

ASX ANNOUNCEMENT (ASX: QTG)

ASX Limited
Market Announcements Office

23 August 2016

QTG Trading Update and Non Renounceable Rights Issue**QTG Trading Update**

As announced on 29 July 2016, Q Technology Group Limited (ASX:QTG) (**QTG** or the **Company**) was pleased to report QTG results for the 2H of FY16 improved significantly on 1H FY16, which was as expected and forecast in December 2015.

Sales in 1H FY16 were \$9.9 million with a gross profit margin of 27.1%. In 2H FY16 sales increased to \$12.0 million with a gross profit margin of 28.7%. Underlying EBITDA for 2H FY16 was a positive \$35k representing a \$666k half on half improvement with an underlying EBIT of \$13k.

Following the successful on-boarding of new suppliers including Bosch, FLIR, DVTel and Dahua during the 2016 Financial Year the Board has now taken the conservative decision to fully provide for legacy stock on hand for these and other legacy suppliers as a one off abnormal adjustment to the FY16 accounts. This totalled \$1.75 million. In addition the Board decided to write off the existing deferred tax asset of \$635k due to past losses.

After legacy stock provisions and other one off adjustments, second half NPAT was a reported loss of \$2.7 million, taking the reported full year FY16 NPAT loss to \$3.45 million, after adjustments.

In December 2015 Q Security Services (**QSS**) signed a non-exclusive distribution agreement with China's second largest manufacturer of CCTV products which has assisted to revitalize the QSS trade and non-project customer business. Products were released to market later than expected due to comprehensive testing of product in compliance with Australian standards. QTG are pleased to report that run rate sales increased steadily once released. For the major project market, in December 2015 QSS became the "primary" distributor of FLIR video management (formerly DVTEL) products and solutions. This distribution was previously shared.

The consequent introduction of new distribution agreements together with a slower to market product release resulted in increased working capital requirements in FY16 and led the Board to embark on a capital raising process to improve levels of working capital and allow the business to fulfil supplier obligations and achieve its full potential.

The Board remains positive about the future of the business despite the one off adjustments in FY16 and believes the QTG Group is ready to deliver a stronger result in FY2017 with the quality of products that are capable of increasing sales and margins together with maintaining an appropriate focus on cost and inventory management.

QSS presently has \$2.2 million of back orders awaiting fulfilment and considerable purchase order commitments that require fulfilment in the 2016 calendar year.

Following the success of 2016 in building better products, suppliers and customers the Board has now turned its attention to improving QSS organisational efficiency to move to a more streamlined operating model with a target to remove up to \$750,000 in operating costs over the course of FY17. The plan for FY17, includes a range of structural changes and initiatives including:

- Centralised inventory procurement and distribution to reduce inter branch freight and logistics management as more direct to customer distribution occurs.
- Re-branching NSW, QLD and WA to move into lower footprint premises.
- Removal of warehousing and administration distractions from each branch.
- Realignment of the team at each branch to become a focused sales force.

- Launch an E-purchasing initiative and website, providing a more flexible purchasing experience.

Mini service centres will continue to operate at each sales location to ensure the Q Professional Services model can continue to add value to our existing and new client base. The Q Professional Services will continue to undertake FAT, SAT and assist in commissioning middle to high end systems for clients, if so required, and is a fully chargeable service.

The National Service Centre will manage complex warranty repairs and chargeable service jobs which are currently undertaken by branches to increase effectiveness. Simple repairs will be conducted at the local sales branch to reduce freight and timing delays.

The Board is focusing and implementing the next phase of the plan for QTG and is targeting a positive operating result for FY17 on the back of the P&L turnaround demonstrated over the last 6 months combined with the move to the streamlined operating model.

QTG Non-Renounceable Rights Issue

Following from this, QTG is pleased to announce a pro rata non-renounceable rights issue of new fully paid ordinary shares in the Company (**New Shares**) on the basis of 1 New Share for every 1 existing Share held by Eligible Shareholders on the Record Date, at an issue price of \$0.005 per New Share (**Offer Price**) to raise approximately \$1.96 million (**Rights Issue** or **Offer**).

