and impairment losses.

Plant and equipment

Plant and equipment are measured on the cost basis and therefore carried at cost less accumulated depreciation and any accumulated impairment. In the event the carrying amount of plant and equipment is greater than the estimated recoverable amount, the carrying amount is written down immediately to be estimated recoverable amount and impairment losses are recognised either in profit or loss or as a revaluation decrease if the impairment losses relate to a re-valued asset. A formal assessment of recoverable amount is made when impairment indicators are present.

The carrying amount of plant and equipment is reviewed annually by directors to ensure it is not in excess of the recoverable amount from these assets. The recoverable amount is assessed on the basis of the expected net cash flows that will be received from the asset's employment and subsequent disposal. The expected net cash flows have been discounted to their present values in determining recoverable amounts.

Q TECHNOLOGY GROUP LIMITED AND CONTROLLED ENTITIES

NOTES TO THE FINANCIAL STATEMENTS FOR YEAR ENDED 30 JUNE 2014

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Depreciation

The depreciable amount of all fixed assets is depreciated on straight line basis over the asset's useful life to the consolidated group commencing from the time the asset is held ready for use.

The depreciation rates used for each class of depreciable assets are:

Class of Fixed Asset	Depreciation Rate
Plant and equipment	5 – 37.5%
Plant and equipment under lease	15 – 60%

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at the end of each reporting period.

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount.

Gains and losses on disposals are determined by comparing proceeds with the carrying amount. These gains and losses are included in the consolidated income statement.

E. Leases

Leases of fixed assets where substantially all the risks and benefits incidental to the ownership of the asset, but not the legal ownership that is transferred to entities in the consolidated group, are classified as finance leases.

Finance leases are capitalised by recording an asset and a liability at the lower of the amounts equal to the fair value of the leased property or the present value of the minimum lease payments, including any guaranteed residual values. Lease payments are allocated between the reduction of the lease liability and the lease interest expense for the period.

Leased assets are depreciated on a straight-line basis over the shorter of their estimated useful lives or the lease term.

Lease payments for operating leases, where substantially all the risks and benefits remain with the lessor, are charged as expenses in the periods in which they are incurred.

Lease incentives under operating leases are recognised as a liability and amortised on a straight-line basis over the life of the lease term.

Q TECHNOLOGY GROUP LIMITED AND CONTROLLED ENTITIES

NOTES TO THE FINANCIAL STATEMENTS FOR YEAR ENDED 30 JUNE 2014

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

F. Financial instruments

Recognition and initial measurement

Financial assets and financial liabilities are recognised when the entity becomes a party to the contractual provisions to the instrument. For financial assets, this is equivalent to the date that the company commits itself to either the purchase or sale of the asset (i.e. trade date accounting is adopted).

Financial instruments are initially measured at fair value plus transaction costs, except where the instrument is classified 'at fair value through profit or loss', in which case transaction costs are expensed to profit or loss immediately.

Classification and subsequent measurement

Financial instruments are subsequently measured at either of fair value, amortised cost using the effective interest rate method, or cost.

Amortised cost is calculated as the amount at which the financial asset or financial liability is measured at initial recognition less principal repayments and any reduction for impairment, and adjusted for any cumulative amortisation of the difference between that initial amount and the maturity amount calculated using the effective interest method.

The effective interest method is used to allocate interest income or interest expense over the relevant period and is equivalent to the rate that exactly discounts estimated future cash payments or receipts (including fees, transaction costs and other premiums or discounts) through the expected life (or when this cannot be reliably predicted, the contractual term) of the financial instrument to the net carrying amount of the financial asset or financial liability. Revisions to expected future net cash flows will necessitate an adjustment to the carrying value with a consequential recognition of an income or expense in profit or loss.

The Group does not designate any interests in subsidiaries, associates or joint venture entities as being subject to the requirements of accounting standards specifically applicable to financial instruments.

i. Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market and are subsequently measured at amortised cost.

Loans and receivables are included in current assets, except for those which are not expected to mature within 12 months after the end of the reporting period. (All other loans and receivables are classified as non-current assets.)

Q TECHNOLOGY GROUP LIMITED AND CONTROLLED ENTITIES

NOTES TO THE FINANCIAL STATEMENTS FOR YEAR ENDED 30 JUNE 2014

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

ii. Financial liabilities

Non-derivative financial liabilities (excluding financial guarantees) are subsequently measured at amortised cost.

Impairment

At the end of each reporting period, the Group assesses whether there is objective evidence that a financial instrument has been impaired.

De-recognition

Financial assets are de-recognised where the contractual rights to receipt of cash flows expires or the asset is transferred to another party whereby the entity no longer has any significant continuing involvement in the risks and benefits associated with the asset. Financial liabilities are de-recognised where the related obligations are either discharged, cancelled or expired. The difference between the carrying value of the financial liability extinguished or transferred to another party and the fair value of consideration paid, including the transfer of non-cash assets or liabilities assumed, is recognised in profit or loss.

G. Fair value of Assets and Liabilities

Fair value is the price the Group would receive to sell an asset or would have to pay to transfer a liability in an orderly (i.e. unforced) transaction between independent, knowledgeable and willing market participants at the measurement date.

The Group did not measure any of its assets and liabilities at fair value on either a recurring or non-recurring basis, during the financial year.

H. Impairment of Assets

At the end of each reporting period, the Group assesses whether there is any indication that an asset may be impaired. The assessment will include the consideration of external and internal sources of information, including dividends received from subsidiaries, associates or jointly controlled entities deemed to be out of pre-acquisition profits. If such an indication exists, an impairment test is carried out on the asset by comparing the recoverable amount of the asset, being the higher of the asset's fair value less costs to sell and value in use, to the asset's carrying amount. Any excess of the asset's carrying amount over its recoverable amount is recognised immediately in profit or loss, unless the asset is carried at a revalued amount in accordance with another Standard (e.g. in accordance with the revaluation model in AASB 116: Property, Plant and Equipment). Any impairment loss of a revalued asset is treated as a revaluation decrease in accordance with that other Standard.

Where it is not possible to estimate the recoverable amount of an individual asset, the Group estimates the recoverable amount of the cash-generating unit to which the asset belongs.

Q TECHNOLOGY GROUP LIMITED AND CONTROLLED ENTITIES

NOTES TO THE FINANCIAL STATEMENTS FOR YEAR ENDED 30 JUNE 2014

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

I. Foreign Currency Transactions and Balances

Functional and presentation currency

The functional currency of each of the Group's entities is determined using the currency of the primary economic environment in which that entity operates. The consolidated financial statements are presented in Australian dollars which is the parent entity's functional and presentation currency.

Transactions and balances

Foreign currency transactions are translated into functional currency using the exchange rates prevailing at the date of the transaction. Foreign currency monetary items are translated at the year-end exchange rate. Non-monetary items measured at historical cost continue to be carried at the exchange rate at the date of the transaction. Non-monetary items measured at fair value are reported at the exchange rate at the date when fair values were determined.

Exchange differences arising on the translation of monetary items are recognised in profit or loss, except where deferred in equity as a qualifying cash flow or net investment hedge.

Exchange differences arising on the translation of non-monetary items are recognised directly in the comprehensive income to the extent that the underlying gain or loss is recognised in other comprehensive income; otherwise the exchange difference is recognised in profit or loss.

J. Employee Benefits

Short-term employee benefits

Provision is made for the Group's obligation for short-term employee benefits. Short-term employee benefits are benefits (other than termination benefits) that are expected to be settled wholly before 12 months after the end of the annual reporting period in which the employees render the related service, including wages, salaries and sick leave. Short-term employee benefits are measured at the (undiscounted) amounts expected to be paid when the obligation is settled.

The Group's obligations for short-term employee benefits such as wages, salaries and sick leave are recognised as part of current trade and other payables in the statement of financial position. The Group's obligations for employees' annual leave and long service leave entitlements are recognised as provisions in the statement of financial position.

Other long-term employee benefits

Provision is made for employees' long service leave and annual entitlements not expected to be settled wholly within 12 months after the end of the annual reporting period in which the employees render the related service. Other long-term employee benefits are measured at the present value of the expected future payments to be made to employees. Expected future payments incorporate anticipated future wage and salary levels, durations of service and employee departure and are discounted at rates determined by reference to market yields and the end of the reporting period on government bonds that have maturity dates that approximate the terms of the obligations. Any remeasurements for changes in assumptions of obligations for other long-term employee benefits are recognised in profit or loss in the periods in which the charges occur.

The Group's obligations for long-term employee benefits are presented as non-current provisions in its statement of financial position, except where the Group does not have an unconditional right to defer settlement for at least 12 months after the end of the reporting period, in which case the obligations are presented as current provisions.

Q TECHNOLOGY GROUP LIMITED AND CONTROLLED ENTITIES

NOTES TO THE FINANCIAL STATEMENTS FOR YEAR ENDED 30 JUNE 2014

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Equity-settled compensation

The Group operates equity-settled share-based payment employee share and option schemes. The fair value of the equity to which employees become entitled is measured at grant date and recognised as an expense over the vesting period, with a corresponding increase to an equity account. The fair value of shares is ascertained as the market bid price. The fair value of options is ascertained using a Black–Scholes pricing model which incorporates all market vesting conditions. The number of shares and options expected to vest is reviewed and adjusted at the end of each reporting date such that the amount recognised for services received as consideration for the equity instruments granted shall be based on the number of equity instruments that eventually vest.

K. Provisions

Provisions are recognised when the Group has a legal or constructive obligation, as a result of past events, for which it is probable that an outflow of economic benefits will result and that outflow can be reliably measured.

