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**Annual Report 2019**  
FOR THE YEAR ENDED 30 JUNE 2019



MOQ LIMITED  
AND ITS CONTROLLED ENTITIES  
ABN: 94 050 240 330



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# CORPORATE DIRECTORY



## Board of Directors

Mr David Shein	Non Executive Chairman
Mr Joe D'Addio	Executive Director and Chief Executive Officer
Mr Scott McPherson	Executive Director and Chief Operating Officer
Mr Joey Fridman	Non Executive Director
Mr Michael Pollak	Non Executive Director
Mr Alexander White	Non Executive Director (Appointed 1st June 2019)

## Company Secretary

Brad Cohen

## Auditors

Stantons International Audit and Consulting Pty Ltd  
Level 2, 22 Pitt Street  
Sydney NSW 2000

## Solicitors

Thomson Geer  
Level 25, 1 O'Connell Street  
Sydney NSW 2000

## Bankers

Westpac Banking Corporation  
94 Church Street  
Middle Brighton VIC 3186

St George Bank  
Locked Bag 1  
Kogarah NSW 1485

## Registered Office

Suite 1, Ground Floor  
3-5 West Street  
North Sydney NSW 2060

## Share Registry

Link Market Services Limited  
Level 4 Central Park 152 St Georges Terrace  
PERTH WA 6000

Investor Enquiries:	1300 554 474
Facsimile:	+61 2 9287 0303

## Stock Exchange Listing

Securities of MOQ Limited are listed on the Australian Securities Exchange (ASX).  
ASX Code: MOQ

## Website

[www.MOQ.com.au](http://www.MOQ.com.au)

# DIRECTORS' REPORT

Your directors present their report on the consolidated entity (referred to herein as the “Group” or “Company”) consisting of MOQ Limited and its controlled entities for the financial year ended 30 June 2019. The information in the proceeding operating and financial review forms part of this directors' report for the financial year ended 30 June 2019 and is to be read in conjunction with the following information.

## General Information

### Officers and Directors

The names and particulars of the Directors during or since the end of the financial year are:

Name	Particulars
Mr David Shein	Non Executive Chairman
Mr Joe D'Addio	Executive Director and Chief Executive Officer
Mr Scott McPherson	Executive Director and Chief Operating Officer
Mr Joey Fridman	Non Executive Director
Mr Michael Pollak	Non Executive Director
Mr Alexander White	Non Executive Director (Appointed 1st June 2019)

The above named Directors held office during and since the financial year, except as otherwise indicated.

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

### Meetings of Directors

During the financial year, 13 meetings of directors (including committees of directors) were held:

Director	Board Member Since	Eligible Board Meetings	Attended	Eligible Audit and Risk Meetings	Attended	Eligible Remuneration Meeting	Attended
Mr David Shein	17 February 2014	11	10			-	-
Mr Joe D'Addio	29 May 2015	11	11	2	2	-	-
Mr Scott McPherson	29 May 2015	11	10			-	-
Mr Joey Fridman	17 February 2014	11	11	2	2	-	-
Mr Michael Pollak	17 February 2014	11	11	2	2	-	-
Mr Alexander White	1 June 2019	2	2	-	-	-	-

## Information Relating to Directors and Company Secretary

### David Shein (Non Executive Chairman)

In June 1987, David, having recently migrated from South Africa, founded Com Tech Communications as a specialist supplier of networking and communications products. 14 years later, Com Tech was sold to Dimension Data at an enterprise value of over \$1 billion. At the time of sale, Com Tech employed over 1,400 people, had offices Australia wide and achieved revenues of \$700 million with no external debt. David prides himself on the recognition Com Tech achieved being regularly recognised as one of the leading companies to work for in Australia. Since then, David has been actively involved in mentoring young management teams. David firmly believes while products and technologies come and go, what remains constant is the requirement for any company to build a company that is fanatical about providing legendary customer service and creating an environment that enables an organisation to attract and retain the best team of people. David has been an investor and mentor to a number of start-ups, many of which have been successfully exited. These include Zipmoney, CalReply, Latam Autos, RangeMe, Pocketbook, Centric Wealth, MacromatiX and Holly Connects. David is also Co-Founder of Our Innovation Fund, a \$50million early stage venture capital fund that invests in exciting Australian start-ups as well as a founding partner in the Israeli venture capital enterprise, OurCrowd, the first Global Equity Based Crowd Funding Platform.



## DIRECTORS' REPORT (cont.)

Interests in shares and options:	4,083,335 fully paid ordinary shares
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Other current directorships:	None
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Former Directorships in last three years:	None
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Special responsibilities:	Chair of Remuneration Committee
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### Michael Pollak (Non-Executive Director)

Michael holds a Bachelor of Commerce, is a Chartered Accountant and has an MBA in strategy from the Australian Graduate School of Management. Michael commenced his career at PricewaterhouseCoopers approximately 20 years ago. Michael has gained valuable experience in both Sydney and London in general management, audit, insolvency, corporate advisory and strategy across a wide range of industries, including financial services, professional services, retail, mining and manufacturing. Michael has been involved in the restructuring, recapitalisation and relisting of a number of ASX listed entities.

Interests in shares and options:	2,130,000 fully paid ordinary shares
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Other current directorships:	Big Star Energy Limited (ASX: BNL) (Non-executive director)
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Former Directorships in last three years:	UCW Limited (ASX: UCW) (Non-executive director) Janison Education Group Limited (ASX: JAN) (Non-executive director)
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Special responsibilities:	Chair of Audit and Risk Committee
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### Joey Fridman (Non-Executive Director)

Joey is the co-founder and Chief Executive Officer of Monash Private Capital Pty Limited, a Sydney-based independent financial services firm investing across various asset classes as principal and through its managed funds. Joey is a director of various Monash related companies, including Maia Financial and Credabl. Prior to establishing Monash Private Capital, Joey was Chief Financial Officer of Investec Bank (Australia) Limited, and prior to his role as CFO, Joey was one of the founding members of the Bank's investment banking division. Joey is a Chartered Accountant and has an M.B.A. from the Australian Graduate School of Management.

Interests in shares and options:	18,328,334 fully paid ordinary shares
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Other current directorships:	None
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Former Directorships in last three years:	None
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Special responsibilities:	None
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### Alexander White (Non-Executive Director) (Appointed 1 June 2019)

Alex is an experienced investment manager, having undertaken a number of roles across financial markets prior to joining Viburnum Funds in 2014 to open a Melbourne office and establish an Australian Equities strategy. Prior to joining Viburnum Funds Alex worked at Cooper Investors and as a Strategy Analyst at Fletcher Building (ASX: FBU).

Interests in shares and options:	21,571,214 fully paid ordinary shares*
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Other current directorships:	None
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Former Directorships in last three years:	None
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Special responsibilities:	None
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\*Shares owned by Viburnum Funds for which Mr White has an indirect interest as a Portfolio Manager.

### Joe D'Addio (Executive Director and Chief Executive Officer)

Joe was a co-founder and Director of Tech Effect. Joe has over 35 years' experience in the IT industry, with a particular focus on areas of professional services, system and network engineering and technology consulting. Over the last 20 years, he has held a number of key management and director positions, building and leading businesses in the IT industry, specifically with Com Tech Communications and Dimension Data

Interests in shares and options:	17,655,978 fully paid ordinary shares
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Other current directorships:	None
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Former Directorships in last three years:	None
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Special responsibilities:	Chief Executive Officer, Member of Audit and Risk Committee
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## DIRECTORS' REPORT (cont.)

### Scott McPherson (Executive Director and Chief Operating Officer)

Scott was a co-founder and Director of Tech Effect. Since forming the company in 2005, Tech Effect grew from providing Infrastructure related Integration Services, to offering Consulting and Managed Services to assist their clients to overcome both business and technical ICT related challenges.

Scott previously held the position of Solutions Director drawing upon more than two and a half decades of industry experience where he has worked for iconic market leaders Com Tech Communications and Dimension Data. During this time, Scott has honed his engineering, management and people skills to create a customer-centric organisation that develops solutions that solve real business problems. These traits contributed to building Tech Effect into the successful, highly respected organisation. As the business grew, Scott's responsibilities evolved to focus on managing the Integration Services Practice, along with setting the vision and go to market strategy for the 'Cloud World'. Scott's technology career started at Queensland University of Technology where he studied for his Bachelor of Business degree in Information Management.

More recently, Scott took on the position of Chief Operating Officer within MOQdigital, working with the CEO to ensure that efficient operations of the business. Scott's experience has been trapped to help ensure that the business is in a position of predictability, scalability and profitability, while making sure of the quality of the services delivered.

Interests in shares and options:	17,943,478 fully paid ordinary shares
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Other current directorships:	None
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Former Directorships in last three years:	None
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Special responsibilities:	Executive Director
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### Brad Cohen (Company Secretary) (appointed 7 August 2015)

Brad also acts as the Chief Executive Officer of Skoolbag.

Prior to joining MOQ Limited, Brad worked at OurCrowd LLC where he was an investment professional focusing on Venture Capital investments. Previously, Brad worked in commercial transaction roles and began his career as a management consultant at KPMG.

Brad is a qualified Chartered Accountant and holds a Bachelor of Commerce-Accounting and a Bachelor of Laws from Macquarie University, Sydney.

### Principal Activities

The Group's principal activities are the provision of group ownership, strategy and oversight over a number of software and service enterprises.

### Operating and Financial Review

Through FY19, MOQ has continued to drive its strategy to develop, build and acquire complementary Cloud focused technology businesses.

The focus has been on balancing the following range of short, medium and long-term priorities:

1. A continuation of the organic growth trajectory of the previous two financial years.
2. Increasing Recurring Services income streams in volume and also as a proportion of contribution to the Group
3. To identify and lock down a high value acquisition for completion in early FY20.
4. Maintain the investment cycle for key strategic imperatives – our NSW operation, the Skoolbag platform refresh, the Managed Services business and key vendor partner alliances.
5. For the MOQdigital business, successfully executing on major contract wins from FY18.
6. Ensure ongoing sustainable financial achievement – Operational Expense control, EBITDA and Cash position.

### Key achievements for the period include:

1. Continuation of Organic Growth:
  - a. Overall revenue from ordinary activities grew \$8.74M being a 14.6% increase on FY18
  - b. The Services Business grew by 6.3% to \$31.34M
  - c. Technology Sales Revenue was up 23% to \$36.5M, reflecting increased market demand in H1 of FY19..



## DIRECTORS' REPORT (cont.)

### 2. Recurring Services Growth

- Recurring Services revenues grew by 19.3% to \$13.5M.
- This now represents 43% of all services sold and delivered
- This was achieved despite delays experienced in expected increased revenue from our largest contract win from FY18 not becoming fully available until March 2019.

### 3. Merger and Acquisition Success

- In early August 2019 the Wardy IT Solutions acquisition was announced and it is on schedule for completion on 30 August 2019. (See ASX Announcement dated 12 August 2019)
- MOQ will commence realising financial benefit from this transaction from 1 September 2019.
- There is an ongoing program to identify businesses that are suitable M&A partners for MOQ Limited.

### 4. Ongoing Investments – these are covered for MOQdigital and Skoolbag Overview sections below

### 5. Major Recurring Service Engagements

- MOQdigital has onboarded 6 new major clients during FY19. Five of these have been successfully transitioned and are in a healthy Business As Usual mode.
- There were significant transition delays for our largest new contracted managed services client, which have now been resolved. These primarily arose out of unforeseen complexities of the client's previous ICT environment. This complexity has resulted in higher than expected work effort and rework by MOQdigital and the Prime Contractor to migrate and transition the client's applications and data. The resultant impact being:
  - MOQdigital incurred significant and unexpected labour costs in its Professional Services business through H2 of FY19.
  - This also resulted in an opportunity cost, as staff were not able to engage on other client opportunities, some of which were subsequently lost.
  - The Managed service did not become fully activated until 1 March 2019, delayed from 1 October 2018, so Recurring Service revenue streams were partially delayed.
  - Whilst MOQdigital has incurred substantial expenses, as this is a \$12M contract value with potential for \$15M plus over the 5 to 8 year contract term, we have taken a long term view of the transaction and are in discussions with the Prime Contractor for adjustments to both transition and ongoing fees
  - We have taken a provision of \$200,000 in the FY19 accounts and have decided to incur all one off costs in FY19.
- This table quantifies the opportunity costs of the delay and extra work effort that was required during the FY19 financial year to transition the client. As can be seen below, given the cost has been borne by MOQ, the financial impact in FY19 of the delay and extra work has been calculated to be in excess of \$1M to MOQ's revenue, gross profit and EBITDA in H2 FY19.

ITEM	Adjustment
Cost of Resources	\$497,450
Opportunity Cost @ Gross Margin	\$99,490
Managed Service Delay Billing Shortfall	\$478,035
<b>TOTAL COST OF EXTRA EFFORT REQUIRED - H2 FY19</b>	<b>\$1,074,975</b>

### 6. Sustainable Financial Achievement

- Normalised EBITDA in FY19 is \$2,164,314, approximately equivalent to FY18. This excludes the ~\$1m outlined in point 5 above as a result of the impact of the delay and extra work on transitioning a major managed services client to commence the 5 to 8 year contract
- Profit after Tax for FY19 of \$2,288,024, an increase of 103% on prior year which is attributable to income tax credits from realisation of prior year losses.
- Operating Cashflow improvement between FY18 and FY19 of 78.6% and Cash Balance growth by 32% to \$5,230,606
- The following one-off expenses and provisions have been incurred in FY19
  - M&A corporate advisory, due diligence and transaction fees of \$280,661 – resulting in the successful acquisition of Wardy IT Solutions;
  - Taxation consulting fees of \$349,462 – success-based tax advisory fee for obtaining a successful private binding ruling regarding utilisation of past tax losses resulting in a material tax and cash benefit to the Company; and
  - Additional Doubtful Debt Provision - \$200,000
- Operating expenses excluding depreciation and the one-off expenses and provision identified above was 15.3% of revenue in FY19, an improvement on FY18 (16.2%).