The Offer is being made to Eligible Shareholders on the basis of the number of fully paid ordinary shares (**Shares**) held in the Company at 7.00 pm (AEST) on 30 August 2016 (**Record Date**).

Eligible Shareholders are those shareholders on the Record Date with a registered address in Australia or New Zealand (**Eligible Shareholders**).

Subject to ASIC approval of D2MX Pty Ltd (AFSL 297950) (**D2MX**) as nominee, D2MX will sell the securities of ineligible shareholders, with net proceeds (if any), distributed to the ineligible shareholders.

The Rights Issue is non-renounceable. Accordingly, there will be no trading of rights on the ASX, and Eligible Shareholders may not dispose of their rights to subscribe for New Shares under the Offer to any other party.

The net funds raised from the Rights Issue will be used by the Company for working capital purposes.

As part of the Offer, Eligible Shareholders may, subject to conditions, also apply for additional New Shares in excess of their entitlements (**Additional Shares**) at the same Offer Price of \$0.005 per New Share (**Shortfall Offer**). Additional Shares will be issued to Eligible Shareholders under a Shortfall Offer at the sole discretion of the directors of the Company. There is no guarantee that Eligible Shareholders will receive Additional Shares.

New Shares issued under the Rights Issue will rank equally with existing ordinary shares on issue in the Company.

The Rights Issue is not underwritten.

The proposed timetable for the Rights Issue is set out below. The dates are indicative only and the Company reserves the right to vary the dates, including the right to extend the Closing Date, or to withdraw the Rights Issue (subject to the *Corporations Act 2001 (Cth)* (the **Act**) and the ASX Listing Rules).

The Rights Issue is being made without a disclosure document, pursuant to the exemption granted in s708AA of the Act, as modified by ASIC Corporations (Non-Traditional Rights Issues) Instrument 2016/84 (**Instrument 2016/84**).

QTG will send an Offer Document and Entitlement and Acceptance Form by Friday, 2 September 2016.

| Date | Event |
|--|--|
| Tuesday, 23 August 2016 | ASX Announcement of Rights Issue |
| | Lodgement of Rights Issue Information Booklet (Offer Document), Cleansing Notice and Appendix 3B |
| Thursday, 25 August 2016 | Company sends letter to shareholders containing information of the Rights Issue and timetable |
| Monday, 29 August 2016 | Ex Date |
| Tuesday, 30 August 2016 | Record Date for Rights Issue (7.00pm AEST) |
| Friday, 2 September 2016 | Dispatch of Rights Issue Information Booklet (Offer Document) and Entitlement and Acceptance Forms |
| | Offer Opens |
| Friday, 30 September 2016 (5.00pm (AEST)) | Closing Date |
| Tuesday, 4 October 2016 | Quotation on a deferred settlement basis |
| Wednesday, 5 October 2016 | Shortfall notification date |
| Friday, 7 October 2016 | Rights Issue allotment date |
| Monday, 10 October 2016 | Trading Date |

The timetable above is indicative only and may be subject to change. Q Technology reserves the right to amend any or all of these dates and times, subject to the Corporations Act, the ASX Listing Rules, and any other applicable laws. In particular, Q Technology reserves the right, to extend the Closing Date or to withdraw the Offer without prior notice. Any extension of the Closing Date will have a consequential effect on the date for the allotment of New Shares.

An Appendix 3B for the New Shares to be issued pursuant to the Offer, the Offer Document, and Cleansing Statement follows this announcement.

Any person considering acquiring shares under the Rights Issue should read the Offer Document carefully. Applications for shares under the Rights Issue may only be made using the Entitlement and Acceptance Form to be attached to, or accompanying the Offer Document. Securities will only be issued on the basis of an Entitlement and Acceptance Form issued together with the Offer Document.

For further information please contact:

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 Company Secretary
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Douglas Potter
 Chairman

About Q Technology Group Limited

Q Technology Group Limited (ASX: QTG) is based in Melbourne, Victoria. The Group has annualised revenues of approximately \$22 million and comprises Q Security Services, a leader in the supply and support of high quality CCTV, video switching, networking, alarm & access control products in the Australasian market.

For more information on the Company please visit:

<http://www.qtechnologygroup.com.au> or <http://www.qsecuritysystems.com.au>