Provisions are measurable using the best estimate of the amounts required to settle the obligation at the end of the reporting period.

L. Cash and Cash Equivalents

Cash and cash equivalents include cash on hand, deposits held at call with banks, other short-term highly liquid investments with original maturities of three months or less, and bank overdrafts. Bank overdrafts are shown within short-term borrowings in current liabilities on the statement of financial position.

M. Revenue and Other Income

Revenue is measured at the fair value of the consideration received or receivable after taking into account any trade discounts and volume rebates allowed.

Revenue from the sale of goods is recognised at the point of delivery as this corresponds to the transfer of significant risks and rewards of ownership of the goods and the cessation of all involvement in those goods.

Interest revenue is recognised using the effective interest rate method, which, for floating rate financial assets, is the rate inherent in the instrument.

All revenue is stated net of the amount of goods and services tax (GST).

N. Trade and Other Payables

Trade and other payables represent the liability outstanding at the end of the reporting period for goods and services received by the Group during the reporting period which remains unpaid. The balance is recognised as a current liability.

Q TECHNOLOGY GROUP LIMITED AND CONTROLLED ENTITIES

NOTES TO THE FINANCIAL STATEMENTS FOR YEAR ENDED 30 JUNE 2014

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

O. Borrowing Costs

Borrowing costs directly attributable to the acquisition, construction or production of assets that necessarily take a substantial period of time to prepare for their intended use or sale, are added to the cost of those assets, until such time as the assets are substantially ready for their intended use or sale. All other borrowing costs are recognised in income in the period in which they are incurred.

P. Goods and Services Tax (GST)

Revenues, expenses and assets are recognised net of the amount of GST, except where the amount of GST incurred is not recoverable from the Australian Taxation Office. In these circumstances the GST is recognised as part of the cost of acquisition of the asset or as part of an item of the expense. Receivables and payables in the statement of financial position are shown inclusive of GST.

Cash flows are presented in the statement of cash flows on a gross basis, except for the GST component of investing and financing activities, which are disclosed as operating cash flows.

Q. Comparative Figures

When required by Accounting Standards, comparative figures have been adjusted to conform to changes in presentation for the current financial year.

When the Group applies an accounting policy retrospectively, makes a retrospective restatement or reclassifies items in its financial statements, a statement of financial position as at the beginning of the earliest comparative period will be disclosed.

R. Rounding of Amounts

The parent entity has applied the relief available to it under ASIC Class Order 98/100 and accordingly, amounts in the financial report and directors' report have been rounded off to the nearest \$1,000.

S. Critical Accounting Estimates and Judgments

The directors evaluate estimates and judgments incorporated into the financial statements based on historical knowledge and best available current information. Estimates assume a reasonable expectation of future events and are based on current trends and economic data, obtained both externally and within the Group.

Q TECHNOLOGY GROUP LIMITED AND CONTROLLED ENTITIES

NOTES TO THE FINANCIAL STATEMENTS FOR YEAR ENDED 30 JUNE 2014

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

T. Going Concern

The financial statements have been prepared on the going concern basis, which contemplates continuity of normal business activities and the realisation of assets and discharge of liabilities in the normal course of business.

As disclosed in Note 18 of the financial statements, the Group failed to comply with the interest cover ratio financial covenant as at 30 June 2014. A breach notice was received subsequent to year end from the Bank of Melbourne ("BoM") which advised that no action was to be taken at this point in time.

The Directors believe that it is reasonably foreseeable that the Group will continue as a going concern and that it is appropriate to adopt the going concern basis in the preparation of the financial report after consideration of the following factors:

- Under the finance agreement, the interest cover ratio resets on 1 July 2014 with the next compliance measurement due on 30 September 2014. As at the date of this report, the results of the Group indicate the interest cover ratio, and the other financial covenants, will be met for the quarter ending 30 September 2014;
- The Group has received no further correspondence from the Bank of Melbourne; there have been no communications indicating the finance facility will not continue to be provided;
- At 30 June 2014, the Group's current assets were \$4.8 million in excess of its current liabilities; and
- The Directors are confident the Group will remain in compliance with all financial covenants for a period of no less than 12 months from the date of this report.

U. New and Amended Accounting Policies Adopted by the Group

The Group adopted AASB 119: Employee Benefits and AASB 2011-10: Amendments to Australian Accounting Standards arising from AASB 119 from the mandatory application date of 1 January 2013.

For the purpose of measurement, AASB 119 defines obligations for short-term employee benefits as obligations expected to be settled wholly before 12 months after the end of the annual reporting period in which the employees render the related services. Previously, annual leave satisfied the definition of short-term employee benefits and therefore the leave liability was measured on an undiscounted basis at the amounts expected to be paid when the liability is settled. However, under AASB 119, as the Group expects that most employees will not use all of their annual leave entitlements in the same year in which they are earned or during the following 12-month period, obligations for annual leave entitlements meet the definition of other long-term employee benefits and, therefore, are required to be measured at the present value of the expected future payments to be made to employees.

These changes do not impact the classification of leave entitlements between current and non-current liabilities in the statement of financial position.

The change in accounting policy had no material impact on the Group's financial statements, and as such was not applied retrospectively.

Q TECHNOLOGY GROUP LIMITED AND CONTROLLED ENTITIES

NOTES TO THE FINANCIAL STATEMENTS FOR YEAR ENDED 30 JUNE 2014

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

V. New standards and interpretations issued but not yet effective

At the date of this financial report the following standards and interpretations, which may impact the entity in the period of initial application, have been issued but are not yet effective. Other than changes to disclosure formats, it is not expected that the initial application of these new standards in the future will have any material impact on the financial report.

Reference	Title	Summary	Application date (financial years beginning)
AASB 9	<i>Financial Instruments</i>	Replaces the requirements of AASB 139 for the classification and measurement of financial assets. This is the result of the first part of Phase 1 of the IASB's project to replace IAS 39.	1 January 2015 (Changed to 1 January 2017 by AASB 2013-9C)
2009-11	<i>Amendments to Australian Accounting Standards arising from AASB 9</i>	Amends AASB 1, 3, 4, 5, 7, 101, 102, 108, 112, 118, 121, 127, 128, 131, 132, 136, 139, 1023 and 1038 and Interpretations 10 and 12 as a result of the issuance of AASB 9.	1 January 2015
2010-7	<i>Amendments to Australian Accounting Standards arising from AASB 9 (December 2010)</i>	Amends AASB 1, 3, 4, 5, 7, 101, 102, 108, 112, 118, 120, 121, 127, 128, 131, 132, 136, 137, 139, 1023 & 1038 and Interpretations 2, 5, 10, 12, 19 & 127 for amendments to AASB 9 in December 2010	1 January 2015
AASB 14	<i>Regulatory Deferral Accounts</i>	Specifies the financial reporting requirements for regulatory deferral account balances that arise when an entity provides goods or services to customers at a price or rate that is subject to rate regulation.	1 January 2016
2012-3	<i>Amendments to Australian Accounting Standards – Offsetting Financial Assets and Financial Liabilities</i>	This Standard adds application guidance to AASB 132 to address inconsistencies identified in applying some of the offsetting criteria of AASB 132.	1 January 2014
2013-3	<i>Amendments to AASB 136 – Recoverable Amount Disclosures for Non-Financial Assets</i>	This Standard amends the disclosure requirements in AASB 136 to include additional disclosures about the fair value measurement and discount rates when the recoverable amount of impaired assets is based on fair value less costs of disposal.	1 January 2014

Q TECHNOLOGY GROUP LIMITED AND CONTROLLED ENTITIES

NOTES TO THE FINANCIAL STATEMENTS FOR YEAR ENDED 30 JUNE 2014

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Reference	Title	Summary	Application date (financial years beginning)
2013-4	<i>Amendments to Australian Accounting Standards – Novation of Derivatives and Continuation of Hedge Accounting</i>	This Standard amends AASB 139 to permit the continuation of hedge accounting in circumstances where a derivative, which has been designated as a hedging instrument, is novated from one counterparty to a central counterparty as a consequence of laws or regulations.	1 January 2014
2013-9B	<i>Amendments to Australian Accounting Standards – Conceptual Framework, Materiality and Financial Instruments</i>	Part B of 2013-9 makes amendments to particular Australian Accounting Standards to delete references to AASB 1031, and makes various editorial corrections to Australian Accounting Standards.	1 January 2014
2013-9C	<i>Amendments to Australian Accounting Standards – Conceptual Framework, Materiality and Financial Instruments</i>	Part C of AASB 2013-9 amends AASB 9 to add Chapter 6 <i>Hedge accounting</i> , to permit “own credit risk” requirements to be applied without applying the other requirements of AASB 9 at the same time, to amend the mandatory effective date of AASB 9 to 1 January 2017 and to amend the reduced disclosure requirements for AASB 7 and AASB 101.	1 January 2015
2014-1A	<i>Amendments to Australian Accounting Standards</i>	Part A of 2014-1 amends various standards as a result of the annual improvements process	1 July 2014
2014-1B	<i>Amendments to Australian Accounting Standards</i>	Part B of AASB 2014-1 makes amendments to AASB 119 <i>Employee Benefits</i> in relation to the requirements for contributions from employees or third parties that are linked to service.	1 July 2014
2014-1C	<i>Amendments to Australian Accounting Standards</i>	Part C of AASB 2014-1 makes amendments to particular Australian Accounting Standards to delete their references to AASB 1031.	1 July 2014
AASB 1031	<i>Materiality</i>	Re-issuance of AASB 1031	1 January 2014

Q TECHNOLOGY GROUP LIMITED AND CONTROLLED ENTITIES

NOTES TO THE FINANCIAL STATEMENTS FOR YEAR ENDED 30 JUNE 2014

NOTE 2: PARENT INFORMATION

The following information has been extracted from the books and records of the parent and has been prepared in accordance with the accounting standards.