## DIRECTORS' REPORT (cont.)

	FY17	FY18	FY19
<b>Normalised EBITDA</b>	1,827,719	2,167,434	2,164,314
Adjustments			
Implementation of Service Management System	(469,000)		
Integration of Tetran acquisition	(278,000)		
Restructure of Professional Services and Management	(323,000)		
M&A consulting and due diligence fees			(280,661)
Taxation advisory fees (successfully claiming \$1.5m deferred tax assets)			(349,462)
Provision for doubtful debts			(200,000)
<b>Reported EBITDA</b>	<b>757,719</b>	<b>2,167,434</b>	<b>1,334,191</b>
Interest Income	15,684	13,284	19,035
Depreciation & Amortisation	(519,007)	(611,779)	(724,612)
<b>Net Profit before Tax</b>	<b>254,396</b>	<b>1,568,939</b>	<b>628,614</b>
Income Tax Credit / (Expense)	(153,420)	(439,758)	1,659,410
<b>Statutory Net Profit after tax</b>	<b>100,976</b>	<b>1,129,181</b>	<b>2,288,024</b>

### MOQdigital

The MOQdigital business continues to provide a range of services and solutions to enable digital business transformation including consulting, integration, and managed services across applications, data and infrastructure platforms.

For MOQdigital, some highlights for FY19 include:

- 1. Positioning to leverage the Digital Transformation trend** – our strategic decision in FY19 to invest in both growing MOQdigital's capability as well as accelerate M&A effort in this space, which has resulted in the Wardy IT Solutions acquisition, ensures that MOQ is well placed to capitalise in this high growth market. The combined market presence of MOQdigital and Wardy IT Solutions will contribute in excess of \$20M of Services to MOQ in FY20 in Digital Services market place.
- 2. Sales and Business Development Progress** – whilst retaining great clients is critical, business growth cannot happen without new clients. Over the last two years we have invested in our business development capability. This is reaping direct benefits. In FY19, over 16% of revenue from our top 20 clients came from clients who are new to MOQdigital over the last two years.
- 3. Growing our Offering through leveraging the Colombo, Sri Lanka Service Centre** – our investment in Colombo business has resulted in an enhanced VTeams offering. This allows our clients, especially those with international presence and staffing requirements to shape, build and house their own teams under MOQdigital's guidance and oversight. A number of our clients have taken up the opportunity and we are now in a position to accelerate this offering into market.
- 4. The Microsoft Opportunity** – In the mid-tier enterprise business market segment, Microsoft is the clear leader for a range of Cloud Services, including Platforms, Applications and Infrastructure. MOQdigital has further enhanced its position with Microsoft, with the Wardy IT Solutions acquisition and is further investing in working closer in go to market efforts to capitalise on this opportunity.

### SkoolBag

The SkoolBag business operates and develops a market leading Software-as-a-Service ("SaaS") communications platform, including mobile apps, primarily for School and Education customers and also in the sports vertical.

For SkoolBag, some highlights for FY19 include:

1. Completed full release of new SkoolBag mobile app
2. SkoolBag's new mobile app hit #1 in Top Charts on Apple App Store and Google Play Store in late 2018
3. Implemented price increase across all school subscription renewals over FY19 with school contracts now on the higher \$3 per student per year pricing (previously \$1 per student per year)
4. +79% YoY increase in Monthly Recurring Revenue (MRR) to \$210,000 at the end of FY19 (\$117,000 at the end of FY18)
5. Developed new electronic school newsletter feature. The 'SkoolBag eNewsletter' beta concluded in August and the new product will be rolled out to all customers in September 2019
6. Consistently high Net Promotor Scores (NPS) and Customer Satisfaction Scores (CSAT). SkoolBag's increased customer engagement stems from implementation of improved pro-active customer success initiatives, including data analytics driven outreach processes and automated user guides/walkthroughs.



# DIRECTORS' REPORT (cont.)



## Summary

Despite some unexpected challenges during FY19, MOQ Limited continued to move its business forward, balancing short term returns with key strategic decisions and actions to maintain momentum as it continues to develop MOQ Limited into a high value, market leading publicly listed technology company geared around servicing the needs of enterprises seeking to drive digital transformation initiatives.

In alignment with this strategy the Directors of the Company would like to emphasise that MOQ Limited is continuing to actively seek strategic acquisitions through an ongoing program run by the MOQ Executive team and its advisors to identify and qualify suitable M&A partners.

## Significant Changes in State of Affairs

There are no significant changes in the state of affairs of the group.

## Dividends Paid or Recommended

In respect of the current year, no dividends have been declared or paid and none are recommended (2018: \$nil).

## Significant Events after the Reporting Period

MOQ Limited completed the acquisition of Wardy IT Solutions Pty Ltd (Wardy IT) on 1st September 2019.

The acquisition was settled for an upfront consideration of \$6.4m in cash and shares, after adjusting for \$1.1m in net debt and working capital.

The consideration was \$2m funded out of existing MOQ cash reserves, and \$4.4m issued in shares, equating to 16,142,939 MOQ shares issued at 27.5c per share.

A further earn-out capped at \$6m may become payable in October 2020 in relation to Wardy IT financial performance for the 12 months ending 31 August 2020, subject to achieving certain performance criteria.

## Likely developments and expected results

Disclosure of information regarding likely developments in the operations of the Group in future financial years and the expected results of those operations is likely to result in unreasonable prejudice to the Group. Accordingly, this information has not been disclosed in this report.

## Environmental Issues

There are no applicable environmental regulations that would have an effect on the Company.

## Indemnifying Officers or Auditor

During the year, the Company paid a premium to insure officers of the Group. The officers of the Group covered by the insurance policy include all directors. The liabilities insured are legal costs that may be incurred in defending civil or criminal proceedings that may be brought against the officers in their capacity as officers of the Group, and any other payments arising from liabilities incurred by the officers in connection with such proceedings, other than where such liabilities arise out of conduct involving a wilful breach of duty by the officers or the improper use by the officers of their position or of information to gain advantage for themselves or someone else to cause detriment to the Group.

Details of the amount of the premium paid in respect of the insurance policies is not disclosed as such disclosure is prohibited under the terms of the contract.

The Group has not otherwise, during or since the end of the financial year, except to the extent permitted by law, indemnified or agreed to indemnify any current or former officer or auditor of the Group against a liability incurred as such by an officer or auditor.

## Proceeding on Behalf of Company

No person has applied for leave of court to bring proceedings on behalf of the company or 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 any part of those proceedings.

## Auditor

Stantons International Audit and Consulting Pty Limited are the appointed auditors of the Company. The auditor has not been indemnified under any circumstance.

## DIRECTORS' REPORT (cont.)

### Non-audit Services

There have been no non-audit services provided during the year.

The board of directors considers that there have been no independence issues imposed by the Corporations Act 2001.

### Auditor's Independence Declaration

The lead auditor's independence declaration for the year ended 30 June 2019 can be found on page 50 of the financial report.

### Options

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

Grant Date	Balance at the date of this report	Exercise price	Expiry
01/09/2016	3,690,901	\$0.275	01/09/2020
01/07/2018	4,036,358	\$0.255	01/07/2022
<b>TOTAL</b>	<b>7,727,259</b>		

Option holders do not have any rights to participate in any issues of shares or other interests of the company or any other entity. For details of options issued to directors and executives as remuneration, refer to the remuneration report.

No person entitled to exercise the option had or has any right by virtue of the option to participate in any share issue of any other body corporate.

# REMUNERATION REPORT (AUDITED)



## Remuneration Policy

The remuneration policy of MOQ Limited has been designed to align key management personnel (KMP) objectives with shareholder and business objectives by providing a fixed remuneration component and offering performance incentives based on key performance areas affecting the consolidated group's financial results. The Board of MOQ Limited believes the remuneration policy to be appropriate and effective in its ability to attract and retain high quality KMP 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 to have the remuneration policy developed by the Board after professional advice is sought where appropriate from independent external consultants. No external advice was sought for the current financial year.

- All KMP receive a base salary (which is based on factors such as length of service and experience), superannuation, fringe benefits and performance incentives.
- Performance incentives are generally only paid once predetermined key performance indicators (KPIs) have been met.
- The Board reviews KMP packages annually by reference to the consolidated group's performance, executive performance and comparable information from industry sectors.
- Incentives paid in the form of options or rights are intended to align the interests of the KMP and the Group 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 performance of KMP is measured against criteria agreed biannually 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.

KMP receive at a minimum, a superannuation guarantee contribution required by the government, which for the year ending 30 June 2019 was 9.50% (2018: 9.5%) of the individual's average weekly ordinary time earnings. KMP do not receive any retirement benefits. 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 Board 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. Currently, the maximum aggregate remuneration of non-executive directors is \$500,000.

## Performance-based Remuneration:

The KPIs are set annually, in consultation with KMP. 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, the Board bases the assessment on the Company's performance using audited figures.

# REMUNERATION REPORT (AUDITED)

## Remuneration Expense Details:

The following table of benefits and payments represents the components of the current year and comparative year remuneration expenses for each member of KMP of the consolidated group:

Personnel	Year	Short-term benefits			Post-employment benefits	Share based payments	Total	Performance based percentage of remuneration
		Salary & fees	Cash Bonus	Other payments	Superannuation			
Executive Directors								
Mr Joe D’Addio	2019	200,000	-	-	19,000	-	219,000	
	2018	200,000	-	-	19,000	-	219,000	-
Mr Scott McPherson	2019	200,000	36,000	-	20,531	-	256,531	15%
	2018	200,000	36,000	-	20,049	-	256,049	14%
Mr Don Nanayakkara (resigned 5th July 2017)	2019	-	-	-	-	-	-	-
	2018	13,699	-	-	1,301	-	15,000	-
Non-executive Directors								
Mr David Shein	2019	54,795	-	-	5,205	-	60,000	-
	2018	54,795	-	-	5,205	-	60,000	-
Mr Joey Fridman	2019	60,000		-	-	-	60,000	-
	2018	60,000		-	-	-	60,000	-
Mr Jonathan Pager (resigned 31st July 2017)	2019	-	-	-	-	-	-	-
	2018	20,000	-	-	-	-	20,000	-
Mr Michael Pollak	2019	54,795	-	10,000	5,205	-	70,000	-
	2018	54,795	-	-	5,205	-	60,000	-
Mr Alexander White (appointed 1st June 2019)	2019	4,566			434	-	5,000	
	2018	-	-	-	-	-	-	-
Key Management								
Mr Matthew Goggin (Director Sales)	2019*	240,000	35,000	-	20,531	-	295,531	12%
	2018	200,000	36,000	-	20,049	-	256,049	14%
Mr Chad Lurie (GM Services)	2019	200,000	-	-	19,000	-	219,000	-
	2018	200,000	-	-	19,000	-	219,000	-
Mr (Danny) Wan Yee Loh (GM Finance)	2019	196,000	-	-	18,620	9,238	223,858	4%
	2018	192,231	-	-	18,262	7,919	218,412	4%
2019 Total		1,210,155	71,000	10,000	108,528	9,238	1,408,921	-
2018 Total		1,195,520	72,000	-	108,071	7,919	1,383,510	

\* New executive agreement of \$280,000 per annum from 1 January 2019



## REMUNERATION REPORT (AUDITED) (cont)

The relative proportions of remuneration that are linked to performance and those that are fixed are as follows:

Personnel	Fixed Remuneration	At Risk – Short Term Incentives	At Risk - Options
<b>Executive Directors</b>			
Mr Joe D'Addio	100%	-	-
Mr Scott McPherson	85%	15%	-
<b>Other Key Management Personnel</b>			
Mr Matthew Goggin	88%	12%	-
Mr Chad Lurie	100%	-	-
Mr (Danny) Wan Yee Loh	96%	-	4%

### Service agreements (audited):

The directors serve until they resign, are removed, cease to be a director or are prohibited from being a director under the provisions of the Corporations Act 2001, or are not re-elected to office.

The directors entered into service agreements on the following terms:

- Mr Shein, Mr Fridman, and Mr Pollak - Base salary (including director's fees) of \$60,000 per annum (including superannuation or similar contributions). They may receive additional payments as approved by the board.
- Mr D'Addio and Mr McPherson - Base salary (including director's fees) of \$200,000 per annum (plus superannuation or similar contributions).
  - Annual incentive payment of up to \$81,217 each based on pre-determined key metrics.
  - The Company may also, in its absolute discretion, provide a bonus, the value of which, the conditions attached to and the frequency of such a bonus, remain matters over which the Company exercises sole discretion.
  - If the Company terminates the agreement with reason (such as gross misconduct, conviction of a major criminal offence or misuse of price sensitive information), the Company will provide the Director with no notice and will be summarily dismissed. If the Company terminates the agreement without reason (notwithstanding any other provision of the agreement), the Company will provide the Director with 3 months' written notice or make a payment of 3 months' salary in lieu of the notice period.
  - The Director may terminate the agreement at his or her sole discretion and at any time, and in doing so is entitled to payment of a fee equivalent to 3 months of their base fees.
  - After the termination of their employment with the Company and MOQdigital, the Director will be subject to a contractual restraint which may apply for 6 months after the termination and cover up to all of Australia.

Key Management Personnel entered into service agreements on the following terms:

- Mr Goggin - Base salary of \$280,000 per annum (plus superannuation or similar contributions).
- Mr Loh - Base salary of \$196,000 per annum (plus superannuation or similar contributions).
  - The Company may also, in its absolute discretion, provide a bonus, the value of which, the conditions attached to and the frequency of such a bonus, remain matters over which the Company exercises sole discretion.
  - If the Company terminates the agreement with reason (such as gross misconduct, conviction of a major criminal offence or misuse of price sensitive information), the Company will provide the KMP with no notice and will be summarily dismissed. If the Company terminates the agreement without reason (notwithstanding any other provision of the agreement), the Company will provide the KMP with up to 3 months' written notice or make a payment of up to 3 months' salary in lieu of the notice period.
  - The KMP may terminate the agreement at his or her sole discretion and at any time, and in doing so is entitled to payment of a fee equivalent to 3 months of their base fees.
  - After the termination of their employment with the Company and MOQdigital, the KMP will be subject to a contractual restraint which may apply for 6 months after the termination and cover up to all of Australia.