STATEMENT OF FINANCIAL POSITIONS	Note	Parent Entity	
		2014 \$'000	2013 \$'000
ASSETS			
Current Assets		55	540
TOTAL ASSETS		6,249	6,779
LIABILITIES			
Current Liabilities		2,526	1,785
TOTAL LIABILITIES		2,555	1,802
EQUITY			
Issued Capital		72,385	72,385
Share Option Reserve		-	52
Accumulated Losses		(68,204)	(67,460)
TOTAL EQUITY		4,181	4,977
STATEMENT OF PROFIT OR LOSS AND COMPREHENSIVE INCOME			
Total profit/(loss)		(796)	737
Total comprehensive income		(796)	737

Guarantees

Q Technology Group Limited has entered into a deed of cross guarantee with wholly owned subsidiary and QRSciences Security Pty Ltd.

Contingent Liabilities

Q Technology Group Limited did not have any contingent liabilities as at 30 June 2014 or 30 June 2013.

Contractual Commitments

At 30 June 2014, Q Technology Group Limited had not entered into any contractual commitments for the acquisition of property, plant and equipment (2013: Nil).

Q TECHNOLOGY GROUP LIMITED AND CONTROLLED ENTITIES

NOTES TO THE FINANCIAL STATEMENTS FOR YEAR ENDED 30 JUNE 2014

NOTE 3: REVENUE AND OTHER INCOME

	Note	Consolidated Group	
		2014 \$'000	2013 \$'000
Revenue from Continuing Operations			
Sales revenue			
Sale of goods		25,827	23,929
Total Revenue		25,827	23,929
Other Income			
Interest received		2	3
Insurance recovery		-	131
(loss) on disposal of fixed assets		(18)	(4)
Foreign exchange gains		698	301
Other income		421	221
		1,102	652

NOTE 4: PROFIT/LOSS FOR THE YEAR

Profit/Loss before income tax from continuing operations includes the following specific items:

	Note	Consolidated Group	
		2014 \$'000	2013 \$'000
Expenses			
Cost of sales		19,963	17,718
Finance costs			
- external parties		211	196
- other related entities		-	1,217
- bank charges		110	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
Total bad and doubtful debts		257	36
Inventory adjustments			
Write-down of inventories to net realisable value		171	289
Total inventory adjustments		171	289

Q TECHNOLOGY GROUP LIMITED AND CONTROLLED ENTITIES

NOTES TO THE FINANCIAL STATEMENTS FOR YEAR ENDED 30 JUNE 2014

NOTE 5: INCOME TAX EXPENSE

		Consolidated Group	
	Note	2014 \$'000	2013 \$'000
The components of tax expense / (benefit) comprise:			
Deferred tax	19	67	-
		67	-
The prima facie tax on profit from continuing activities before income tax is reconciled to the income tax as follows:			
Prima facie tax payable on profit / (loss) from continuing activities before income tax at 30% (2013: 30%)		(220)	82
Add:			
Tax effect of:			
Other non-allowable items		10	34
		(210)	116
Less:			
Tax effect of:			
Non recognition of current year tax loss		277	580
Gain on disposal of discontinued operations		-	(696)
Income tax attributable to entity		67	-

Q TECHNOLOGY GROUP LIMITED AND CONTROLLED ENTITIES

NOTES TO THE FINANCIAL STATEMENTS FOR YEAR ENDED 30 JUNE 2014

NOTE 6: DISCONTINUED OPERATIONS

API Services and Solutions Pty Ltd

On 2nd October 2012, the Group divested 100% of its interest in API Services and Solutions Pty Ltd, thereby discontinuing its operations in this business.

The financial performance of the discontinued operation included in profit/(loss) from discontinued operations in the income statement is as follows:

	Note	Consolidated Group	
		2014 \$'000	2013 \$'000
Revenue		-	6,406
Expenses		-	(6,521)
Profit/(Loss) before income tax		-	(115)
Gain on disposal of discontinued operations		-	2,320
Income tax expense		-	-
Total profit after tax attributable to discontinued operations		-	2,205

The net cash flows of the discontinuing operations which have been incorporated into the statement of cash flows are as follows:

	-	-
Net cash outflow from operating activities	-	72
Net cash inflow from investing activities	-	(142)
Net cash outflow from financing activities	-	(180)
Net cash decrease in cash generated by the discontinuing operations	-	(250)

Q TECHNOLOGY GROUP LIMITED AND CONTROLLED ENTITIES

NOTES TO THE FINANCIAL STATEMENTS FOR YEAR ENDED 30 JUNE 2014

NOTE 7: INTERESTS OF KEY MANAGEMENT PERSONNEL (KMP)

Refer to the Remuneration Report contained in the Directors' Report for details of the remuneration paid or payable to each member of the Group's key management personnel for the year ended 30 June 2014.

The total remuneration paid to KMP of the company and the Group during the year are as follows:

	Note	2014 \$'000	2013 \$'000
Short-term employee benefits		539	627
Post-employment benefits		37	47
Share based payments		4	-
		580	674

Short-term employee benefits

These amounts include fees and benefits paid to the non-executive Chair and non-executive directors as well as all salary, paid leave benefits, fringe benefits and cash bonuses awarded to executive directors and other KMP.

Post-employment benefits

These amounts are the current-year's estimated cost of providing for the Group's defined benefits scheme post-retirement, superannuation contributions made during the year and post-employment life insurance benefits.

Share-based payments

These amounts represent the expense related to the participation of KMP in equity-settled benefit schemes as measured by the fair value of the options, rights and shares granted on grant date. Further information in relation to KMP remuneration can be found in the directors' report.

Q TECHNOLOGY GROUP LIMITED AND CONTROLLED ENTITIES

NOTES TO THE FINANCIAL STATEMENTS FOR YEAR ENDED 30 JUNE 2014

NOTE 8: AUDITORS' REMUNERATION

	Consolidated Group	
	2014 \$'000	2013 \$'000
Note		
Remuneration of the auditor of the parent entity for:		
- auditing or reviewing the financial statements	82	135

NOTE 9: DIVIDENDS

No dividends were paid or provided for during the year (2013: Nil).

NOTE 10: EARNINGS PER SHARE

	Note	Consolidated Group	
		2014 \$'000	2013 \$'000
a. Reconciliation of earnings to profit / (loss)			
Profit/(loss)		(799)	158
Earnings used to calculate basic and dilutive EPS		(799)	158
b. Reconciliation of earnings to profit or (loss) from continuing operations			
Profit/(loss) from continuing operations		(799)	(2,047)
Earnings used to calculate basic and dilutive EPS from continuing operations		(799)	(2,047)
c. Reconciliation of earnings to profit or loss from discontinuing operations			
Profit/(Loss) from discontinuing operations		-	(2,205)
Earnings used to calculate basic EPS from discontinuing operations		-	(2,205)
d. Weighted average number of ordinary shares outstanding during the year used in calculating basic EPS	21	194,695,771	194,695,771
Weighted average number of dilutive options outstanding		-	-
Weighted average number of ordinary shares and options outstanding during the year used in calculating dilutive EPS	21	194,695,771	194,695,771
e. Diluted earnings per share is not reflected for discontinued operations as the result is anti-dilutive in nature		-	-
f. Anti-dilutive options on issue not used in dilutive EPS calculation		2,700,000	-

Q TECHNOLOGY GROUP LIMITED AND CONTROLLED ENTITIES

NOTES TO THE FINANCIAL STATEMENTS FOR YEAR ENDED 30 JUNE 2014

NOTE 11: CASH AND CASH EQUIVALENTS

	Consolidated Group	
	2014 \$'000	2013 \$'000
Cash at bank and in hand	223	320
27	223	320

There are no short term bank deposits at 30 June 2014.

Cash at the end of the financial year as shown in the statement of cash flows is reconciled to items in the statement of financial position as follows:

	Consolidated Group	
	2014 \$'000	2013 \$'000
Cash and cash equivalents	223	320
Invoice Discounting Facility	(1,438)	(1,911)
	(1,215)	(1,591)

A floating charge over cash and cash equivalents has been provided for certain debts. Refer to Note 18 for further details.

NOTE 12: TRADE AND OTHER RECEIVABLES

	Consolidated Group	
	2014 \$'000	2013 \$'000
CURRENT		
Trade receivables	4,896	5,376
Provision for impairment	(444)	(304)
	4,452	5,072
 Other receivables	-	86
Provision for impairment	-	(83)
	-	3
Total current trade and other receivables	4,452	5,075

Q TECHNOLOGY GROUP LIMITED AND CONTROLLED ENTITIES

NOTES TO THE FINANCIAL STATEMENTS FOR YEAR ENDED 30 JUNE 2014

NOTE 12: TRADE AND OTHER RECEIVABLES (continued)

a. Provision for Impairment of Receivables

Current trade receivables are non-interest bearing loans and generally on 30-day terms from statement date. Non-current trade receivables are assessed for recoverability based on the underlying terms of the contract. A provision for impairment is recognised when there is objective evidence that an individual trade receivable is impaired. These amounts have been included in the other expenses item.