# REMUNERATION REPORT (AUDITED) (cont)

## Service agreements (audited): (cont)

- Mr Lurie – Base salary of \$200,000 per annum (plus superannuation or similar contributions).
  - The Company may also, in its absolute discretion, provide a bonus, the value of which, the conditions attached to and the frequency of such a bonus, remain matters over which the Company exercises sole discretion.
  - If the Company terminates the agreement with reason (such as gross misconduct, conviction of a major criminal offence or misuse of price sensitive information), the Company will provide the Director with no notice and will be summarily dismissed. If the Company terminates the agreement without reason (notwithstanding any other provision of the agreement) within 12 months of commencement, the Company will provide the Director with 6 months' written notice, and thereafter with 2 months' written notice.

## Shareholding and option holding of directors and other key management personnel (audited)

### Options held by Directors and Key Management Personnel

The number of options in the Company during the 2019 reporting period held by each of the Group's Directors and Key Management Personnel, including their related parties, is set out below:

Personnel	Year ended 30 June 2019				
	Balance at the start of the year	Options acquired	Received as part of remuneration	Options exercised / disposed	Held at the end of the year
Mr Joe D'Addio	-	-	-	-	-
Mr Scott McPherson	-	-	-	-	-
Mr David Shein	-	-	-	-	-
Mr Joey Fridman	-	-	-	-	-
Mr Michael Pollak	-	-	-	-	-
Mr Alexander White	-	-	-	-	-
Mr Matthew Goggin	-	-	-	-	-
Mr Chad Lurie	-	-	-	-	-
Mr Danny Loh	181,818	-	181,818	-	363,636

### Options held by Directors and Key Management Personnel (continued)

Personnel	Year ended 30 June 2018				
	Balance at the start of the year	Options acquired	Received as part of remuneration	Options exercised / disposed	Held at the end of the year
Mr Joe D'Addio	-	-	-	-	-
Mr Scott McPherson	-	-	-	-	-
Mr David Shein	-	-	-	-	-
Mr Joey Fridman	-	-	-	-	-
Mr Michael Pollak	-	-	-	-	-
Mr Alexander White	-	-	-	-	-
Mr Matthew Goggin	-	-	-	-	-
Mr Chad Lurie	-	-	-	-	-
Mr Danny Loh	181,818	-	-	-	181,818



## REMUNERATION REPORT (AUDITED) (cont)

Name	Grant Date	Held at 1 July 2018	Granted as remuneration	Net change other	Held at 30 June 2019	Vested during the year and as at 30 June 2019	Total unvested at 30 June 2019	Vesting Date	Expiry Date	Value per option at grant date	Total value of options at grant date	Exercise price per option
Wan Yee (Danny) Loh	05-Sep-2016	90,909	-	-	90,909	90,909	-	01-Sep-2018	01-Sep-2020	\$0.1045	\$9,500.00	\$0.275
	05-Sep-2016	90,909	-	-	90,909	-	90,909	01-Sep-2019	01-Sep-2020	\$0.1045	\$9,500.00	\$0.275
	01-Jul-2018	-	90,909	-	90,909	-	90,909	01-Jul-2020	01-Jul-2022	\$0.0697	\$6,336.36	\$0.255
	01-Jul-2018	-	90,909	-	90,909	-	90,909	01-Jul-2021	01-Jul-2022	\$0.0697	\$6,336.36	\$0.255

\*No other Key Management Personnel were granted remuneration options during the year.

### Shares held by Directors and Key Management Personnel

The number of ordinary shares in the Company during the 2019 reporting period held by each of the Group's Key Management Personnel, including their related parties, is set out below:

Personnel	Year ended 30 June 2019					Held at the end of reporting period
	Balance at the start of the year	Received as part of remuneration	Other changes	Acquired	Disposal	
Mr Joe D'Addio	17,655,978	-	-	-	-	17,655,978
Mr Scott McPherson	17,943,478	-	-	-	-	17,943,478
Mr David Shein	4,083,335	-	-	-	-	4,083,335
Mr Joey Fridman	18,328,334	-	-	-	-	18,328,334
Mr Michael Pollak	2,130,000	-	-	-	-	2,130,000
Mr Alexander White*	-	-	21,571,214	-	-	21,571,214
Mr Matthew Goggin	8,827,989	-	-	-	-	8,827,989
Mr Chad Lurie	4,110,457	-	-	-	-	4,110,457
Mr Danny Loh	-	-	-	-	-	-

\* Mr Alexander White was appointed 1 June 2019. 21,571,214 shares were held at appointment per initial directors notice on 1 June 2019. Shares owned by Viburnum Funds for which Mr White has an indirect interest as a Portfolio Manager.

# REMUNERATION REPORT (AUDITED) (cont)

## Shares held by Directors and Key Management Personnel (continued)

Personnel	Year ended 30 June 2018					Held at the end of reporting period
	Balance at the start of the year	Received as part of remuneration	Other changes	Acquired	Disposal	
Mr Joe D'Addio	17,655,978	-	-	-	-	17,655,978
Mr Scott McPherson	17,708,478	-	-	235,000	-	17,943,478
Mr David Shein	4,083,335	-	-	-	-	4,083,335
Mr Joey Fridman	18,328,334	-	-	-	-	18,328,334
Mr Michael Pollak	2,130,000	-	-	-	-	2,130,000
Mr Matthew Goggin	8,827,989	-	-	-	-	8,827,989
Mr Chad Lurie	4,110,457	-	-	-	-	4,110,457
Mr Danny Loh	-	-	-	-	-	-

## Other Equity-related KMP Transactions

There were no equity-related KMP transactions during the year.

## Loans to KMP

No loans have been made to KMP during, or since, the year ended 30 June 2019 (2018: \$Nil).

## Other transactions with KMP or their related parties

MOQdigital provided product sales of \$7,418 to the Maia Group (formerly Alleasing Group), a company that is controlled by Monash Private Capital. Monash Private Capital is an entity associated with Joey Fridman and David Shein. No amounts related to these services were outstanding as at 30 June 2019.

During the year, Monash Private Capital was engaged at an arm's length basis to consult on various acquisition opportunities. Consulting fees were paid to Monash of \$193,826. No amounts related to these services were out-standing as at 30 June 2019.

This directors' report, incorporating the remuneration report, is signed in accordance with a resolution of the Board of Directors.



Non-Executive Chairman  
19 September 2019





# STATEMENT OF CORPORATE GOVERNANCE

## STATEMENT OF CORPORATE GOVERNANCE

The Board is committed to achieving and demonstrating the highest standards of corporate governance. As such, MOQ Limited and its Group have adopted the third edition of the Corporate Governance Principles and Recommendations which was released by the ASX Corporate Governance Council on 27 March 2014 and became effective for financial years beginning on or after 1 July 2014.

The Group's current Corporate Governance Statement for this reporting period is available on MOQ Limited's website at [www.moq.com.au/corporate-governance/](http://www.moq.com.au/corporate-governance/)

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# CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

FOR THE YEAR ENDED 30 JUNE 2019

	Notes	2019 \$	2018 \$
<b>Revenue</b>			
Revenue	6	67,870,016	59,133,415
Other income	6	59,646	139,767
<b>Total Revenue</b>		<b>67,929,662</b>	<b>59,273,182</b>
Cost of sales	7	(55,337,023)	(47,525,863)
Gross Profit		12,592,639	11,747,319
<b>Expenses</b>			
Share based payments		(197,566)	(160,750)
Depreciation & amortisation expenses	7	(400,378)	(367,566)
Amortisation expenses	7	(324,234)	(244,213)
Employee costs	7	(6,357,526)	(5,815,013)
Legal costs	7	(101,575)	(81,153)
ASX and registry related expenses		(50,861)	(48,667)
Marketing expense		(559,305)	(609,643)
Occupancy expenses		(1,165,982)	(1,080,323)
Professional fees	7	(932,732)	(319,494)
Telecommunication carrier expenses		(277,559)	(340,293)
Other expenses		(1,596,308)	(1,111,265)
<b>Total expenses</b>		<b>(11,964,026)</b>	<b>(10,178,380)</b>
<b>Profit before income tax expense</b>		<b>628,613</b>	<b>1,568,939</b>
Income tax benefit / (expense)	8	1,659,410	(439,758)
<b>Profit after income tax</b>		<b>2,288,023</b>	<b>1,129,181</b>
<b>Other comprehensive (loss) / profit for the year</b>			
Exchange differences on translating foreign subsidiaries		(54,055)	7,779
<b>Total comprehensive profit for the year</b>		<b>2,233,968</b>	<b>1,136,960</b>
<b>Profit is attributable to</b>			
MOQ Limited		2,288,023	1,129,181
		2,288,023	1,129,181
<b>Total comprehensive profit is attributable to</b>			
MOQ Limited		2,233,968	1,136,960
		2,233,968	1,136,960
<b>Earnings per share attributable to equity holders of the parent entity</b>			
Basic earnings per share (cents per share)	27	1.42	0.70
Diluted earnings per share (cents per share)	27	1.35	0.68

The above consolidated statement of profit or loss and other comprehensive income should be read in conjunction with the accompanying notes.



# CONSOLIDATED STATEMENT OF FINANCIAL POSITION

AS AT 30 JUNE 2019

	Notes	2019 \$	2018 \$
<b>Current Assets</b>			
Cash and cash equivalents	9	5,230,606	3,963,738
Trade and other receivables	10	9,824,238	9,999,166
Work In Progress	11	223,380	455,590
Tax Receivable	8	81,860	-
Other assets	12	749,317	1,318,706
		<u>16,109,401</u>	<u>15,737,200</u>
<b>Non Current Assets</b>			
Other Assets	12	1,069,524	422,219
Deferred tax assets	8	2,055,485	660,367
Property plant and equipment	13	883,354	892,399
Intangibles	14	15,016,255	14,482,355
		<u>19,024,618</u>	<u>16,457,340</u>
<b>Total assets</b>		<b><u>35,134,019</u></b>	<b><u>32,194,540</u></b>
<b>Current Liabilities</b>			
Trade and other payables	15	8,963,037	8,325,577
Deferred revenue	16	2,891,056	3,021,008
Provisions	17	1,771,733	1,705,113
Current tax payable	8	56,019	172,893
		<u>13,681,845</u>	<u>13,224,591</u>
<b>Non - Current Liabilities</b>			
Provisions	17	159,224	108,533
		<u>159,224</u>	<u>108,533</u>
<b>Total Liabilities</b>		<b><u>13,841,069</u></b>	<b><u>13,333,124</u></b>
<b>Net Assets</b>		<b><u>21,292,950</u></b>	<b><u>18,861,416</u></b>
<b>Equity</b>			
Issued capital	18	49,615,752	49,615,752
Reserves	19	285,277	141,766
Accumulated losses	20	(28,608,079)	(30,896,102)
<b>Total Equity</b>		<b><u>21,292,950</u></b>	<b><u>18,861,416</u></b>

The above consolidated statement of financial position should be read in conjunction with the accompanying notes.

# CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

FOR THE YEAR ENDED 30 JUNE 2019

	Issued Capital \$	Reserves \$	Accumulated Losses \$	Total Equity \$
<b>Balance as at 1 July 2018</b>	<b>49,615,752</b>	<b>141,766</b>	<b>(30,896,102)</b>	<b>18,861,416</b>
Net profit for the year	-	-	2,288,023	2,288,023
Other comprehensive loss	-	(54,055)	-	(54,055)
<b>Total comprehensive income for the year</b>	<b>-</b>	<b>(54,055)</b>	<b>2,288,023</b>	<b>2,233,968</b>
<b>Transactions with owners in their capacity as owners</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>
Issue of share capital	-	-	-	-
Option Premium Reserve	-	197,566	-	197,566
<b>Balance as at 30 June 2019</b>	<b>49,615,752</b>	<b>285,277</b>	<b>(28,608,079)</b>	<b>21,292,950</b>

	Issued Capital \$	Reserves \$	Accumulated Losses \$	Total Equity \$
<b>Balance as at 1 July 2017</b>	<b>49,615,752</b>	<b>(26,763)</b>	<b>(32,025,283)</b>	<b>17,563,706</b>
Net profit for the year	-	-	1,129,181	1,129,181
Other comprehensive Profit	-	7,779	-	7,779
<b>Total comprehensive income for the year</b>	<b>-</b>	<b>7,779</b>	<b>1,129,181</b>	<b>1,136,960</b>
<b>Transactions with owners in their capacity as owners</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>
Issue of share capital	-	-	-	-
Option Premium Reserve	-	160,750	-	160,750
<b>Balance as at 30 June 2018</b>	<b>49,615,752</b>	<b>141,766</b>	<b>(30,896,102)</b>	<b>18,861,416</b>

The above consolidated statement of changes in equity should be read in conjunction with the accompanying notes.



# CONSOLIDATED STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED 30 JUNE 2019

	Notes	2019 \$	2018 \$
<b>Cash flow from operating activities</b>			
Receipts from customers		74,877,278	64,524,345
Payments to suppliers and employees		(71,586,095)	(62,509,429)
Interest received		19,035	13,284
Income taxes received / paid		63,063	(139,447)
Net cash provided by operating activities	30	3,373,281	1,888,753
<b>Cash flow from investing activities</b>			
Payment for property plant and equipment	14	(353,049)	(556,299)
Payments for intellectual property	15	(858,134)	(563,178)
Payment for deposits		(126,707)	(71,397)
Payments for other assets		(768,523)	-
Net cash (used in) investing activities		(2,106,413)	(1,190,874)
<b>Cash flow from financing activities</b>			
Proceeds from issue of shares		-	-
Share issued costs		-	-
Net cash provided by financing activities		-	-
Net increase in cash and cash equivalents		1,266,868	697,879
Cash and cash equivalents at beginning of year		3,963,738	3,265,859
Cash and cash equivalents at end of year	9	5,230,606	3,963,738

The above consolidated statement of cash flows should be read in conjunction with the accompanying notes.

# NOTES TO THE CONSOLIDATED FINANCIAL REPORT

## NOTE 1: STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES

The consolidated financial statements cover MOQ Limited ("Company or "parent entity") and its controlled entity as a consolidated entity (also referred to as "the Group"). MOQ Limited is a company limited by shares, incorporated and domiciled in Australia. The Group is a for-profit entity and is primarily involved in the information technology industry being the field of software and services.

The separate financial statements of the parent entity, MOQ Limited, have not been presented within this financial report as permitted by the *Corporations Act 2001*.

The consolidated financial statements were authorised for issue by the Board of Directors on 19 September 2019.

The following is a summary of the material accounting policies adopted by the consolidated entity in the preparation and presentation of the financial report. The accounting policies have been consistently applied, unless otherwise stated.

### (a) Basis of preparation of the financial report

#### Statement of Compliance

These financial statements are general purpose financial statements which have been prepared in accordance with the *Corporations Act 2001*, Accounting Standards and Interpretations, and comply with other requirements of the law where applicable.

Accounting Standards include Australian Accounting Standards. Compliance with Australian Accounting Standards ensures that the financial statements and notes of the Company comply with International Financial Reporting Standards ('IFRS'). It is recommended that this financial report be read in conjunction with the public announcements made by MOQ Limited during the year in accordance with the continuous disclosure requirements arising under the *Corporations Act 2001*.

The financial report has been prepared on the historical cost basis.

When required by accounting standards, comparative figures have been adjusted to conform to changes in presentation for the current year. When the Company 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.

### (b) 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 is 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 remeasured and its subsequent settlement is accounted for within equity. Contingent consideration classified as an asset or liability is remeasured in 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 business combinations, other than those associated with the issue of a financial instrument, are recognised as expenses in profit or loss when incurred.

The acquisition of a business may result in the recognition of goodwill or a gain from a bargain purchase.

### (c) Goodwill

Goodwill is carried at cost less any accumulated impairment losses. Goodwill is calculated as the excess of the sum of:

- the consideration transferred;
- any non-controlling interest (determined under either the full goodwill or proportionate interest method); and
- the acquisition date fair value of any previously held equity interest over the acquisition date fair value of net identifiable assets acquired.

The acquisition date fair value of the consideration transferred for a business combination plus the acquisition date fair value of any previously held equity interest shall form the cost of the investment in the separate financial statements.

Fair value re-measurements in any pre-existing equity holdings are recognised in profit or loss in the period in which they arise. Where changes in the value of such equity holdings had previously been recognised in other comprehensive income, such amounts are recycled to profit or loss.

Goodwill on acquisition of subsidiaries is included in intangible assets.



## NOTE 1: STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES (cont)

### (c) Goodwill (cont)

Goodwill is tested for impairment annually and is allocated to the Group's cash-generating units or groups of cash-generating units, representing the lowest level at which goodwill is monitored being not larger than an operating segment. Determining whether goodwill is impaired requires an estimation of the value in use of the cash-generating units to which goodwill has been allocated. The value in use calculation requires the directors to estimate the future cash flows expected to arise from the cash-generating unit and a suitable discount rate in order to calculate present value. Where the actual future cash flows are less than expected, a material impairment loss may arise.

### (d) Critical accounting estimates

The preparation of the financial statements in conformity with IFRS requires the use of accounting estimates. It also requires management to exercise its judgement in the process of applying the Company's accounting policies. The areas involving higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the financial statements are disclosed in Note 2.

### (e) Principles of consolidation

The consolidated financial statements incorporate all of the assets, liabilities and results of the parent (MOQ Limited) and all of the subsidiaries. Subsidiaries are entities that the parent controls. The parent controls an entity when it is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. A list of the subsidiaries is provided in Note 32.

The assets, liabilities and results of all subsidiaries are fully consolidated into the financial statements of the Group from the date on which control is obtained by the Group. The consolidation of a subsidiary is discontinued from the date that control ceases. Intercompany transactions, balances and unrealised gains or losses on transactions between Group entities are fully eliminated on consolidation. Accounting policies of subsidiaries have been changed and adjustments made where necessary to ensure uniformity of the accounting policies adopted by the Group.

### (f) Fair Value of Assets and Liabilities

The Group measures some of its assets and liabilities at fair value on either a recurring or non-recurring basis, depending on the requirements of the applicable Accounting Standard. 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.

As fair value is a market-based measure, the closest equivalent observable market pricing information is used to determine fair value. Adjustments to market values may be made having regard to the characteristics of the specific asset or liability. The fair values of assets and liabilities that are not traded in an active market are determined using one or more valuation techniques. These valuation techniques maximise, to the extent possible, the use of observable market data.

To the extent possible, market information is extracted from either the principal market for the asset or liability (i.e. the market with the greatest volume and level of activity for the asset or liability) or, in the absence of such a market, the most advantageous market available to the entity at the end of the reporting period (i.e. the market that maximises the receipts from the sale of the asset or minimises the payments made to transfer the liability, after taking into account transaction costs and transport costs).

For non-financial assets, the fair value measurement also takes into account a market participant's ability to use the asset in its highest and best use or to sell it to another market participant that would use the asset in its highest and best use.

These valuation techniques maximise, to the extent possible, the use of observable market data. If all significant inputs required to measure fair value are observable, the asset or liability is included in Level 2. If one or more significant inputs are not based on observable market data, the asset or liability is included in Level 3.

The Group would change the categorisation within the fair value hierarchy only in the following circumstances:

- if a market that was previously considered active (Level 1) became inactive (Level 2 or Level 3) or vice versa;
- if significant inputs that were previously unobservable (Level 3) became observable (Level 2) or vice versa.

When a change in the categorisation occurs, the Group recognises transfers between levels of the fair value hierarchy (i.e. transfers into and out of each level of the fair value hierarchy) on the date the event or change in circumstances occurred.

# NOTES TO THE CONSOLIDATED FINANCIAL REPORT

## NOTE 1: STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES (cont)

### (g) 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 or revenue for the year is the tax payable on the current period's taxable income based on the notional income tax rate adjusted by changes in deferred tax assets and liabilities attributable to temporary differences and to unused tax losses.

Deferred income tax is provided using the liability method on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the consolidated financial statements. Deferred income tax is determined using tax rates that have been enacted or substantially enacted by the balance sheet date and are expected to apply when the related deferred income tax asset is realised or the deferred income tax liability is settled.

Deferred tax assets are recognised for deductible temporary differences and unused tax losses only if it is probable that future taxable amounts will be available to utilise those temporary differences and losses.

Deferred tax liabilities and assets are not recognised for temporary differences between the carrying amount and tax bases of investments in controlled entities where the parent entity is able to control the timing of the reversal of the temporary differences and it is probable that the differences will not reverse in the foreseeable future.

Deferred tax assets and liabilities offset when there is a legally enforceable right to offset current tax assets and liabilities and when the deferred tax balances relate to the same taxation authority. Current tax asset and tax liabilities are offset where the entity has a legally enforceable right to offset and intends to settle on a net basis, or to realise the asset and settle the liability simultaneously.

Current and deferred tax balances attributable to amounts recognised directly in equity are also recognised directly in equity.

### (h) Tax Consolidation Legislation

The Company and its Australian wholly owned subsidiaries have formed an income tax consolidated group under the tax consolidation legislation for the whole of the financial year. Each entity in the Group recognises its own current and deferred tax liabilities, except for any deferred tax liabilities resulting from unused tax losses and tax credits, which are immediately assumed by the parent entity. The Group notified the Australian tax Office it had formed an income tax consolidated group to apply from 1 June 2015. The tax consolidated group has entered a tax sharing agreement whereby each company in the Group contributes to the income tax payable in proportion to their contribution to the net profit before tax of the tax consolidated group.

### (i) Plant and equipment

Each class of plant and equipment is carried at cost less any applicable accumulated depreciation and any accumulated impairment losses. Plant and equipment is measured on the cost basis. The carrying amount of plant and equipment is reviewed annually by directors to ensure it is not in excess of the recoverable amount from those assets.

The recoverable amount is assessed on the basis of the expected net cash flows which will be received from the assets employment and subsequent disposal. The expected net cash flows have been discounted to present values in determining recoverable amounts.

The depreciated amount of all fixed assets including capitalised leased assets is depreciated on a straight line basis over their useful lives commencing from the time the asset is held ready for use.

The expected useful life of plant and equipment ranges from 3 to 15 years.

The assets' residual values and useful life are reviewed at the balances date. The 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.

Leasehold improvements are depreciated over the shorter of either the unexpired period of the lease or the estimated useful lives of the improvements.

Gains and losses on disposals are determined by comparing proceeds with the carrying amount. These are included net in profit or loss.

#### Depreciation

The depreciable amount of all fixed assets including buildings and capitalised lease assets, but excluding freehold land, is depreciated on a straightline basis over the asset's useful life to the consolidated group commencing from the time the asset is held ready for use. Leasehold improvements are depreciated over the shorter of either the unexpired period of the lease or the estimated useful lives of the improvements.





## NOTE 1: STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES (cont)

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

### Class of Fixed Asset Depreciation Rate

Leasehold improvements	Term of lease
Plant and Equipment	33.33 - 66.67%

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 recognised in profit or loss in the period in which they arise. When revalued assets are sold, amounts included in the revaluation surplus relating to that asset are transferred to accumulated losses.

### (j) Leases

At inception of an arrangement, the Group determines whether such an arrangement is, or contains, a lease. A specific asset is the subject of a lease if fulfilment of the arrangement is dependent on the use of that specified asset. An arrangement conveys the right to use the asset if the arrangement conveys to the Group the right to control the use of the underlying asset. At inception, or upon reassessment of the arrangement, the Group separates payments and other consideration required by such an arrangement into those for the lease and those for other elements on the basis of their relative fair values.

Leases reclassified at their inception as either operating or finance leases based on the economic substance of the arrangement so as to reflect the risks and benefits incidental to ownership.

Lease of fixed assets where substantially all the risks and rewards incidental to the ownership of the asset, but not the legal ownership, are transferred to the entity are classified as finance leases. Finance lease are capitalised by recording an asset and a liability equal to the fair value of the leased property or the present value of the minimum lease payments including any guaranteed residual values. The interest expense is calculated using the interest rate implicit in the lease and is included in finance costs in the Statement of Profit or Loss and Other Comprehensive Income. Lease assets are depreciated on a straight line basis over their estimated useful lives where it is likely that the entity will obtain ownership of the asset or over the term of the lease. Lease payments are allocated between the reduction of the lease liability and the lease interest expense for the year.

Lease payments for operating leases where substantially all the risks and benefits remain with the lessor are recognised as an expense in the year in which they are incurred. Lease incentives received under operating leases are recognised as a liability and amortised on a straight line basis over the life of the lease term.

### (k) Financial instruments

The Group initially recognises financial assets on the trade date at which the Group becomes a party to a contractual provision of the instrument.

Financial assets are initially measured at cost. If the financial asset is not subsequently measured at fair value through profit or loss, the initial measurement includes transaction costs that are directly attributed to the asset's acquisition. The Group subsequently measures financial assets at either amortised costs or fair value.

A financial asset is subsequently measured at amortised cost using the effective interest method and net of any impairment loss, if:

- The asset is held with an objective to collect cash flows; and
- The contractual terms give rise to cash flows that are solely payments of principal and interest.

Financial assets other than those classified as financial assets measured at amortised costs are subsequently measured at fair value with all changes in fair value recognised in profit or loss.

All financial liabilities are recognised initially on the trade date at which the Group becomes a party to the contractual provisions of the instrument. Non derivative financial liabilities are recognised at amortised cost, comprising original debt less principal payment and amortisation.

The Group derecognises a financial liability when its contractual obligations are discharged, cancelled or expire. Financial assets and financial liabilities are offset when the Group has a legal right to offset the amounts and intends either to settle on a net basis or to realise the assets and settle the liability simultaneously.

# NOTES TO THE CONSOLIDATED FINANCIAL REPORT

## NOTE 1: STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES (cont)

### (l) Impairment of financial assets

A financial asset not carried at fair value through profit or loss is assessed at each reporting date to determine whether there is any objective evidence that it is impaired. A financial asset is considered to be impaired if objective evidence indicates that one or more events have occurred after the initial recognition of the asset and that the loss event has a negative effect on the estimated future cash flows of that assets which can be estimated reliably.

The Group considers evidence of impairment for receivables at both a specific and collective level. All individually significant receivables found not to be specifically impaired are then collectively assessed for any impairment that has been incurred but not yet identified.

### (m) Impairment of non-financial assets

Intangible assets are tested annually for impairment or more frequently if changes in circumstances indicate that they might be impaired.

At each reporting date the Group assesses whether there is any indication that individual assets are impaired. Where impairment indicators exist, recoverable amount is determined and impairment losses are recognised in profit or loss where the asset's carrying value exceeds its recoverable amount. Recoverable amount is the higher of an asset's fair value less costs to sell and value in use.

For the purpose of assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current marked assessment of the time value of money and the risks specific to the asset.

### (n) Intangible assets

Customer contracts acquired as part of a business combination are recognised separately from goodwill. The customer contracts are carried at fair value at the date of acquisition less accumulated amortisation and impairment losses. Fair value is assessed based on the income streams generated from customer contracts after allowing for cost specific to the generation of those income streams. In the assessment of the carrying value of the intangible assets costs not related to the generation of the contract related income streams were excluded. These intangibles are separate from the business to which they relate and have been assessed on this basis. Amortisation is calculated based on the timing of projected cash flows of the contracts over their estimated useful lives, which at present are 1.5 years to 8 years.

Software acquired as part of a business combination is recognised separately from goodwill. The software is carried at fair value at the date of acquisition less accumulated amortisation and impairment losses. Amortisation is calculated based on the timing of projected cash flows of the contracts over their estimated useful lives, which at present are 4 years.

Software created internally is carried at fair value less accumulated amortisation and impairment losses. Amortisation is calculated based on the timing of projected cash flows over their estimated useful lives, which at present are 5 years.

### (o) Share capital

Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of ordinary shares and share options are recognised as a deduction from equity, net of any tax.

If the entity reacquires its own equity instruments, those instruments are deducted from equity and the associated shares are cancelled. No gain or loss is recognised in the profit or loss and the consideration paid including any directly attributable costs net of any taxes is recognised directly in equity.

### (p) Foreign currency transactions and balances

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

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 using the spot rate at the end of the financial year. Non monetary items measured at historical cost continue to be carried at the date of the transaction. Non monetary items measured at fair value are reported at the exchange rate at the date when the fair values were determined. Material 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. Material exchange differences arising on the translation of non monetary items are recognised inequity to the extent that the gain or loss is directly recognised in equity otherwise the exchange is recognised in profit or loss.