Movement in the provision for impairment of receivables is as follows:

	Consolidated Group		
	Opening Balance 01-07-2013 \$'000	Charge for the Year \$'000	Closing Balance 30-06-2014 \$'000
(i) Current trade receivables	304	397	444
(ii) Current other receivables	83	-	-
	387	397	444

	Opening Balance 01-07-2012 \$'000	Charge for the Year \$'000	Closing Balance 30-06-2013 \$'000
(i) Current trade receivables	363	-	304
(ii) Current other receivables	83	-	83
	446	-	387

b. Credit Risk - Trade and Other Receivables

The Group has some credit risk with respect to a single counterparty or group of counterparties other than those receivables specifically provided for per Operating Segments note. The class of assets described as Trade and Other Receivables is considered to be the main source of credit risk related to the Group.

The following table details the Group's trade and other receivables exposed to credit risk (prior to collateral and other credit enhancements) with ageing analysis and impairment provided for thereon. Amounts are considered as 'past due' when the debt has not been settled, with the terms and conditions agreed between the Group and the customer or counterparty to the transaction. Receivables that are past due are assessed for impairment and are provided for where there are specific circumstances indicating that the debt may not be fully repaid to the Group.

Q TECHNOLOGY GROUP LIMITED AND CONTROLLED ENTITIES

NOTES TO THE FINANCIAL STATEMENTS FOR YEAR ENDED 30 JUNE 2014

NOTE 12: TRADE AND OTHER RECEIVABLES (continued)

The balances of receivables that remain within initial trade terms (as detailed in the table) are considered to be of high credit quality.

	Gross amount \$'000	Past due and impaired \$'000	Past due but not impaired (days overdue)				Within initial trade terms \$'000
			< 30 \$'000	31-60 \$'000	61-90 \$'000	> 90 \$'000	
2014							
Trade receivables	4,896	444	1,427	346	103	261	2,315
Other receivables	-	-	-	-	-	-	-
Total	4,896	444	1,427	346	103	261	2,315
2013							
Trade receivables	5,376	304	1,727	750	222	122	2,250
Other receivables	86	83	-	-	-	-	3
Total	5,462	387	1,727	750	222	122	2,253

c. Financial assets classified as loans and receivables

	Note	Consolidated Group	
		2014 \$'000	2013 \$'000
Trade and other receivables			
- Total current	27	4,452	5,075
Financial assets		4,452	5,075

d. Collateral pledged

A floating charge over trade receivables has been provided for certain debts. Refer to Note 18 for further details.

NOTE 13: INVENTORIES

	Consolidated Group	
	2014 \$'000	2013 \$'000
CURRENT		
Finished goods at lower of cost	6,787	8,026
	6,787	8,026

Q TECHNOLOGY GROUP LIMITED AND CONTROLLED ENTITIES

NOTES TO THE FINANCIAL STATEMENTS FOR YEAR ENDED 30 JUNE 2014

NOTE 14: CONTROLLED ENTITIES

a. Controlled Entities Consolidated

The subsidiaries listed below have share capital consisting solely of ordinary shares which are held directly by the group. The proportion of ownership interest held equals the voting rights held by the group. Each subsidiary's principal place of business is also its country of incorporation.

	Country of Incorporation	Percentage Owned (%)	
		2014	2013
Subsidiaries of Q Technology Group Ltd:			
-	QRSciences Security Pty Ltd	100	100

b. Disposal of Controlled Entities

During the 2013 financial year the parent entity disposed of its interest in API Services and Solutions Pty Ltd. No remaining interests in the entity were held by any member of the consolidated entity. Refer to Note 6.

c. Acquisition of Controlled Entities

No acquisition activity took place during the 2014 financial year.

Q TECHNOLOGY GROUP LIMITED AND CONTROLLED ENTITIES

NOTES TO THE FINANCIAL STATEMENTS FOR YEAR ENDED 30 JUNE 2014

NOTE 15: PROPERTY, PLANT AND EQUIPMENT

	Note	Consolidated Group 2014 \$'000	2013 \$'000
<u>Plant and equipment:</u>			
At cost		1,330	1,267
Accumulated depreciation		(916)	(810)
Total Plant and Equipment		414	457
 <u>Plant and equipment under finance lease</u>			
At cost		-	-
Accumulated amortisation		-	-
Total Plant and Equipment under finance lease		-	-
Total Property, Plant and Equipment		414	457

a. Movements in Carrying Amounts

Movements in the carrying amounts for each class of property, plant and equipment between the beginning and the end of the current financial year

	Consolidated Group		
	Plant and equipment under lease \$'000	Plant and equipment \$'000	Total \$'000
Balance at 1 July 2013	-	457	457
Additions	-	92	92
Disposals	-	(28)	(28)
Disposal of discontinued operations	-	-	-
Depreciation / Amortisation expense	-	(115)	(115)
Balance at 30 June 2014	-	414	414
 Balance at 1 July 2012	841	1,986	2,827
Additions	-	100	100
Disposals	-	(14)	(14)
Disposal of discontinued operations	(841)	(1,476)	(2,317)
Depreciation / Amortisation expense	-	(139)	(139)
Balance at 30 June 2013	-	457	457

Q TECHNOLOGY GROUP LIMITED AND CONTROLLED ENTITIES

NOTES TO THE FINANCIAL STATEMENTS FOR YEAR ENDED 30 JUNE 2014

NOTE 16: OTHER ASSETS

	Consolidated Group	
	2014	2013
Note	\$'000	\$'000
CURRENT		
Prepayments	121	113
Other	123	100
	244	213

NOTE 17: TRADE AND OTHER PAYABLES

	Consolidated Group	
	2014	2013
Note	\$'000	\$'000
CURRENT		
Unsecured liabilities		
Trade payables	4,153	5,411
Sundry payables and accrued expenses	805	495
27	4,958	5,906

NOTE 18: BORROWINGS

	Consolidated Group	
	2014	2013
Note	\$'000	\$'000
<u>CURRENT</u>		
Secured liabilities		
Lease liability	22 109	25
Debtor Finance Facility	18(i) 1,438	1,911
Total current borrowings	1,547	1,936
 NON-CURRENT		
Secured liabilities		
Lease liability	22 7	25
Total non-current borrowings	7	25
Total borrowings	27 1,554	1,961

a. Total current and non-current secured liabilities

	Consolidated Group	
	2014	2013
Note	\$'000	\$'000
Debtor Finance Facility	(i) 1,438	1,911
Lease Liability	22 116	50
	1,554	1,961

Q TECHNOLOGY GROUP LIMITED AND CONTROLLED ENTITIES

NOTES TO THE FINANCIAL STATEMENTS FOR YEAR ENDED 30 JUNE 2014

NOTE 18: BORROWINGS (continued)

(i). Bank of Melbourne

As at 30 June 2014, the Group had a Multi Option Facility with Bank of Melbourne comprising Invoice Discounting, Trade financing, Bank Guarantee and Finance Lease up to \$4.5 million. The facility has a yearly review and renewal process with next review set on 30 June 2015. Interest is charged at an effective rate of 6.25% along with an unused line fee on the debtor finance facility of 0.6%. The Group at year end owed \$1.4 million to Bank of Melbourne.

Financial covenants require under this facility are as follow:

- Interest cover ratio (EBIT divided by interest expense) of 1.5 times or greater;
- Current ratio (current assets divided by current liabilities) of at least 1.2 times; and
- Gearing ratio (total liabilities divided by total tangible assets) of at least 1.5 times.

The directors recognise that the current funding facility with Bank of Melbourne is subject to yearly renewal and expires on 30 June 2015 and the Group is reliant on the facility for its working capital requirements.

Access was available at balance date to the following lines of credit:

	Consolidated Group	
	2014	2013
	\$'000	\$'000
Invoice Discounting	4,000	4,000
Bank Guarantee	500	500
Total facility	4,500	4,500
Used at balance date	1,497	1,970
Unused at balance date	3,003	2,530

Financial Covenant Compliance

The Group had complied with all covenants set up in the agreement except for interest cover due to one-off adjustments. As a consequence, Bank of Melbourne issued a breach notice noting interest cover breach and that no action is to be taken as 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.

Collateral Provided

Bank of Melbourne has first registered security over the assets and undertakings of Q Technology Group Limited.

Finance leases are secured by leased assets.

Q TECHNOLOGY GROUP LIMITED AND CONTROLLED ENTITIES

NOTES TO THE FINANCIAL STATEMENTS FOR YEAR ENDED 30 JUNE 2014

NOTE 19: TAX

		Consolidated Group	
		2014	2013
	Note	\$'000	\$'000
NON CURRENT			
Deferred Tax Assets		975	955
Deferred Tax Liabilities		(111)	(23)
		864	932

Non-Current	Opening Balance	Charged to Income	Sale of Controlled Entity	Closing Balance
	\$'000	\$'000	\$'000	\$'000
Deferred Tax Asset				
2014				
Deferred tax asset relates to temporary differences arising from the following:				
Trade and other receivables (provision for impairment)	92	41	-	133
Inventory (provision for impairment)	169	26	-	195
Accrued expenses	14	5	-	19
Foreign currency balances	21	(21)	-	-
Provision for employee entitlements	120	15	-	135
Unused tax losses (Revenue losses)	453	-	-	453
Unused tax losses (Capital losses)	38	(38)	-	-
Other	49	(9)	-	40
Balance at 30 June 2014r	955	20	-	975

2013

Deferred tax asset relates to temporary differences arising from the following:

Trade and other receivables (provision for impairment)	109	7	(24)	92
Inventory (provision for impairment)	375	(97)	(109)	169
Accrued expenses	82	(68)	-	14
Foreign currency balances	-	21	-	21
Provision for employee entitlements	490	86	(456)	120
Unused tax losses (Revenue losses)	453	-	-	453
Unused tax losses (Capital losses)	38	-	-	38
Other	53	(4)	-	49
Balance at 30 June 2013	1,600	(55)	(589)	955

Q TECHNOLOGY GROUP LIMITED AND CONTROLLED ENTITIES

NOTES TO THE FINANCIAL STATEMENTS FOR YEAR ENDED 30 JUNE 2014

NOTE 19: TAX (continued)

Non-Current	Opening Balance	Charged to Income	Sale of Controlled Entity	Closing Balance
Deferred Tax Liability	\$'000	\$'000	\$'000	\$'000

2014

Deferred tax liability relates to temporary differences arising from the following:

Prepayments	23	(23)	-	-
Foreign Currency Balances	-	111	-	111
Balance at 30 June 2014	23	88	-	111

2013

Deferred tax liability relates to temporary differences arising from the following:

Prepayments	88	(18)	(47)	23
Foreign Currency Balances	36	(36)	-	-
Balance at 30 June 2013	124	(54)	(47)	23

Deferred tax assets not brought to account, the benefits of which will only be realised if the conditions for deductibility set out in Note 1 (b) occur are as follows:

	Consolidated Group	
	2014 \$'000	2013 \$'000
	Note	
Tax losses		
- Revenue	1,415	1,163
- Capital	-	357

These amounts have no expiry date.