## NOTE 1: STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES (cont)

### (q) Employee benefits

#### Wages and salaries and annual leave

Liabilities for wages and salaries, and annual leave, including non monetary benefits, expected to be settled within 12 months of the reporting date are recognised in other payables, in respect of employees' services up to the reporting date and are measured at the amounts expected to be paid when the liabilities are settled, on an undiscounted basis.

#### Long service leave

The liability for long service leave and annual leave which is not expected to be settled within 12 months of the reporting date are recognised in the provision for employee benefits and measured as the present value of expected future payments to be made for services provided by employees up to the reporting date.

Consideration is given to expected future wage and salary levels, experience of employee departures and periods of service. Expected future payments are discounted using market yields at the reporting date on national government bonds with terms to maturity and currency that match as closely as possible the estimated future cash outflows.

#### Termination benefits

Termination benefits are payable when employments are terminated before the normal retirement date, or when the employee accepts voluntary redundancy in exchange for these benefits.

The Group recognises termination benefits when it is demonstrably committed to either terminating the employment of current employees according to a detailed formal plan without possibility of withdrawal or providing termination benefits as a result of an offer made to encourage voluntary redundancy. Benefits falling due more than 12 months after reporting date are discounted to present value.

### (r) Provisions

Provisions are recognised when the Group has a present legal or constructive obligation as a result of past events, it is probable that an outflow of resources will be required to settle the obligation and the amount can be reliably estimated.

Provisions are measured at the present value of management's best estimate of the expenditure required to settle the present obligation at the Statement of Financial Position date. The discount rate used to determine the present value reflects current market assessments of the time value of money and the risks specific to the liability.

### (s) Cash and cash equivalents

Cash and cash equivalents include cash on hand and at banks, deposits held on call with banks, other short term highly liquid investments with an original maturity date of three months or less held and bank overdrafts. Bank overdrafts are shown within borrowings in current liabilities in Statement of Financial Position.

### (t) Revenue

Revenue is measured at the fair value of the consideration received or receivable.

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

Please refer to note 1 (u) below for the new revenue accounting policy that has been adopted for FY19.

### (u) New and revised accounting requirements applicable to the FY19 period

A new Standard, being AASB 15: Revenue from Contracts with Customers has been adopted for the FY19 reporting period. No restatement has been required for previous financial statements.

The group has identified the following main categories by segment:

- Technology – sale of ICT hardware, software and licensing
- Professional Services – Infrastructure, Cloud, Data & Analytics, Consulting Professional Services and SkoolBag application set up, web hosting and online marketing services.
- Recurring Services – Managed Services, SkoolBag Mobile App services.

#### (i) Rendering of Recurring Services – Managed Services

Managed Services & Mobile App revenues primarily derives from provision of IT service desk and outsourced IT services. Where consideration is received in advance of performance, it is initially recorded as deferred revenue. Revenue is recognised as the performance obligations are satisfied which is considered to be evenly over the contracted term.

No changes to revenue recognition were identified under AASB 15.

# NOTES TO THE CONSOLIDATED FINANCIAL REPORT

## NOTE 1: STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES (cont)

### (u) New and revised accounting requirements applicable to the FY19 period (continued)

#### (ii) Rendering of Services – Professional Services

Revenue from professional services for Infrastructure, Cloud, Data & Analytics and Consulting are recognised over time either by reference to the stage of completion of the contracts, or by the labour hours incurred to date if provided for contractually. Stage of completion is measured by reference to labour hours incurred to date as a percentage of total estimated labour hours for each contract. Where the outcome cannot be reasonably measured, revenue is only recognised to the extent of the recoverable costs incurred to date of the performance obligation.

No changes to revenue recognition were identified under AASB 15.

#### (iii) Rendering of Services – SkoolBag application set up

Application set up revenues consist of fees charged for the setting up of the mobile application for customers. Where the Group has an enforceable right to payment for performance completed and no alternative use for the asset, it recognises revenue at the point of completion of the set up when the performance obligations have been satisfied, as per AASB 15.

No changes to revenue recognition were identified under AASB 15.

#### (iv) Rendering of Services – SkoolBag web hosting

Hosting revenue primarily derives from website hosting services. Where consideration is received in advance of performance, it is initially recorded as deferred revenue. Revenue is recognised as the performance obligations are satisfied which is considered to be evenly over the contracted term.

No changes to revenue recognition were identified under AASB 15.

#### (v) Rendering of Services – SkoolBag Online marketing

Online marketing revenue consists of rebates received from advertisers for successful customer sign-ups to advertiser services. Revenue is recognised at the point where advertisers confirm the rebates have been earned.

No changes to revenue recognition were identified under AASB 15.

#### (vi) Technology Sales and Transaction prices

The Group's customer contracts may include multiple performance obligations. In these cases the Group allocates the transaction price to each performance obligation based on the relative standalone selling prices of each distinct service. Standalone selling prices are determined based on prices charged to customers for individual products and services taking into consideration the size and length of contracts, service rate cards and the Group's overall go to market strategy.

No changes to revenue recognition were identified under AASB 15.

#### (vii) Principal versus agent considerations

The Group acts as an agent for vendors of Cloud Services and recommends such services to customers where appropriate. Where consumption of such services meet certain criteria set by the vendor, the Group may be entitled to rebates. Such rebates are recognised in arrears upon confirmation by the vendors of the rebates earned.

No changes to revenue recognition were identified under AASB 15.

#### (viii) Customer acquisition costs

Incremental costs of obtaining a contract with a customer are capitalised when expected to be recovered under the contract.

Where costs are incurred in transitioning a Managed Services contract, such costs are capitalised and amortised over the expected period of benefit.

The Group capitalised \$768,523 of customer acquisition costs for the year ended 30 June 2019. These costs are amortised over the length of the contracts, which is up to 60 months. \$74,768 was amortised for the year ended 30 June 2019.

No adjustments have been made for prior periods.

AASB 15 allows entities to immediately expense costs which would have been amortised within a year or less and for such situations the Group recognises the incremental costs of obtaining contracts as an expense when incurred.

#### (viii) Taxation impacts

The adoption of AASB 15 has not resulted in a deferral of revenues and costs of goods sold from prior periods into future periods.

### (v) 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 profit or loss in the period in which they are incurred.



## NOTE 1: STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES (cont)

### (w) Earnings per share

#### Basic earnings per share

Basic earnings per share is calculated by dividing the profit or loss attributable to ordinary shareholders of the Group by the weighted average number of ordinary shares outstanding during the year, adjusted for bonus elements in ordinary shares issued during the year.

#### Diluted earnings per share

Diluted earnings per share adjusts the figures used in the determination of basic earnings per share to take into account the after income tax effect of interest and other financing costs associated with dilutive potential ordinary shares and the weighted average number of shares assumed to have been issued for no consideration in relation to dilutive potential ordinary shares. Potential ordinary shares are anti-dilutive when their conversion to ordinary shares would increase earnings per share or decrease loss per share from continuing operations.

### (x) Trade and other receivables

Trade receivables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method, less provision for impairment.

Collectability of receivables is reviewed on an ongoing basis. Debts which are known to be uncollectible are written off by reducing the carrying amount directly. An allowance account (provision for impairment of trade receivables) is used when there is objective evidence that the group will not be able to collect all amounts due according to the original terms of the receivables. Refer to Note 1(l) for further discussion on determination of impairment losses.

The amount of the impairment loss is recognised in profit or loss within other expenses. When a trade receivable for which an impairment allowance had been recognised becomes uncollectable in a subsequent period, it is written off against the allowance account. Subsequent recoveries of amounts previously written off are credited against other expenses in profit or loss.

### (y) Work in progress

Work in progress is stated as the aggregate of costs incurred to date plus recognised profits less recognised losses and progress billings. Cost includes all costs directly related to specific contracts, and an allocation of overhead costs attributable to contract activity in general.

Project profits are recognised on the stage of completion basis and measured using the proportion of costs incurred to date as compared to expected total costs. Where losses are anticipated they are provided for in full.

Project revenue has been recognised on the basis of the terms of the contract adjusted for any variations or claims allowable under the contract. Any credit balance in work in progress is reclassified as income in advance.

When the outcome of the project cannot be estimated reliably, revenue is only recognised to the extent that the costs incurred are recoverable.

### (z) Trade and other payables

Trade and other payables represent the principal amounts outstanding at balance date, plus, where applicable, any accrued interest. These amounts are unsecured and are usually settled within 30 days of recognition.

### (aa) Operating segments

The Company has identified its operating segments based on internal reports that are reviewed and used by the Board of Directors (chief operating decision makers) to make financial and operational decisions and to allocate resources. We attribute sales to an operating segment based on the type of product or service provided to the customer.

We have identified three reportable segments, as follows:

- Technology Sales – provision of vendor hardware, software and associated licenses and maintenance contracts;
- Professional Services – provision of a range of specialist services including consulting, project management, systems and software engineering services to assist clients with strategy, architecture, design, development and implementation of ICT solutions; and
- Recurring Services – a combination of managed services including operations, support and ICT management, as well as a range of in-house developed commercialised IP and Cloud (SAAS) based solutions.

The consolidated entity primarily services clients in one geographical segment being Australia, with support from Australia, Sri Lanka and New Zealand. However, there are no material revenues generated outside of Australia, and as a result no additional geographical segment information has been provided.

# NOTES TO THE CONSOLIDATED FINANCIAL REPORT

## NOTE 1: STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES (cont)

### (bb) 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 (ATO).

Receivables and payables are stated inclusive of the amount of GST receivable or payable. The net amount of GST recoverable from, or payable to, the ATO is included with other receivables or payables in the statement of financial position.

Cash flows are presented on a gross basis. The GST components of cash flows arising from investing or financing activities which are recoverable from, or payable to, the ATO are presented as operating cash flows included in receipts from customers or payments to suppliers.

### (cc) New Accounting Standards for Application in Future Periods

Accounting Standards and Interpretations issued by the AASB that are not yet mandatorily applicable to the Group, together with an assessment of the potential impact of such pronouncements on the Group when adopted in future periods, are discussed below:

#### AASB 16: Leases

Applicable to annual reporting periods commencing on or after 1 January 2019. When effective, this Standard will replace the current accounting requirements applicable to leases in AASB 117: Leases and related interpretations. AASB 16 introduces a single lessee accounting model that eliminates the requirement for leases to be classified as either operating leases or finance leases. Lessor accounting remains similar to current practice.

The main changes introduced by the new Standard are as follows:

- (i) recognition of the right-to-use asset and liability for all leases (excluding short term leases with less than 12 months of tenure and leases relating to low value assets);
- (ii) depreciating the right-to-use assets in line with AASB 116: Property, Plant and Equipment in profit or loss and unwinding of the liability in principal and interest components;
- (iii) inclusion of variable lease payments that depend on an index or a rate in the initial measurement of the lease liability using the index or rate at the commencement date;
- (iv) application of a practical expedient to permit a lessee to elect not to separate non-lease components and instead account for all components as a lease; and
- (v) additional disclosure requirements.

The transitional provisions of AASB 16 allow a lease to either retrospectively apply the Standard to comparatives in line with AASB 108 or recognise the cumulative effect of retrospective application as an adjustment to opening equity at the date of initial application.

Estimated impact of AASB 16 on the Group when the standard is applied

Due to the adoption of AASB 16, the Group's EBITDA will improve, while its interest and Amortisation (Depreciation) expense will increase. This is due to the change in the accounting for expenses of leases that were classified as operating leases under AASB 117. The current liabilities will be increased which could reduce the net working capital of the Group

At the 30 June 2019 the Group expects the following impact if the standard was adopted

#### Statement of Financial Position

The right of Asset	\$2,666,927
Lease Liability –Current	(\$703,784)
Lease Liability –Non-Current	(\$2,362,528)
Retained Earnings	(\$399,385)

The Group expects the impact to reduce profit before tax for 30 June 2019 of \$24,463 and that operating cashflows will increase by \$703,784.





## NOTE 2: CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

The Directors evaluate estimates and judgements incorporated into the financial report based on historical knowledge and best available current information. Estimates assumed a reasonable expectation of future events and are based on current trends and economic data, obtained both externally and within the Company.

### Key Estimates

#### *Impairment of Non-Current Assets*

The Company assesses impairment at each reporting date by evaluating conditions specific to the Group that may lead to an impairment of assets. Where an impairment trigger exists, the recoverable amount of the asset is determined. Value-in-use calculations performed in assessing recoverable amounts incorporate a number of key estimates.

#### *Debtors (Bad Debt Provision)*

The provision for impairment of receivables assessment requires a degree of estimation and judgement. The level of provision is assessed by taking into account the recent sales experience, historical collection rates and specific knowledge of the individual debtors' financial position.

#### *Impairment of goodwill*

Determining whether goodwill is impaired requires an estimation of the value in use of the cash generating units to which goodwill has been allocated. The value in use calculation requires the directors to estimate the future cash flows expected to arise from the cash-generating unit and a suitable discount rate in order to calculate present value. Where the actual future cash flows are less than expected, a material impairment loss may arise.

#### *Taxation*

The Group's accounting policy for taxation requires management's judgment in assessing whether deferred tax assets and deferred tax liabilities are recognized in the Statement of Financial Position. Deferred tax assets, including those arising from un-recouped tax losses and temporary differences are recognized only where it is considered more likely than not that they will be recovered, which is dependent upon the generation of sufficient future taxable profits.

Assumptions about the generation of future profits depend upon management's estimates of future profitability and cash flows. These depend upon estimates of future income, operating costs, capital expenditure, dividends and other capital management transactions. Judgments and assumptions are also required in relation to the application of income tax legislation. These judgments and assumptions are subject to risk and uncertainty. Therefore there is a possibility that changes in circumstances will alter expectations, which may impact the amount of deferred tax assets and deferred tax liabilities recognized in the Statement of Financial Position and the amount of tax losses and temporary differences not yet recognized. In such circumstances, some or all of the carrying amounts of recognized deferred tax assets and liabilities may require adjustment, resulting in a correction to the Statement of Profit or Loss and Comprehensive Income.

#### *Share-based payments*

The fair value of options issued under the MOQ Limited Employee Incentive Plan is measured by reference to the fair value of options granted. The fair value estimate is based on the Black Scholes option-pricing model. The contractual life of the options is used as an input into the model. Further information regarding assumptions is included in Note 30.