Q TECHNOLOGY GROUP LIMITED AND CONTROLLED ENTITIES

NOTES TO THE FINANCIAL STATEMENTS FOR YEAR ENDED 30 JUNE 2014

NOTE 20: PROVISIONS

Consolidated Group	Annual leave \$'000	Long service leave \$'000	Total \$'000
Opening balance at 1 July 2013	228	107	335
Additional Provision	58	57	115
Balance at 30 June 2014	286	164	450

Analysis of Total Provisions

	Note	Consolidated Group	
		2014 \$'000	2013 \$'000
Current		379	318
Non-current		71	23
Total		450	335

Provision for Employee Benefits

Provision for employee benefits represents amounts accrued for annual leave and long service leave.

The current portion for this provision includes the total amount accrued for annual leave entitlements and the amounts accrued for long service leave entitlements that have vested due to employees having completed the required period of service. Based on past experience, the Group does not expect the full amount of annual leave or long service leave balances classified as current liabilities to be settled within the next 12 months. However, these amounts must be classified as current liabilities since the Group does not have an unconditional right to defer the settlement of these amounts in the event employees wish to use their leave entitlement.

The non-current portion for this provision includes amounts accrued for long service leave entitlements that have not yet vested in relation to those employees who have not yet completed the required period of service.

In calculating the present value of future cash flows in respect of long service leave, the probability of long service leave being taken is based on historical data. The measurement and recognition criteria relating to employee benefits have been discussed in Note 1(j).

Q TECHNOLOGY GROUP LIMITED AND CONTROLLED ENTITIES

NOTES TO THE FINANCIAL STATEMENTS FOR YEAR ENDED 30 JUNE 2014

NOTE 21: ISSUED CAPITAL

	Consolidated Group	
	2014	2013
Notes	\$'000	\$'000
194,695,771 (2013:194,695,771) fully paid ordinary shares	72,385	72,385
	72,385	72,385

The company has share capital amounting to 194,695,771 ordinary shares.

a. Ordinary Shares

	Note	2014 No.	2013 No.
At the beginning of reporting period		194,695,771	194,695,771
Movements in the reporting period		-	-
At the end of the reporting period	10	194,695,771	194,695,771

Ordinary shares participate in dividends and the proceeds on winding up of the parent entity in proportion to the number of shares held.

At the shareholders' meetings each ordinary share is entitled to one vote when a poll is called, otherwise each shareholder has one vote on a show of hands.

Q TECHNOLOGY GROUP LIMITED AND CONTROLLED ENTITIES

NOTES TO THE FINANCIAL STATEMENTS FOR YEAR ENDED 30 JUNE 2014

NOTE 21: ISSUED CAPITAL (continued)

Capital Management

The Group's objectives when managing capital are to safeguard their ability to continue as a going concern, so that they can continue to provide returns for shareholders and benefits for other stakeholders and to maintain an optimal capital structure to reduce the cost of capital. In order to maintain or adjust the capital structure, the Group may adjust the amount of dividends paid to shareholders, return capital to shareholders, issue new shares or sell assets to reduce debt.

The Group monitors capital on the basis of the gearing ratio. This ratio is calculated as net debt divided by total capital. Net debt is calculated as total borrowings (including 'borrowings' and 'trade and other payables' as shown in the balance sheet) less cash and cash equivalents. Total capital is calculated as 'equity' as shown in the balance sheet plus net debt.

The gearing ratios for the years ended 30 June 2014 and 30 June 2013 are as follows:

	Notes	Consolidated Group	
		2014 \$'000	2013 \$'000
Total payables and borrowings	18,19	6,512	7,867
Less cash and cash equivalents	11	(223)	(320)
		6,289	7,547
Total equity		6,022	6,821
Total capital		12,311	14,368
Gearing ratio		51.0%	52.5%

Q TECHNOLOGY GROUP LIMITED AND CONTROLLED ENTITIES

NOTES TO THE FINANCIAL STATEMENTS FOR YEAR ENDED 30 JUNE 2014

NOTE 22: CAPITAL AND LEASING COMMITMENTS

a. Finance Lease Commitments

	Consolidated Group	
	2014	2013
Notes	\$'000	\$'000
Payable - minimum lease payments		
- not later than 12 months	113	25
- between 12 months and 5 years	8	25
- greater than 5 years	-	-
Minimum lease payments	121	56
Less future finance charges	(5)	(6)
Present value of minimum lease payments	116	50

The Group leases various plant and equipment and motor vehicles under finance leases expiring within one to five years. Under the terms of the leases, the Group has to acquire leased asset at the residual value on the expiry of the lease. Finance leases are secured by leased assets.

b. Operating Lease Commitments

	Consolidated Group	
	2014	2013
Notes	\$'000	\$'000
Payable - minimum lease payments		
- not later than 12 months	561	214
- between 12 months and 5 years	933	411
- later than 5 years	-	-
	1,494	625

The Group leases various offices and warehouses under non-cancellable operating leases expiring within one to five years. These leases have varying terms. On renewal, the terms of the lease are renegotiable.

Q TECHNOLOGY GROUP LIMITED AND CONTROLLED ENTITIES

NOTES TO THE FINANCIAL STATEMENTS FOR YEAR ENDED 30 JUNE 2014

NOTE 23: EVENTS AFTER THE REPORTING PERIOD

Since the end of the financial year QRSciences Security Pty Ltd 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 FY2015. 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 that attainment of the current business plan targets demonstrates ability to comply with bank covenants.

NOTE 24: OPERATING SEGMENTS

General Information

Identification of reportable segments

The Group has identified its operating segments based on the internal reports that are reviewed and used by the Board of Directors (chief operating decision makers) in assessing performance and determining the allocation of resources.

The Group is managed primarily on the basis of product category and service offerings since the diversifications of the Group's operations inherently have notably different risk profiles and performance assessment criteria. Operating segments are therefore determined on the same basis.

Reportable segments disclosed are based on aggregating operating segments where the segments are considered to have similar economic characteristics and are also similar with respect to the following:

- the products sold and/or services provided by the segment;
- the type or class of customer for the products or service;
- the distribution method; and
- any external regulatory requirements

Types of products and services by segment

(i) Investment

Q Technology Group Ltd is an investment company that continues to explore and evaluate investment opportunities.

(ii) Closed Circuit Television (CCTV) Distribution

The distribution segment imports and distributes CCTV, alarm intrusion and access control equipment primarily via its wholly owned subsidiary QRSciences Security Pty Ltd (QRSS). QRSS comprises two product groups, which are Q Video Systems, and Q Alarm Supplies. These product groups are aggregated as one reportable segment as the products are similar in nature and distributed to similar types of customers and trades as Q Security Systems (QSS).

Q TECHNOLOGY GROUP LIMITED AND CONTROLLED ENTITIES

NOTES TO THE FINANCIAL STATEMENTS FOR YEAR ENDED 30 JUNE 2014

NOTE 24: OPERATING SEGMENTS (continued)

Basis of accounting for purposes of reporting by operating segments

Accounting policies adopted

Unless stated otherwise, all amounts reported to the Board of Directors as the chief decision maker with respect to operating segments are determined in accordance with accounting policies that are consistent to those adopted in the annual financial statements of the Group.

Intersegment transactions

Q Technology Group Ltd provides staff services to its wholly owned subsidiary QRSciences Security Pty Ltd. All such transactions are eliminated on consolidation for the Group's Financial Statements.

Intersegment loans payable and receivable exist between the following entities:

- QRSciences Security Pty Ltd to Q Technology Group Ltd

Segment assets

Where an asset is used across multiple segments, the asset is allocated to the segment that receives the majority of economic value from the asset. In the reporting period, segment assets are clearly identifiable to a specific segment on the basis of their nature and physical location.

Segment liabilities

Liabilities are allocated to segments where there is direct nexus between the incurrence of the liability and the operations of the segment. Tax liabilities are generally considered to relate to the Group as a whole and are not allocated. Segment liabilities include trade and other payables and certain direct borrowings.

Unallocated items

The following items of revenue, expense, assets and liabilities are not allocated to operating segments as they are not considered part of the core operations of any segment:

- finance costs;
- deferred tax assets and liabilities; and
- discontinuing operations

Q TECHNOLOGY GROUP LIMITED AND CONTROLLED ENTITIES

NOTES TO THE FINANCIAL STATEMENTS FOR YEAR ENDED 30 JUNE 2014

NOTE 24: OPERATING SEGMENTS (continued)

Segment information

(i) Segment performance

30 June 2014	Investment \$'000	CCTV Distribution \$'000	Services and Solutions \$'000	Total \$'000
Revenue				
External sales	-	25,827	-	25,827
Intersegment sales	-	-	-	-
Interest revenue	-	2	-	2
Total segment revenue	-	25,829	-	25,829
<i>Reconciliation of segment revenue to group revenue</i>				
Intersegment elimination	-	-	-	-
(Revenue) from discontinued operations	-	-	-	-
Total group revenue	-	25,829	-	25,829
Segment net profit/(loss) before tax	(744)	470		(274)
<i>Reconciliation of segment result to group net profit/(loss) before tax</i>				
Amounts not included in segment result but reviewed by the Board:				
Depreciation and amortisation				(115)
Unallocated items:				-
Finance Costs				(343)
Net gain on disposal of discontinued operation				-
Net operating loss of discontinued operation				-
Net profit /(loss) before tax from continuing operations				(732)

Q TECHNOLOGY GROUP LIMITED AND CONTROLLED ENTITIES

NOTES TO THE FINANCIAL STATEMENTS FOR YEAR ENDED 30 JUNE 2014

NOTE 24: OPERATING SEGMENTS (continued)

30 June 2013	Investment \$'000	CCTV Distribution \$'000	Services and Solutions \$'000	Total \$'000
Revenue				
External sales	-	23,929	6,406	30,335
Intersegment sales	-	181	-	181
Interest revenue	1	2	-	3
Total segment revenue	1	24,112	6,406	30,519
<i>Reconciliation of segment revenue to group revenue</i>				
Intersegment elimination				(181)
(Revenue) from discontinued operations				(6,406)
Total group revenue				23,932
Segment net profit/(loss) before tax	782	1,404	91	2,277
<i>Reconciliation of segment result to group net profit/(loss) before tax</i>				
Amounts not included in segment result but reviewed by the Board:				
Depreciation and amortisation	-	(221)	(168)	(389)
Unallocated items:				
Finance costs				(1,730)
Net gain on disposal of discontinued operation				(2,320)
Net operating loss of discontinued operation				115
Net profit before tax from continuing operations				(2,047)

Q TECHNOLOGY GROUP LIMITED AND CONTROLLED ENTITIES

NOTES TO THE FINANCIAL STATEMENTS FOR YEAR ENDED 30 JUNE 2014

NOTE 24: OPERATING SEGMENTS (continued)

(ii) Segment assets

30 June 2014	Investment \$'000	CCTV Distribution \$'000	Services and Solutions \$'000	Total \$'000
Segment assets	5,729	15,134	-	20,863
Segment asset increases for the period:				
- Capital expenditure	-	92	-	92
<i>Reconciliation of segment assets to group assets</i>				
Intersegment eliminations				(8,632)
Unallocated assets:				-
Deferred tax assets				864
Total group assets from continuing operations				13,095

30 June 2013	Investment \$'000	CCTV Distribution \$'000	Services and Solutions \$'000	Total \$'000
Segment assets	6,212	15,396	-	21,608
Segment asset increases for the period:				
- Capital expenditure	-	100	-	100
<i>Reconciliation of segment assets to group assets</i>				
Intersegment eliminations				(7,517)
Unallocated assets:				
Deferred tax assets				932
Total group assets from continuing operations				15,023

Q TECHNOLOGY GROUP LIMITED AND CONTROLLED ENTITIES

NOTES TO THE FINANCIAL STATEMENTS FOR YEAR ENDED 30 JUNE 2014

NOTE 24: OPERATING SEGMENTS (continued)

(iii) Segment liabilities

30 June 2014	Investment \$'000	CCTV Distribution \$'000	Services and Solutions \$'000	Total \$'000
Segment liabilities	2,068	6,738	-	8,806

Reconciliation of segment liabilities to group liabilities

Intersegment eliminations (1,844)

Unallocated Liabilities:

- Current tax liabilities

Total liabilities from continuing operations **6,962**

30 June 2013	Investment \$'000	CCTV Distribution \$'000	Services and Solutions \$'000	Total \$'000
Segment liabilities	1,802	8,613	-	10,415

Reconciliation of segment liabilities to group liabilities

Intersegment eliminations (2,213)

Unallocated Liabilities:

- Current tax liabilities

Total liabilities from continuing operations **8,202**

(iv) Revenue and Assets by geographical region

The company operates in one geographical area, being Australia.

(v) Major customers

QRSciences Security Pty Ltd has a diversified customer base that contributes to the sales of the business and the top 10 customers account for 31.0% of the sales revenue for the business. Included in these numbers is one customer which represented 18.0% (\$4.74 million) of sales revenue for the 2014 financial year. The business continues to diversify its customer base to ensure that no major customer will become a critical source of revenue for the business.

Q TECHNOLOGY GROUP LIMITED AND CONTROLLED ENTITIES

NOTES TO THE FINANCIAL STATEMENTS FOR YEAR ENDED 30 JUNE 2014

NOTE 25: CASH FLOW INFORMATION

a. Reconciliation of Cash Flow from Operations with Profit after Income Tax

	Note	Consolidated Group	
		2014 \$'000	2013 \$'000
Profit/(loss) after income tax		(799)	158
Non-cash flows in profit			
- Depreciation and amortisation		115	139
- Net gain on sale of investments		-	(2,230)
- Net loss/(gain) on sale of plant & equipment		20	(10)
Changes in assets and liabilities			
- (Increase)/decrease in receivables		623	(808)
- (Increase)/decrease in inventories		1,239	(1,729)
- (Increase)/decrease in other assets		(31)	4
- Increase/(decrease) in payables		(948)	744
- Increase/(decrease) in deferred tax		62	2
- Increase/(decrease) in provisions		115	272
Net cash inflow/(outflow) from operating activities		402	(3,458)

Q TECHNOLOGY GROUP LIMITED AND CONTROLLED ENTITIES

NOTES TO THE FINANCIAL STATEMENTS FOR YEAR ENDED 30 JUNE 2014

NOTE 25: CASH FLOW INFORMATION (continued)

b. Disposal of entities

Controlled entity API Services and Solutions Pty Ltd was sold in 2013. Aggregate details of this transaction are:

	Note	Consolidated Group	
		2014 \$'000	2013 \$'000
Disposal price		-	13,100
Cash consideration		-	13,100
Assets and liabilities held at disposal date:			
Cash assets		-	375
Receivables		-	4,375
Inventory		-	3,198
Goodwill		-	4,028
Property, plant and equipment		-	2,317
Other assets		-	422
Deferred tax assets		-	542
Trade & other payables		-	(2,803)
Borrowings		-	(957)
Provisions		-	(717)
		-	10,780
Profit on disposal		-	2,320
Net cash received		-	12,725

NOTE 26: RELATED PARTY TRANSACTIONS

Transactions between related parties are on normal commercial terms and conditions no more favourable than those available to other parties unless otherwise stated.

Interest expenses associated with loan payable to Helmsman Capital Fund Trust IIB of 2012 were incurred in 2013.

	Note	Consolidated Group	
		2014 \$'000	2013 \$'000
Income statement			
Interest expense		-	1,050
Termination fee expensed		-	167
		-	1,217

Q TECHNOLOGY GROUP LIMITED AND CONTROLLED ENTITIES

NOTES TO THE FINANCIAL STATEMENTS FOR YEAR ENDED 30 JUNE 2014

NOTE 27: FINANCIAL RISK MANAGEMENT

- (a) The Group's financial instruments consist mainly of deposits with banks, accounts receivable and payable, banks and other borrowings.

The totals for each category of financial instruments, measured in accordance with AASB 139 as detailed in the accounting policies to these financial statements, are as follows:

- (b) Parent Entity
The parent entity within the Group is Q Technology Group Limited who is also the ultimate parent entity.
- (c) Subsidiaries
Subsidiaries are set out in note 14.

	Notes	Consolidated Group	
		2014 \$'000	2013 \$'000
Financial Assets			
Cash and cash equivalents	11	223	320
Loans and receivables at amortised cost	12	4,452	5,075
Total Financial Assets		4,675	5,395
Financial Liabilities			
Financial liabilities at amortised cost			
- Trade and other payables	17	4,958	5,906
- Borrowings	18	1,554	1,961
Total Financial Liabilities		6,512	7,867

Financial Risk Management Policies

The Risk and Audit Committee (RAC) has been delegated with responsibility by the Board of Directors for, amongst other issues, monitoring and managing financial risk exposures of the Group. The RAC monitors the Group's financial risk management policies and exposures and approves financial transactions within the scope of its authority. It also reviews the effectiveness of internal controls relating to commodity price risk, counterparty credit risk, currency risk, financing risk and interest rate risk

The RAC's overall risk management strategy seeks to assist the consolidated group in meeting its financial targets, while minimising potential adverse effects on financial performance. Its functions include the review of the use of hedging derivative instruments, credit risk policies and future cash flow requirements.

Specific Financial Risk Exposures and Management

The main risks the Group is exposed to through its financial instruments are credit risk, liquidity risk and market risk consisting of interest rate risk, foreign currency risk and commodity and equity price risk.