# NOTES TO THE CONSOLIDATED FINANCIAL REPORT

## NOTE 3: FINANCIAL RISK MANAGEMENT

### *Recoverability of Work in Progress*

The Company assesses work in progress on a monthly basis to determine whether the amounts accrued are recoverable to the Group when billed to customers. At the reporting date, the directors believe that the carrying value of work in progress is recoverable in full.

### *Valuation of Provisions*

The Company has assessed the value of provisions at the reporting date in line with the accounting policy at Note 1(r).

Risk management is the role and responsibility of the board. The Group's current activities expose it to minimal risk. However, as activities increase there may be exposure to credit, liquidity, foreign currency and interest rate risks.

### *Determination of Intangible Property Acquired*

The company has assessed the value of intangible property acquired from the acquisition of Skoolbag and Tetran using management's judgement in determining the fair values of the property acquired.

#### **(a) Credit Risk**

The Group has no significant concentrations of credit risk other than one large debtor amount of \$1.6m (16% of total trade receivables as at 30 June 2019). As at the date of this report approximately \$539k has been received. As there are no other major concentration of debtors, no sensitivity analysis has been prepared by the Group. The ageing of the Group's trade and other receivables net of bad debt provisions at the reporting date is:

	2019 \$	2018 \$
Current	6,301,563	8,399,625
30 - 60 days	1,700,488	903,390
60 - 90 days	539,351	499,741
More than 90 days	1,282,836	196,410
	<u>9,824,238</u>	<u>9,999,166</u>

The directors believe that the above stated balances are fully recoverable.

#### **(b) Liquidity**

Prudent liquidity risk management implies maintaining sufficient cash to meet commitments as and when they fall due. The Group manages liquidity risk by preparing forecasts and monitoring actual cash flows and requirements for future capital raisings. The Group has a committed credit line available, which is appropriate given the nature of its operations. Surplus funds are invested in a cash management account with Westpac Banking Corporation, St George and HSBC which is available as required.

The material liquidity risk for the Group is the ability to raise equity or access debt finance as required in the future.





# NOTES TO THE CONSOLIDATED FINANCIAL REPORT

## NOTE 3: FINANCIAL RISK MANAGEMENT (continued)

### (c) Interest rate risk

The Group's exposure to interest rate risk, which is the risk that a financial instrument's value will fluctuate as a result of changes in market rates and the effective weighted average interest rates on classes of financial assets and financial liabilities, is:

	Floating Interest Rate \$	1 year or less Fixed Interest Rate \$	Non Interest Bearing \$	Over 1 to 5 years Non Interest Bearing \$	Total \$
<b>30 June 2019</b>					\$
<b>Financial assets</b>					
Cash and deposits	265,539	-	4,965,067	-	5,230,606
Current receivables	-	-	9,824,238	-	9,824,238
Other assets	-	-	112,017	545,991	658,008
	265,539	-	14,901,322	545,991	15,712,852
Weighted average interest rate	0%				
<b>Financial liabilities</b>					
Trade and other payables	-	-	(8,963,037)	-	(8,963,037)
Borrowings	-	-	-	-	-
Tax Payable	-	-	(56,019)	-	(56,019)
	-	-	(9,019,056)	-	(9,019,056)
Weighted average interest rate	Nil				
Net financial assets	265,539	-	5,882,266	545,991	6,693,796

The directors do not consider the results of the Group to be subject to significant sensitivity arising from interest rate risks.

	Floating Interest Rate \$	1 year or less Fixed Interest Rate \$	Non Interest Bearing \$	Over 1 to 5 years Non Interest Bearing \$	Total \$
<b>30 June 2018</b>					
<b>Financial assets</b>					
Cash and deposits	1,807,947	-	2,155,791	-	3,963,738
Current receivables	-	-	9,999,166	-	9,999,166
Other assets	-	-	27,117	422,219	449,336
	1,807,947	-	12,182,074	422,219	14,412,240
Weighted average interest rate	0%				
<b>Financial liabilities</b>					
Trade and other payables	-	-	(8,325,577)	-	(8,325,577)
Borrowings	-	-	-	-	-
Tax Payable	-	-	(172,893)	-	(172,893)
	-	-	(8,498,470)	-	(8,498,470)
Weighted average interest rate	Nil				
Net financial assets	1,807,947	-	3,683,604	422,219	5,913,770

### (d) Foreign currency risk

The Group has subsidiaries in Sri Lanka and New Zealand, which serves primarily as service and support centres. As all intercompany loans are repayable in AUD\$, the group is not materially exposed to foreign currency risk and as such, no sensitivity analysis has been made by the Group.

# NOTES TO THE CONSOLIDATED FINANCIAL REPORT

## NOTE 3: FINANCIAL RISK MANAGEMENT (continued)

### (e) Fair value hierarchy

The Group has not disclosed the fair values for financial instruments such as short-term trade receivables and payables because their carrying amounts are a reasonable approximation of their fair values.

## NOTE 4: SEGMENT INFORMATION

The segment information provided to the Board of directors, for the reportable segments\* is as follows:

	Recurring Services \$	Professional Services \$	Technology Sales \$	Unallocated \$	Total \$
<b>30 June 2019</b>					
Revenue from external customers	13,545,139	17,792,941	36,531,936	-	67,870,016
Other income	-	-	-	59,646	59,646
<b>Total Reportable Segment results</b>	<b>3,303,917</b>	<b>3,071,620</b>	<b>6,157,456</b>	<b>(11,904,380)</b>	<b>628,613</b>
Total segment assets	-	-	-	35,134,019	35,134,019
Total segment liabilities	-	-	-	13,841,069	13,841,069
<b>30 June 2018</b>					
Revenue from external customers	11,358,397	18,124,518	29,650,500	-	59,133,415
Other income	-	-	-	139,767	139,767
<b>Total Reportable Segment results</b>	<b>2,326,283</b>	<b>3,967,355</b>	<b>5,313,914</b>	<b>(10,038,613)</b>	<b>1,568,939</b>
Total segment assets	-	-	-	32,194,540	32,194,540
Total segment liabilities	-	-	-	13,333,124	13,333,124

\*please refer to Note 1(aa) for a description of each of the Reportable Segments.

**NOTE 5: PARENT ENTITY DETAILS**

Summarised presentation of the parent entity, MOQ Limited:

**(a) Summarised statement of financial position**

	2019 \$	2018 \$
<b>Assets</b>		
Current assets	320,374	232,518
Non current assets	19,905,394	19,164,855
Total assets	20,225,768	19,397,373
<b>Liabilities</b>		
Current liabilities	(95,028)	(224,998)
Non current liabilities	(1,375,813)	(1,372,854)
Total liabilities	(1,470,841)	(1,597,852)
Net assets	18,754,927	17,799,521
<b>Equity</b>		
Share Capital	49,615,752	49,615,752
Reserves	478,611	281,045
Accumulated losses	(31,339,437)	(32,097,276)
Total equity	18,754,926	17,799,521

**(b) Summarised statement of comprehensive income**

Profit / (Loss) for the year after tax	757,847	(290,124)
Total comprehensive income / (loss) for the year	757,847	(290,124)

**(c) Guarantees entered into by the parent**

The parent has not entered into any guarantees other than disclosed in this report.

**(d) Contingent liabilities of the parent**

The parent is not aware of any contingent liabilities other than disclosed in this report.

**(e) Commitments of the parent**

The parent does not have any commitments other than disclosed in this report.

**NOTE 6: REVENUE AND OTHER INCOME**

	2019 \$	2018 \$
<b>(a) Revenue from operations<sup>1</sup></b>	67,870,016	59,133,415
<b>(b) Other income</b>		
Interest received	19,035	13,284
Other income	40,611	126,483
	59,646	139,767
Total revenue and other income	67,929,662	59,273,182

<sup>1</sup> Refer to Note 1(u) for the Group's new accounting policy for FY19 and the impact of the application of AASB 15

# NOTES TO THE CONSOLIDATED FINANCIAL REPORT

## NOTE 7: OPERATING PROFIT

Profit before income tax includes the following expenses:

	2019 \$	2018 \$
(a) Cost of sales		
Technology	30,374,480	24,336,586
Recurring services	10,241,222	9,032,114
Professional services	14,721,321	14,157,163
	<u>55,337,023</u>	<u>47,525,863</u>
(b) Depreciation – office equipment and software	400,378	367,566
Amortisation – intangible assets	324,234	244,213
	<u>724,612</u>	<u>611,779</u>
(c) Employee benefits, other labour and related expenses		
Wages and salaries	4,682,355	4,242,663
Superannuation	352,569	357,929
Other employee benefits expenses	1,322,602	1,214,421
	<u>6,357,526</u>	<u>5,815,013</u>
(d) Legal costs	101,575	81,153
(e) Professional fees		
Consultants fees <sup>1</sup>	757,699	108,717
Compliance fees	162,967	195,153
Other Fees	12,066	15,624
	<u>932,732</u>	<u>319,494</u>

<sup>1</sup> Includes \$349,462 tax advisory costs for recovery of historical deferred tax asset of \$1,647,442 by way of a Private Ruling from the Australian Tax office.

## NOTE 8: INCOME TAX

	2019 \$	2018 \$
(a) The components of tax benefit / (expense) comprise:		
Current tax	264,292	(357,517)
Deferred tax	1,395,118	(82,241)
	<u>1,659,410</u>	<u>(439,758)</u>
(b) Numerical Reconciliation of Income Tax Expense to Prima Facie Tax Payable		
Profit before income tax expense	628,613	1,568,939
Income tax calculated at 30% (2018: 30%)	(188,584)	(470,682)
Tax rate differential	7,727	3,122
Other expenditure not allowed for income tax purposes	8,435	14,174
Foreign exchange differences	-	(23)
R&D offset income tax variance	-	13,651
Over Provision in respect of prior years	142,022	-
Other income for income tax purposes	42,368	-
Temporary income tax differences	111,961	-
Tax effect of tax losses able to be utilised due to private tax ruling	1,535,481	-
Income tax (expense) / benefit	<u>1,659,410</u>	<u>(439,758)</u>
The applicable weighted average effective tax rates are as follows:	<u>263.98%</u>	<u>(28.0%)</u>



## NOTE 8: INCOME TAX (continued)

	2019 \$	2018 \$
<b>(c) Tax effects relating to other comprehensive income</b>		
There is no tax effect relating to components of other comprehensive income.		
<b>(d) Unrecognised Tax losses</b>		
Potential tax benefit at 30% (2018: 30%)	-	-
<b>(e) Current tax payable / recoverable</b>		
Current tax payable is \$56,019, relating to income tax for MOQdigital NZ Limited.		
Current tax receivable is \$81,860 relating to income tax instalments paid for Iimage Technical Services Pty Ltd ("Skoolbag")		
<b>(f) Recognised deferred tax assets and liabilities</b>		
Deferred income tax balances at 30 June 2019 relate to the following:		
(i) Deferred tax liabilities		
Prepaid expenditure	-	(4,010)
Other	-	-
Deferred Tax Liabilities	-	(4,010)
(ii) Deferred tax assets		
Provisions	519,191	54,821
M&A costs	41,953	44,698
Deferred Revenue	360,662	-
Other Assets	208,153	-
Employee obligations	537,761	510,135
Other	54,724	54,724
Tax losses*	333,041	-
Deferred Tax Assets	2,055,485	664,378

\*A private ruling was lodged on 5 February 2019 (after finalisation of the 2018 financial statements but before lodgement of the 2018 Income Tax Return) applying for modification of the continuity of ownership test for tax losses related to the entity prior to reconstruction that were initially treated as lost in accordance with the continuity of business rules under the Australian Taxation legislation. On 11 April 2019, the Australian Taxation Office ruled in favour of MOQ and tax returns were amended to ensure use of the losses. The amendments resulted in additional tax losses of \$5,118,269 being recognised.

### (g) Tax consolidation

For the purposes of income taxation MOQ Limited and its 100% Australian owned subsidiaries form a tax consolidated group. The head entity of the consolidated group is MOQ Limited.

The head entity is responsible for the liabilities of the group. Intra group transactions are ignored for tax purposes and there is a single return lodged on behalf of the group.

# NOTES TO THE CONSOLIDATED FINANCIAL REPORT

## NOTE 9: CASH AND CASH EQUIVALENTS

	2019 \$	2018 \$
Cash at bank	5,230,606	3,963,738
	<u>5,230,606</u>	<u>3,963,738</u>

## NOTE 10: TRADE AND OTHER RECEIVABLES

	2019 \$	2018 \$
Trade receivables	10,172,536	10,061,201
Provision for doubtful debts	(386,386)	(113,825)
Other receivables	38,088	51,790
	<u>9,824,238</u>	<u>9,999,166</u>

Management believes that any debts that have not provided for and are past due by more than 30 days are still collectible in full based on historic payment behaviour. The amounts that are past due but not impaired are \$3,288,729 at 30 June 2019.

Please refer to Note 3(a) for a further breakdown of the ageing of receivable amounts.

## NOTE 11: WORK IN PROGRESS

	2019 \$	2018 \$
Work In Progress	233,380	455,590
	<u>233,380</u>	<u>455,590</u>

## NOTE 12: OTHER ASSETS

	2019 \$	2018 \$
(a) OTHER ASSETS - CURRENT		
Deposits	30,157	27,117
Prepayments	548,848	1,291,589
Other	170,312	-
	<u>749,317</u>	<u>1,318,706</u>
(a) OTHER ASSETS - NON-CURRENT		
Deposits	545,407	422,219
Other	524,117	-
	<u>1,069,524</u>	<u>422,219</u>

**NOTE 13: PROPERTY, PLANT AND EQUIPMENT**

	Leasehold Improvements \$	Office Equipment & Software \$	Total \$
<b>At 30 June 2019</b>	865,145	1,367,503	2,232,648
Cost	(420,327)	(928,967)	(1,349,294)
Accumulated depreciation	444,818	438,536	883,354

<b>At 30 June 2018</b>	748,831	1,119,186	1,868,017
Cost	(266,432)	(709,186)	(975,618)
Accumulated depreciation	482,399	410,000	892,399

**Reconciliation of carrying amounts at the beginning and end of the year:**

	Leasehold Improvements \$	Plant and Equipment \$	Total \$
At 1 July 2018	482,399	410,000	892,399
Additions	116,752	282,625	399,377
Disposals	-	(11,584)	(11,584)
Depreciation	(154,333)	(246,045)	(400,378)
Foreign currency translation differences	-	3,540	3,540
At 30 June 2019	444,818	438,536	883,354
At 1 July 2017	183,545	341,991	525,536
Additions	449,983	296,119	746,102
Disposals	-	(10,234)	(10,234)
Depreciation	(151,129)	(216,437)	(367,566)
Foreign currency translation differences	-	(1,439)	(1,439)
At 30 June 2018	482,399	410,000	892,399

# NOTES TO THE CONSOLIDATED FINANCIAL REPORT

## NOTE 14: INTANGIBLE ASSETS

	2019 \$	2018 \$
Goodwill on acquisition of TETRAN Group	9,339,308	9,339,308
Goodwill on acquisition of Skoolbag	3,942,630	3,942,630
Intangible Property Acquired Skoolbag	488,196	637,239
	<u>13,770,134</u>	<u>13,919,177</u>
Intangible Property – Skoolbag software development - cost	1,441,875	583,741
Intangible Property – Skoolbag software development - accumulated depreciation	(195,754)	(20,563)
	<u>1,246,121</u>	<u>563,178</u>
	<b>15,016,255</b>	<b>14,482,355</b>

### Reconciliation of carrying amounts at the beginning and end of the year:

	Skoolbag software development \$
At 1 July 2018	563,178
Additions	858,134
Disposals	-
Amortisation	(175,191)
At 30 June 2019	<u>1,246,121</u>
At 1 July 2017	-
Additions	583,741
Disposals	-
Amortisation	(20,563)
At 30 June 2018	<u>563,178</u>





## NOTE 14: INTANGIBLE ASSETS (continued)

### Impairment Testing:

Goodwill arising from a business combination is allocated to CGUs (cash generating units) or groups that are expected to benefit from the synergies of the combination. Accordingly, TETRAN's CGU has been combined with certain MOQ digital income. For the purposes of impairment testing, goodwill has been allocated to MOQ's CGUs as follows:

	2019 \$	2018 \$
TETRAN – Managed Services	4,756,889	4,756,889
TETRAN – Professional Services	2,444,598	2,444,598
TETRAN - Technology	2,137,821	2,137,821
Skoolbag	3,942,630	3,942,630
	<u>13,281,938</u>	<u>13,281,938</u>

The recoverable amounts were based on fair values estimated using discounted cash flows.

The key assumptions used in the estimation of the recoverable amount are set out below. The values assigned to the key assumptions represents management's assessment of future trends in the ICT industry and have been based on data from both external and internal sources.

TETRAN	2019
Discount rate	14%
Terminal Value Growth Rate	2.5%
Skoolbag	2019
Discount rate	14%
Terminal Value Growth Rate	1%

The discount rate was a post-tax measure estimated based on a conservative mix of historical weighted average cost of capital and debt.

The cashflow projections included specific estimates for 3 years for TETRAN and 3 years for Skoolbag. The basis of estimation of the three-year cash flows uses the following key operating assumptions:

- Three year budgeted EBITDA is based on management's forecasts of revenue from its operating segments. Revenue forecasts take into account historical revenue and consider external factors such as market sector.
- Costs are calculated taking into account historical margins, known increases and estimated inflation rates over the period.

The estimated recoverable amount of the CGUs exceeded their carrying amounts by \$4.1 million for TETRAN and \$1.67m for Skoolbag. Management recognises that actual results (EBITDA) may vary to what has been estimated. Management has identified that a possible change in either of two key assumptions could cause the carrying amount to exceed the recoverable amount. The following table shows the amount by which these two assumptions would need to change individually for the estimated recoverable amount to be equal to the carrying amount.

	TETRAN- Managed Services 2019	TETRAN- Professional Ser-vices 2019	TETRAN- Technology 2019	Skoolbag 2019
Discount Rate	15%	18%	38%	18%
Average Budgeted EBITDA growth rate	9%	16%	8%	36%

# NOTES TO THE CONSOLIDATED FINANCIAL REPORT

## NOTE 15: TRADE AND OTHER PAYABLES

	2019 \$	2018 \$
Trade creditors	7,020,552	6,867,231
Other payables and accrued expenses	1,942,485	1,458,346
	<u>8,963,037</u>	<u>8,325,577</u>

There are no trade and other payables that are considered past due.

## NOTE 16: DEFERRED REVENUE

	2019 \$	2018 \$
CURRENT		
Unearned income – subscription, consulting and licenses	2,891,056	3,021,008
	<u>2,891,056</u>	<u>3,021,008</u>

## NOTE 17: PROVISIONS

	2019 \$	2018 \$
CURRENT		
Employee entitlements	1,013,140	860,801
- Provision for Annual Leave	758,593	844,312
- Provision for Long Service Leave	<u>1,771,733</u>	<u>1,705,113</u>
NON-CURRENT		
Employee entitlements	159,224	108,533
- Provision for Long Service Leave	<u>159,224</u>	<u>108,533</u>

Employee provisions 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 company 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 company does not have an unconditional right to defer the settlement of these amounts in the event employees wish to use their leave entitlement.



## NOTE 18: SHARE CAPITAL

### (a) Details of share issues

	2019		2018	
	No. Of Shares	Share Value \$	No. Of Shares	Share Value \$
Balance at the beginning of the year	161,320,702	49,615,752	161,320,702	49,615,752
Movement	-	-	-	-
Balance at the end of the year	161,320,702	49,615,752	161,320,702	49,615,752

For the 2019 financial year:

Holders of ordinary shares are entitled to receive dividends as declared from time to time, and are entitled to one vote per share at shareholder meetings, otherwise each member present at a meeting or by proxy has one vote on a show of hands. In the event of the winding up of the Company, ordinary shareholders rank after creditors and share in any proceeds on winding up in proportion to the number of shares held.

### (b) Options

	Balance at 30/06/2018	Balance at 30/06/2019	Exercise price	Expiry
Unlisted	3,690,901	3,690,901	\$0.275	01/09/2020
Unlisted	-	4,036,358	\$0.255	01/07/2022
Total	3,690,901	7,727,259		

A summary of the movements of all company options issues is as follows:

	No. of Options	Weighted Average Exercise Price
<b>Options outstanding at 30 June 2018</b>	<b>3,690,901</b>	<b>\$0.275</b>
Granted	4,036,358	\$0.255
Forfeited	-	-
Exercised	-	-
Expired	-	-
<b>Options outstanding at 30 June 2019</b>	<b>7,727,259</b>	<b>\$0.265</b>
Options exercisable as at 30 June 2019	1,804,951	\$0.275

The weighted average life of the outstanding share options at 30 June 2019 is 2.13 years.

	No. of Options	Weighted Average Exercise Price
<b>Options outstanding at 30 June 2017</b>	<b>3,707,568</b>	<b>\$0.305</b>
Granted	-	-
Forfeited	-	-
Exercised	-	-
Expired	(16,667)	\$7.00
<b>Options outstanding at 30 June 2018</b>	<b>3,690,901</b>	<b>\$0.275</b>
Options exercisable as at 30 June 2018	-	-

# NOTES TO THE CONSOLIDATED FINANCIAL REPORT

## NOTE 18: SHARE CAPITAL (continued)

### (d) Capital management

Management controls the capital of the Group in order to generate long-term shareholder value and ensure that the Group can fund its operations and continue as a going concern.

The Group's capital includes ordinary share capital supported by financial assets.

The Group is not subject to any externally imposed capital requirements.

Management effectively manages the Group's capital by assessing the Group's financial risks and adjusting its capital structure in response to changes in these risks and in the market. These responses include the management of debt levels, distributions to shareholders and share issues.

There have been no changes in the strategy adopted by management to control the capital of the Group since the prior year.

## NOTE 19: RESERVES

	2019 \$	2018 \$
Reserves at the beginning of financial year	141,766	(26,763)
Option Premium Reserve <sup>1</sup>	197,566	160,750
Foreign Exchange Translation Reserve	(54,055)	7,779
Reserves at end of financial year	285,277	141,766

<sup>1</sup> Refer to note 18(b) for details of options outstanding at 30 June 2019

## NOTE 20: ACCUMULATED LOSSES

	2019 \$	2018 \$
Accumulated losses at beginning of financial year	(30,896,102)	(32,025,283)
Net profit for the year after income tax	2,288,024	1,129,181
Accumulated losses at end of financial year	(28,608,078)	(30,896,102)

## NOTE 21: FRANKING CREDITS

	2019 \$	2018 \$
Franking credits available for subsequent financial years based on a tax rate of 30%	964,270	1,089,071



## NOTE 22: KEY MANAGEMENT PERSONNEL DISCLOSURE

	2019 \$	2018 \$
Compensation received by key management personnel of the consolidated entity:		
Short term employee benefits	1,210,155	1,195,520
Other payments	81,000	72,000
Other long-term employee benefits	9,238	7,919
Post employment benefits	108,528	108,071
	<u>1,408,921</u>	<u>1,383,510</u>

### 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.

### Other payments

These amounts represent cash bonus and commissions payments awarded to KMP.

### Other long-term benefits

These amounts represent long service leave benefits accruing during the year, long-term disability benefits, deferred bonus and share based payments.

### Post-employment benefits

These amounts are the current-year's estimated cost of providing for the Group's superannuation contributions made during the year.

Further information in relation to KMP remuneration can be found in the directors' report.

## NOTE 23: RELATED PARTY TRANSACTIONS

### (a) The Group's main related parties are as follows:

#### (i) Key management personnel:

Any person(s) having authority and responsibility for planning, directing and controlling the activities of the entity, directly or indirectly, including any director (whether executive or otherwise) of that entity, are considered key management personnel.

For details of disclosures relating to key management personnel, refer to Note 23.

#### (ii) Other related parties:

Other related parties include entities over which key management personnel have joint control.

### (b) Transactions with related parties:

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

MOQdigital provided product sales of \$7,418 to the Maia Group (formerly Alleasing Group), a company that is controlled by Monash Private Capital. Monash Private Capital is an entity associated with Joey Fridman and David Shein. No amounts related to these services were outstanding as at 30 June 2019.

During the year, Monash Private Capital was engaged at an arm's length basis to consult on various acquisition opportunities. Consulting fees were paid to Monash of \$193,826. No amounts related to these services were outstanding as at 30 June 2019.

On 1st September 2019, MOQ successfully completed the acquisition of Wardy IT Solutions Pty Ltd. As per the terms of their contract, Monash Private Capital is entitled to a success fee of \$250,000 which is payable on completion.

### (c) Loans to/from related parties:

There are no amounts outstanding or payable to related parties as at 30 June 2019 (2018: \$Nil).

# NOTES TO THE CONSOLIDATED FINANCIAL REPORT

## NOTE 24: AUDITOR'S REMUNERATION

	2019 \$	2018 \$
Amounts paid / payable to Stantons International for audit and review work undertaken under the <i>Corporation Act 2001</i>	94,500	71,000
Amounts paid / payable to Ernst and Young for audit and review work undertaken in Sri Lanka	8,946	12,203

## NOTE 25: CONTINGENT LIABILITIES AND CONTINGENT ASSETS

There are no contingent assets or liabilities.

## NOTE 26: CAPITAL AND LEASING COMMITMENTS

### Operating lease commitments

	2019 \$	2018 \$
Payable - minimum lease payments	706,978	538,693
- not later than 1 year	2,310,380	837,971
- later than 1 year and not later than 5 years	-	-
- later than 5 years	3,017,358	1,376,664

## NOTE 27: EARNINGS PER SHARE

### Operating lease commitments

	2019 \$	2018 \$
<b>(a) Basic earnings per share (cents per share)</b>		
From continuing operations	1.42	0.70
<b>(b) Diluted earnings per share (cents per share)</b>		
From continuing operations	1.35	0.68
<b>(c) Reconciliation of earnings in calculating earnings per share</b>		
Basic and diluted profit per share		
Profit from continuing operations attributable to ordinary equity holders	2,288,024	1,129,181
<b>(d) Total shares</b>		
Weighted average number of ordinary shares outstanding during the year used in the calculation of basic earnings per share	161,320,702	161,320,702
Weighted average number of ordinary shares outstanding during the year used in the calculation of diluted earnings per share	169,047,961	165,011,603

## NOTE 28: DISCONTINUED OPERATIONS

There were no discontinued operations in FY19.



## NOTE 29: CASH FLOW INFORMATION

### Reconciliation of net cash provided by operating activities to net profit after tax

	2019 \$	2018 \$
Profit for the period after tax	2,288,023	1,129,181
Add back: Income tax (benefit) / expense	(1,659,410)	439,758
Profit for the period before tax	628,613	1,568,939
Non cashflows and non-operating cashflows in profit:		
Depreciation / Amortisation	724,612	611,779
Share option expense	197,566	160,750
<i>Change in assets and liabilities:</i>		
Decrease / (Increase) in trade debtors	278,620	(1,811,246)
Decrease / (Increase) in work in progress	232,210	(146,012)
Decrease / (Increase) in other current assets	742,636	(831,699)
Decrease / (Increase) in deferred tax assets	-	27,517
Increase / (Decrease) in payables	581,664	678,451
Increase / (Decrease) in unearned revenue	(129,952)	1,308,354
Increase / (Decrease) in provision for employee entitlements	117,311	321,920
Cash flow from operations	3,373,281	1,888,753

## NOTE 30: SHARE BASED PAYMENTS

The assessed fair value of the 4,036,358 options granted during the year was \$281,249 (2018:\$Nil) as calculated at the date of grant using the Black-Scholes model for the valuation of call options, the inputs of which included:

No of options	4,036,358
Grant date	1 July 2018
Exercise by	1 July 2022
Expected average life of the options	4 years
Exercise price per share	25.5 cents
Share price at grant date	24 cents
Expected volatility	46.78%
Risk-free interest rate	2.28%
Value of options at grant date	\$281,249

Further details regarding share based payments to key management personnel can be found in the audited Remuneration Report set out in the Director's Report.