NOTE 27: FINANCIAL RISK MANAGEMENT (continued)

Q TECHNOLOGY GROUP LIMITED AND CONTROLLED ENTITIES

NOTES TO THE FINANCIAL STATEMENTS FOR YEAR ENDED 30 JUNE 2014

a. Credit Risk

Exposure to credit risk relating to financial assets arises from the potential non-performance by counterparties of contract obligations that could lead to a financial loss to the Group.

Credit risk is managed through the maintenance of procedures (such procedures include the utilisation of systems for the approval, granting and renewal of credit limits, regular monitoring of exposures against such limits and monitoring of the financial stability of significant customers and counterparties), ensuring to the extent possible, that customers and counterparties to transactions are of sound credit worthiness. Such monitoring is used in assessing receivables for impairment. Credit terms are generally 30 days from the invoice date.

Risk is also minimised through investing surplus funds in financial institutions that maintain a high credit rating. Where the Group is unable to ascertain a satisfactory credit risk profile in relation to a customer or counterparty, the risk may be further managed through title retention clauses over goods or obtaining security by way of personal or commercial guarantees over assets of sufficient value which can be claimed against in the event of any default.

Credit Risk Exposures

The maximum exposure to credit risk by class of recognised financial assets at balance date, excluding the value of any collateral or other security held, is equivalent to the carrying value and classification of those financial assets (net of any provisions) as presented in the statement of financial position.

The Group has no significant concentration of credit risk with any single counterparty or group of counterparties. However, on a geographical basis, the Group has significant credit risk exposures to Australia. Details with respect to credit risk of Trade and Other Receivables are provided in Note 12.

Trade and other receivables that are neither past due or impaired are considered to be of high credit quality. Aggregates of such amounts are as detailed in Note 12.

Credit risk related to balances with banks and other financial institutions is managed by the RAC in accordance with approved Board policy. Such policy requires that surplus funds are only invested with counterparties with a rating of at least AA-. The following table provides information regarding the credit risk relating to cash and money market securities:

Consolidated Group		
	2014	2013
Note	\$'000	\$'000
Cash and cash equivalents		
- AA Rated	11	
	223	320
	223	320

Q TECHNOLOGY GROUP LIMITED AND CONTROLLED ENTITIES

NOTES TO THE FINANCIAL STATEMENTS FOR YEAR ENDED 30 JUNE 2014

NOTE 27: FINANCIAL RISK MANAGEMENT (continued)

b. Liquidity Risk

Liquidity risk arises from the possibility that the Group might encounter difficulty in settling its debts or otherwise meeting its obligations related to financial liabilities. The Group manages this risk through the following mechanisms:

- preparing forward looking cash flow analysis in relation to its operational, investing and financing activities
- monitoring undrawn credit facilities
- obtaining funding from a variety of sources
- maintaining a reputable credit profile
- managing credit risk related to financial assets
- only investing surplus cash with major financial institutions, and
- comparing the maturity profile of financial liabilities with the realisation profile of financial assets.

The tables below reflect an undiscounted contractual maturity analysis for financial liabilities. Bank overdrafts have been deducted in the analysis as management does not consider that there is any material risk that the bank will terminate such facilities. The bank does however maintain the right to terminate the facilities without notice and therefore the balances of overdrafts outstanding at year end could become repayable within 12 months. Financial guarantee liabilities are treated as payable on demand since the Group has no control over the timing of any potential settlement of the liabilities.

Cash flows realised from financial assets reflect management's expectation as to the timing of realisation. Actual timing may therefore differ from that disclosed. The timing of cash flows presented in the table to settle financial liabilities reflects the earliest contractual settlement dates and does not reflect management's expectations that banking facilities will be rolled forward.

Financial Liability and Financial Asset Maturity Analysis

\$'000	Consolidated Group							
	Within 1 Year		1 to 5 Years		Over 5 Years		Total	
	2014	2013	2014	2013	2014	2013	2014	2013
Financial liabilities due for payment								
Debtor Finance facility and loans	1,438	1,911	-	-	-	-	1,438	1,911
Trade and other payables	4,958	5,906	-	-	-	-	4,958	5,906
Finance lease liabilities	109	25	7	25	-	-	116	50
Total expected outflows	6,505	7,842	7	25	-	-	6,512	7,867
Financial assets - cash flows realisable								
Cash and cash equivalents	223	320	-	-	-	-	223	320
Trade, other and loans receivables	4,452	5,075	-	-	-	-	4,452	5,075
Total anticipated inflows	4,675	5,395	-	-	-	-	4,675	5,395
Net (outflow)/inflow on financial instruments	(1,830)	(2,447)	(7)	(25)	-	-	(1,837)	(2,472)

Q TECHNOLOGY GROUP LIMITED AND CONTROLLED ENTITIES

NOTES TO THE FINANCIAL STATEMENTS FOR YEAR ENDED 30 JUNE 2014

NOTE 27: FINANCIAL RISK MANAGEMENT (continued)

Financial Assets Pledged as Collateral

Certain financial assets have been pledged as security for debt and their realisation into cash may be restricted subject to terms and conditions attached to the relevant debt contracts. Refer to Note 18(b) for further details.

c. Market Risk

Interest rate risk

Exposure to interest rate risk arises on financial assets and financial liabilities recognised at the end of the reporting period whereby a future change in interest rates will affect future cash flows. The floating interest rates are based on 90 day bank bill swap rate plus 4.5% or effective interest rate of 7.37% as at 30 June 2014. The Group does not use derivatives to mitigate these exposures.

The net effective variable interest rate borrowings (i.e. unhedged debt) expose the Group to interest rate risk which will impact future cash flows and interest charges and are indicated by the following floating interest rate financial liabilities:

	Consolidated Group	
	2014	2013
Notes	\$'000	\$'000
Floating rate instruments		
Invoice Discounting facility	1,438	1,911
	1,438	1,911

Q TECHNOLOGY GROUP LIMITED AND CONTROLLED ENTITIES

NOTES TO THE FINANCIAL STATEMENTS FOR YEAR ENDED 30 JUNE 2014

NOTE 27: FINANCIAL RISK MANAGEMENT (continued)

Foreign exchange risk

Exposure to foreign exchange risk may result in the fair value or future cash flows of a financial instrument fluctuating due to movement in foreign exchange rates of currencies in which the Group holds financial instruments which are other than the AUD functional currency of the Group.

The following table shows the foreign currency risk on the financial assets and liabilities of the Group's operations denominated in currencies other than the functional currency of the operations.

Consolidated Group	Net financial assets/(liabilities) in AUD \$'000			
	2014		2013	
<i>Functional currency of Group entity</i>	<i>USD</i>	<i>Others</i>	<i>USD</i>	<i>Others</i>
<u>Financial assets</u>				
Trade and other receivable	-	-	-	-
<u>Financial liabilities</u>				
Trade and other payables	(2,563)	-	(3,516)	-
Statement of financial position exposure	(2,563)	-	(3,516)	-

Q TECHNOLOGY GROUP LIMITED AND CONTROLLED ENTITIES

NOTES TO THE FINANCIAL STATEMENTS FOR YEAR ENDED 30 JUNE 2014

NOTE 27: FINANCIAL RISK MANAGEMENT (continued)

Forward Exchange Contracts

The Group had open forward exchange contracts at balance date relating to highly probable forecast transactions and recognised financial assets and financial liabilities.

Other Price Risk

Other price risk relates to the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices largely due to demand and supply factors for commodities.

The Group is not subject to significant other price risk.

Sensitivity Analysis

The following table illustrates sensitivities to the Group's exposures to changes in interest rates and exchange rates. The table indicates the impact on how profit and equity values reported at balance date would have been affected by changes in the relevant risk variable that management considers to be reasonably possible. These sensitivities assume that the movement in a particular variable is independent of other variables.

	Consolidated Group	
	Profit / (Loss)	Other Equity
	\$'000	\$'000
<u>Year ended 30 June 2014</u>		
+/- 2% in interest rates	+/- 29	+/- 29
+/- 10.3% in \$A/\$US	+/- 281	+/- 281
<u>Year ended 30 June 2013</u>		
+/- 2% in interest rates	+/- 38	+/- 38
+/- 15.8% in \$A/\$US	+/- 556	+/- 556

Q TECHNOLOGY GROUP LIMITED AND CONTROLLED ENTITIES

NOTES TO THE FINANCIAL STATEMENTS FOR YEAR ENDED 30 JUNE 2014

NOTE 27: FINANCIAL RISK MANAGEMENT (continued)

Fair Values

Fair value estimation

The fair values of financial assets and financial liabilities are presented in the following table and can be compared to their carrying values as presented in the statement of financial position. Fair values are those amounts at which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm's length transaction.

Fair values derived may be based on information that is estimated or subject to judgment, where changes in assumptions may have a material impact on the amounts estimated. Areas of judgment and the assumptions have been detailed below. Where possible, valuation information used to calculate fair value is extracted from the market, with more reliable information available from markets that are actively traded. In this regard, fair values for listed securities are obtained from quoted market bid prices. Where securities are unlisted and no market quotes are available, fair value is obtained using discounted cash flow analysis and other valuation techniques commonly used by market participants.

Differences between fair values and carrying amounts of financial instruments with fixed interest rates are due to the change in discount rates being applied by the market since their initial recognition by the Group. Most of these instruments which are carried at amortised cost (i.e. term receivables, held-to-maturity assets, loan liabilities) are to be held until maturity and therefore the fair value figures calculated bear little relevance to the Group.