# NOTES TO THE CONSOLIDATED FINANCIAL REPORT

## NOTE 31: CONTROLLED ENTITIES

Name of entity	Country of Incorporation	Class of Shares	Equity holding	
			2019	2018
iimage Technical Services Pty Ltd	Australia	Ordinary	100%	100%
TETRA Pty Ltd	Australia	Ordinary	100%	100%
MOQdigital NZ Limited	New Zealand	Ordinary	100%	100%
MOQdigital (Singapore) Pte Limited*	Singapore	Ordinary	-	100%
MOQdigital Asia Pacific (PVT) Limited	Sri Lanka	Ordinary	100%	100%
MOQdigital Pty Ltd	Australia	Ordinary	100%	100%
Pinnacle Software (Australia) Pty Ltd	Australia	Ordinary	100%	100%
Coral Communities Pty Ltd	Australia	Ordinary	100%	-

\* MOQdigital (Singapore) Pte Limited, a dormant subsidiary, was de-registered on 7 March 2019

\*\* Coral Communities Pty Ltd was incorporated on 2 April 2019

## NOTE 32: EVENTS SUBSEQUENT TO REPORTING DATE

MOQ Limited completed the acquisition of Wardy IT Solutions Pty Ltd (Wardy IT) on 1st September 2019.

The acquisition was settled for an upfront consideration of \$6.4m in cash and shares, after adjusting for \$1.1m in net debt and working capital.

The consideration was \$2m funded out of existing MOQ cash reserves, and \$4.4m issued in shares, equating to 16,142,939 MOQ shares issued at 27.5c per share.

A further earn-out capped at \$6m may become payable in October 2020 in relation to Wardy IT financial performance for the 12 months ending 31 August 2020, subject to achieving certain performance criteria.

END OF AUDITED STATEMENTS



## DIRECTORS' DECLARATION



In accordance with a resolution of the directors of MOQ Limited (the "Company"), the directors of the company declare that:

1. In the opinion of the directors of the Company, the financial statements and notes, as set out on pages 18 to 48 are in accordance with the *Corporations Act 2001* and
  - i. comply with Australian Accounting Standards, which, as stated in accounting policy Note 1 to the financial statements, constitutes compliance with International Financial Reporting Standards (IFRS); and
  - ii. give a true and fair view of the financial position as at 30 June 2019 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 audited remuneration disclosures set out on pages 11 to 16 of the directors' report comply with accounting standard AASB 124 *Related Party Disclosures* and the Corporation Regulations 2001; and
4. the directors have been given the declarations required by s 295A of the *Corporations Act 2001* from the Chief Executive Officer.

On behalf of the Directors

David Shein  
Non Executive Chairman  
19 September 2019

19 September 2019

Board of Directors  
MOQ Limited  
Suite 1, Ground Floor  
3-5 West Street  
North Sydney, NSW, 2060

Dear Sirs

**RE: MOQ LIMITED**

In accordance with section 307C of the Corporations Act 2001, I am pleased to provide the following declaration of independence to the directors of MOQ Limited.

As Audit Director for the audit of the financial statements of MOQ Limited for the year ended 30 June 2019, 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.

Yours faithfully,

**STANTONS INTERNATIONAL AUDIT AND CONSULTING PTY LTD**  
(Trading as Stantons International)  
(An Authorised Audit Company)



**Samir Tirodkar**  
Director

**INDEPENDENT AUDITOR'S REPORT  
TO THE MEMBERS OF  
MOQ LIMITED**

**Report on the Audit of the Financial Report**

***Opinion***

We have audited the financial report of MOQ Limited, the Company and its subsidiaries (the Group), which comprises the consolidated statement of financial position as at 30 June 2019, the consolidated statement of profit or loss and other comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies, and the directors' declaration.

In our opinion, the accompanying financial report of the Group is in accordance with the Corporations Act 2001, including:

- (i) giving a true and fair view of the Group's financial position as at 30 June 2019 and of its financial performance for the year then ended; and
- (ii) complying with Australian Accounting Standards and the Corporations Regulations 2001.

***Basis for Opinion***

We conducted our audit in accordance with Australian Auditing Standards. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Report section of our report. We are independent of the Group in accordance with the auditor independence requirements of the Corporations Act 2001 and the ethical requirements of the Accounting Professional and Ethical Standards Board's APES 110 Code of Ethics for Professional Accountants (the Code) that are relevant to our audit of the financial report in Australia. We have also fulfilled our other ethical responsibilities in accordance with the Code.

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

## Key Audit Matters

We have defined the matters described below to be key audit matters to be communicated in our report.

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the financial report of the current period. These matters were addressed in the context of our audit of the financial report as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Key Audit Matters	How the matter was addressed in the audit
<p><b>Revenue recognition</b></p> <p>AASB 15 Revenue from Contracts with Customers (AASB 15) became effective for periods beginning on or after 1 July 2018. A substantial amount of the Group's revenue relates to revenue from sale of goods and rendering of services (which included professional services and managed services). The Group offers many products and services to its customers that require different revenue recognition accounting policies given different performance obligations profiles, as outlined in note 1(u) to the financial statements.</p> <p>Revenue recognition has been assessed as key audit matter due to the different recognition policies.</p>	<p>Inter alia, our audit procedures included the following:</p> <ol style="list-style-type: none"> <li>Our audit procedures included considering the appropriateness of the Group's new revenue recognition accounting policies to ensure in accordance with AASB 15.</li> <li>Performing tests for accuracy, completeness and cut-off of customer invoicing on a sample basis.</li> <li>Performing cut-off procedures to ensure all revenue was captured in the appropriate financial year;</li> <li>Assessing the adequacy of the Group's related disclosures within the financial report.</li> </ol>
<p><b>Impairment of Goodwill</b></p> <p>The Group carries Goodwill totalling \$13,281,938 (refer to Note 14) in terms of the application of the Group's accounting policy for Intangible assets, as set out in Note 1(c).</p> <p>The carrying value of Goodwill is a key audit matter due to:</p> <ul style="list-style-type: none"> <li>The significance of the total balance (38% of total assets);</li> <li>For the CGU's which contain goodwill, the determination of recoverable amount, being the higher of fair value less costs to sell and value-in-use, requires judgement on the part of management in both identifying and then valuing the relevant CGU's.</li> <li>The assessment of impairment of the Group's goodwill balances incorporated significant judgement in respect of factors such as discount rates and growth rates.</li> </ul> <p>A key audit matter for us was whether the Group's value in use model for impairment included appropriate consideration of these factors on their significant estimates and judgements and the selection of Key external and internal inputs.</p>	<p>Inter alia, our audit procedures included the following:</p> <ol style="list-style-type: none"> <li>We assessed management's determination of the Group's CGUs based on our understanding of the nature of the Group's Business and economic environment in which the CGUs operate. We also analysed the internal reporting of the Group to assess how earnings streams are monitored and reported;</li> <li>We evaluated management's process regarding valuation of the Group's goodwill assets to determine any asset impairments. We tested management's models, such as the preparation and review of forecasts.</li> <li>We challenged the Group's assumptions and estimates used to determine the recoverable value of its assets, including those relating to forecast revenue, cost and discount rates.</li> <li>We checked the mathematical accuracy of the cash flow models and agreed relevant data to the latest forecasts;</li> <li>We performed sensitivity analysis in two main areas. These included the discount rate and average budgeted EBITDA growth assumptions on the CGUs with a higher risk if impairment.</li> </ol>

### Recoverability of Trade Receivables

As at 30 June 2019, the Group had trade receivables and other receivables of \$9,824,238.

Management assess the recoverability of trade receivables by reviewing customers' aging profile, credit history and status of subsequent settlement, and determine whether an impairment provision is required.

For the purpose of impairment assessment, significant judgement and assumptions, including the credit risks of customers, the timing and amount of realisation of these receivables, are required for the identification of impairment events and the determination of the impairment charge.

Inter alia, our audit procedures included the following:

- i. Obtained a list of long outstanding receivables and identified any debtors with financials difficulty through discussion with management.
- ii. As disclosed note 3(a) the company has one debtor which represents 16% of the outstanding balance at 30 June 2019. We discussed this and other balances with senior management regarding the recoverability of the debtors and collection period;
- iii. Assessed the recoverability of the balances by comparing the outstanding amounts as at year end against subsequent settlements.

### Other Information

The directors are responsible for the other information. The other information comprises the information included in the Group's annual report for the year ended 30 June 2019, but does not include the financial report and our auditor's report thereon.

Our opinion on the financial report does not cover the other information and accordingly we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial report, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial report or our knowledge obtained in the audit or otherwise appears to be materially misstated.

If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

### Responsibilities of the Directors 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 gives a true and fair view and is free from material misstatement, whether due to fraud or error.

In preparing the financial report, the directors are responsible for assessing the ability of the Group to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the Group or to cease operations, or has no realistic alternative but to do so.

### Auditor's Responsibilities for the Audit of the Financial Report

Our objectives are to obtain reasonable assurance about whether the financial report as a whole is free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with the Australian Auditing Standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate,

they could reasonably be expected to influence the economic decisions of users taken on the basis of this financial report.

As part of an audit in accordance with Australian Auditing Standards, we exercise professional judgement and maintain professional scepticism throughout the audit. 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 of the financial report that gives a true and fair view 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.

The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of 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 conclude on the appropriateness of the Directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial report or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.

We evaluate the overall presentation, structure and content of the financial report, including the disclosures, and whether the financial report represents the underlying transactions and events in a manner that achieves fair presentation.

We obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the financial report. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with the Directors regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in Internal control that we identify during our audit.

The Auditing Standards require that we comply with relevant ethical requirements relating to audit engagements. We also provide the Directors with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with the Directors, we determine those matters that were of most significance in the audit of the consolidated financial report of the current period and are therefore key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

## **Report on the Remuneration Report**

### ***Opinion on the Remuneration Report***

We have audited the Remuneration Report included in pages 11 to 16 of the directors' report for the year ended 30 June 2019.

In our opinion, the Remuneration Report of MOQ Limited for the year ended 30 June 2019 complies with section 300A of the Corporations Act 2001.

### ***Responsibilities***

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.

**STANTONS INTERNATIONAL AUDIT AND CONSULTING PTY LTD**  
**(Trading as Stantons International)**  
**(An Authorised Audit Company)**

*Stantons International Audit and Consulting Pty Ltd*  
*Samir*

**Samir Tirodkar**  
Director

West Perth, Western Australia  
19 September 2019

# MONTECH HOLDINGS LIMITED AND ITS CONTROLLED ENTITIES

ADDITIONAL INFORMATION FOR LISTED PUBLIC COMPANIES  
ABN: 94 050 240 330

The following information is current as at 13 September 2019.

## ORDINARY SHARES

177,463,641 fully paid ordinary shares held by 694 individual shareholders. All ordinary shares carry one vote per share.

## UNQUOTED OPTIONS

The Company has on issue:

- 3,690,901 options exercisable at 27.5 cents expiring on 1 September 2020 amongst MOQ employees.
- 3,4036,358 options exercisable at 25.5 cents expiring on 1st July 2022 amongst MOQ employees.

Options do not carry any votes

## DISTRIBUTION OF HOLDERS FULLY PAID ORDINARY SHARES

Category	Number of holders	Number held	% of issued shares
100,001 and Over	102	166,118,196	93.61
10,001 to 100,000	233	10,739,006	6.05
5,001 to 10,000	53	437,400	0.25
1,001 to 5,000	52	140,358	0.08
1 to 1,000	254	28,681	0.02
<b>Total</b>	<b>694</b>	<b>177,463,641</b>	<b>100.00</b>

The number of holders who held less than a marketable parcel of shares was nil.

## SUBSTANTIAL SHAREHOLDERS

The names of substantial shareholders who have notified the Company in accordance with Section 671B of the Corporations Act are:

Holder	A/C designation	No. of ordinary shares	% of issued shares
J P MORGAN NOMINEES AUSTRALIA PTY LIMITED		22,592,052	12.73
MONASH PRIVATE CAPITAL PTY LTD		18,228,334	10.27
MR SCOTT MCPHERSON	<SCOTT MACPHERSON FAMILY A/C>	17,655,978	9.95
MS KATHY LOUISE EDWARDS	<JOKAT INVESTMENT A/C>	17,655,978	9.95
PWJAW PTY LTD	THE WARD DEARNESS FAMILY	14,125,072	7.96





# MONTECH HOLDINGS LIMITED AND ITS CONTROLLED ENTITIES

ADDITIONAL INFORMATION FOR LISTED PUBLIC COMPANIES  
ABN: 94 050 240 330

## TOP 20 HOLDERS OF EQUITY SECURITIES

Rank	Name	13 Sep 2019	%IC
1	J P MORGAN NOMINEES AUSTRALIA PTY LIMITED	22,592,052	12.73
2	MONASH PRIVATE CAPITAL PTY LTD	18,228,334	10.27
2	MR SCOTT MCPHERSON	17,655,978	9.95
3	MS KATHY LOUISE EDWARDS	17,655,978	9.95
4	PWJAW PTY LTD	14,125,072	7.96
5	MATTHEW CHARLES GOGGIN & ROMILY JANE GOGGIN	8,827,989	4.97
6	CITICORP NOMINEES PTY LIMITED	7,004,504	3.95
7	MR DON AMAL NANAYAKKARA	5,651,475	3.18
8	ANACACIA PTY LIMITED	4,174,883	2.35
9	KOMATIE PTY LTD	4,110,457	2.32
10	MOAT INVESTMENTS PTY LTD	4,000,000	2.25
11	DAVCOL NOMINEES PTY LTD	2,500,001	1.41
12	NATIONAL NOMINEES LIMITED	2,387,433	1.35
13	UNITED EQUITY PARTNERS PTY LTD	2,130,000	1.20
14	HOLLOWAY COVE PTY LTD	2,050,000	1.16
15	ICON PACIFIC SERVICES PTY LTD	2,017,867	1.14
16	MAST FINANCIAL PTY LTD	1,750,000	0.99
17	JARREN INVESTMENTS PTY LTD	1,583,334	0.89
18	INFLECTION INVESTMENTS PTY LTD	1,267,603	0.71
19	MR KAI MYSLIWIECZ	1,135,625	0.64
20	POLFAM PTY LTD	850,000	0.48
<b>Total</b>		<b>141,698,585</b>	<b>79.85</b>
<b>Grand total</b>		<b>177,463,641</b>	<b>100.00</b>

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