Consolidated Group		<u>2014</u>		<u>2013</u>	
		Net Carrying Amount \$'000	Fair Value \$'000	Net Carrying Amount \$'000	Fair Value \$'000
<u>Financial assets</u>					
Cash and cash equivalents	(i)	223	223	320	320
Trade and other receivables	(i)	4,452	4,452	5,075	5,075
Total financial assets		4,675	4,675	5,395	5,395
<u>Financial liabilities</u>					
Trade and other payables	(i)	4,958	4,958	5,906	5,906
Lease liability	(ii)	116	116	50	50
Debtor Finance Facility	(i)	1,438	1,438	1,911	1,911
Total financial liabilities		6,512	6,512	7,867	7,867

Q TECHNOLOGY GROUP LIMITED AND CONTROLLED ENTITIES

NOTES TO THE FINANCIAL STATEMENTS FOR YEAR ENDED 30 JUNE 2014

NOTE 27: FINANCIAL RISK MANAGEMENT (continued)

The fair values disclosed in the above table have been determined based on the following methodologies:

- (i) Cash and cash equivalents, trade and other receivables and trade and other payables including debtor finance facility are short-term instruments in nature whose carrying value is equivalent to fair value. Trade and other payables exclude amounts provided for annual leave, which is not considered a financial instrument.
- (ii) Fair values are determined using a discounted cash flow model incorporating current commercial borrowing rates. The fair values of fixed rate bank debt will differ to the carrying values.

NOTE 28: DEED OF CROSS GUARANTEE

Q Technology Group Limited and QRSciences Security Pty Ltd are parties to a deed of cross guarantee under which each company guarantees the debts of the others. By entering the deed, the wholly-owned entities have been relieved from the requirement to prepare a financial report and Director's report under class order 98/1418 issued by the Australian Securities and Investments Commission.

The consolidated statement of financial position as at 30 June 2014 represents the closed group who are parties to the deed of cross guarantee.

NOTE 29: RESERVES

Option Reserve

The option reserve records items recognised as expenses on valuation of employee share options.

NOTE 30: COMPANY DETAILS

The registered office of the company is:

Q Technology Group Limited	5/435 Williamstown Road, Port Melbourne VIC 3207
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The principal places of business are:

Q Technology Group Limited	5/435 Williamstown Road, Port Melbourne VIC 3207
QRSciences Security Pty Ltd	5/435 Williamstown Road, Port Melbourne VIC 3207

Q TECHNOLOGY GROUP LIMITED AND CONTROLLED ENTITIES

DIRECTORS' DECLARATION

The directors of the company declare that:

1. The financial statements and notes, as set out on pages 32 to 84, are in accordance with the *Corporations Act 2001* and:
 - a. comply with Australian Accounting Standards which, as stated in accounting policy Note 1 to financial statements, constitutes compliance with International Financial Reporting Standards (IFRS), and
 - b. give a true and fair view of the financial position as at 30 June 2014 and of the performance for the year ended on that date of the consolidated group.
2. In the directors' opinion there are reasonable grounds to believe that the company will be able to pay its debts as and when they become due and payable.
3. The directors have been given the declarations required by s 295A of the *Corporations Act 2001* from the Chief Executive Officer and Chief Financial Officer.

The company and wholly owned subsidiary QRSciences Security Pty Ltd, have entered into a deed of cross guarantee under which the company and its subsidiary guarantee the debts of each other.

At the date of this declaration, there are reasonable grounds to believe that the companies which are parties to this deed of cross guarantee will be able to meet any obligation or liabilities to which they are, or may become, subject to virtue of the deed.

This declaration is made in accordance with a resolution of the Board of Directors.



.....
Richard Stokes
Managing Director
29 September 2014

INDEPENDENT AUDITOR'S REPORT
TO THE MEMBERS OF
Q TECHNOLOGY GROUP LIMITED

Report on the Financial Report

We have audited the accompanying financial report of Q Technology Group Limited, which comprises the consolidated statement of financial position as at 30 June 2014, and the consolidated income statement, consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, notes comprising a summary of significant accounting policies and other explanatory information, and the directors' declaration of the consolidated entity comprising the company and the entities it controlled at the year's end or from time to time during the financial year.

Directors' Responsibility for the Financial Report

The directors of the company are responsible for the preparation of the 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 financial report that is free from material misstatement, whether due to fraud or error. In Note 1, the directors also state, in accordance with Accounting Standard AASB 101 *Presentation of Financial Statements*, that the financial statements comply with *International Financial Reporting Standards*.

Auditor's Responsibility

Our responsibility is to express an opinion on the financial report based on our audit. We conducted our audit in accordance with Australian Auditing Standards. These Auditing Standards require that we comply with relevant ethical requirements relating to audit engagements and plan and perform the audit to obtain reasonable assurance about whether the financial report is free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial report. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial report, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial report in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the financial report.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Independence

In conducting our audit, 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 Q Technology Group Limited, would be in the same terms if given to the directors as at the time of this auditor's report.

Opinion

In our opinion:

- (a) the financial report of Q Technology Group Limited is in accordance with the *Corporations Act 2001*, including:
 - (i) giving a true and fair view of the consolidated entity's financial position as at 30 June 2014 and of its performance for the year ended on that date; and
 - (ii) complying with Australian Accounting Standards and the *Corporations Regulations 2001*; and
- (b) the financial report also complies with *International Financial Reporting Standards* as disclosed in Note 1.

Report on the Remuneration Report

We have audited the Remuneration Report included in pages 15 to 22 of the directors' report for the year ended 30 June 2014. The directors of the company are responsible for the preparation and presentation of the Remuneration Report in accordance with section 300A of the *Corporations Act 2001*. Our responsibility is to express an opinion on the Remuneration Report, based on our audit conducted in accordance with Australian Auditing Standards.

Opinion

In our opinion the Remuneration Report of Q Technology Group Limited for the year ended 30 June 2014 complies with section 300A of the *Corporations Act 2001*.



RSM BIRD CAMERON PARTNERS



P A RANSOM

Partner

Melbourne, VIC
29 September 2014

Q TECHNOLOGY GROUP LIMITED AND CONTROLLED ENTITIES

ADDITIONAL INFORMATION FOR LISTED PUBLIC COMPANIES

The shareholder information set out below was applicable as at 31 August 2014.

Shareholding

a. Distribution of Shareholders

	Total holders	Ordinary Shares
Category (size of holding)		
1 – 1,000	193	93,080
1,001 – 5,000	270	719,801
5,001 – 10,000	117	889,872
10,001 – 100,000	367	13,532,891
100,001 – and over	159	180,829,839
Total	1,106	196,065,483

b. The number of shareholders with less than marketable parcels is 696.

c. The names of the substantial shareholders listed in the holding company's register as at 31 August 2014 are:

Shareholder	Number of ordinary shares
Bond Street Custodians Limited (Helmsman Capital Fund Trust IIA)	56,099,626
Cherryoak Investments Pty Ltd	17,872,467
NINETEEN25 PTY LIMITED <VH SUPERANNUATION FUND A/C>	9,800,000

a. Voting Rights

The voting rights attached to each class of equity security are as follows:

Ordinary shares	Each ordinary share is entitled to one vote when a poll is called, otherwise each member present at a meeting or by proxy has one vote on a show of hands.
Options	No voting rights.

Q TECHNOLOGY GROUP LIMITED AND CONTROLLED ENTITIES

ADDITIONAL INFORMATION FOR PUBLICLY LISTED COMPANIES

b. 20 Largest Shareholders — Ordinary Shares

	Number of Ordinary Fully Paid Shares Held	% Held of Issued Ordinary Capital
BOND STREET CUSTODIANS LIMITED <HELMSMAN CAP FUND TST IIA>	56,099,626	28.61
CHERRYOAK INVESTMENTS PTY LTD <C & N FAMILY A/C>	17,872,467	9.12
NINETEEN25 PTY LIMITED <VH SUPERANNUATION FUND A/C>	9,800,000	5.00
TALSTON PTY LTD <J P CORNISH P/L S/FUND A/C>	5,621,586	2.87
MR PETER HIGGINS + MRS JAYNE HIGGINS <SUPER FUND A/C>	5,000,000	2.55
CORNISH GROUP INVESTMENTS PTY LTD <CORNISH GROUP INVESTMENT AC>	3,823,320	1.95
USB WEALTH MANAGEMENT AUSTRALIA NOMINEES PTY LTD	3,638,554	1.86
STOKES SUPERANNUATION PTY LTD <STOKES SUPER FUND A/C>	3,183,078	1.62
WHITECHURCH DEVELOPMENTS PTY LTD	2,780,636	1.42
MR HENRY MICHAEL NOONAN <NOONAN SUPER FUND A/C>	2,671,817	1.36
MR ALBERT SERCHONG CHEN	2,461,236	1.26
SPANDAY PTY LTD <TENNYSON RETIREMENT S/F A/C>	2,063,000	1.05
MR PETER CHARLES BERMAN + MRS ROSLYN BARNCastle BERMAN	2,000,000	1.02
CANDIDE INVESTMENTS PTY LTD <CANDIDE SUPER FUND A/C>	2,000,000	1.02
MR ROBERT ADRIANO ROSA	2,000,000	1.02
MR RYAN COLBRAN	1,993,253	1.02
MR PAUL RIETHMAIER + MRS ANNE RIETHMAIER	1,848,167	0.94
AVANTEOS INVESTMENTS LIMITED <3934172 ZUGERHORN A/C>	1,800,000	0.92
BTG INTERNATIONAL LTD	1,733,557	0.88
MR TONY GANDEL + MRS HELEN GANDEL	1,558,320	0.79
Totals: Top 20 holders of ORDINARY FULLY PAID SHARES (TOTAL)	129,948,617	66.28
Total Remaining Holders Balance	66,116,866	33.72