# Appendix 4E

| | |
|---|---|
| **Name of entity** | 3Q Holdings Limited |
| **ABN** | 42 089 058 293 |
| **Year Ended** | 30 June 2009 |
| **Previous Corresponding Reporting Period** | 12 months to 30 June 2008 |

## Results for announcement to the market

| | Result | % Increase (Decrease) | $ Increase (Decrease) |
|---|---|---|---|
| *Revenue and other income from ordinary activities | 28,370,023 | 36% | 7,516,365 |
| Profit from ordinary activities after tax attributable to members | 1,579,957 | 4% | 62,346 |
| Net profit for the period attributable to members | 1,579,957 | 4% | 62,346 |

* Includes one-off gain on settlement of Retail Pro of approximately $3 million.

| Dividends (distributions) | Amount per Security | Franked amount per Security |
|---|---|---|
| Final Dividend | Nil | Nil |
| Interim Dividend | Nil | Nil |
| Record date for determining entitlement to the Dividends (if any) | N/A | N/A |

No dividends were paid by 3Q Holdings Limited during the reporting period. It is not the current intention of the directors to declare a dividend in respect of this financial year.

## Financial Statements

2009 Audited Annual Accounts attached.

## Dividends

3Q Holdings Limited has not declared a dividend in respect of the current financial year.

## Statement of Retained Earnings movements

A statement of movements in Retained Earnings is attached.

## Net Tangible Asset Backing

| | Current period | Previous corresponding period |
|---|---|---|
| Net tangible asset backing per ordinary security | -9.60643 cents | -10.75344 cents |

## Gain/Loss of Entity

3Q Holdings Limited did not gain control over entities during the year.

3Q Holdings Limited did not lose control over entities during the year.

## Joint Ventures and Associates

3Q Holdings does not have any holdings in either associates or any joint venture entities.

## Significant Information/Commentary

The Chairman's report, Director's report, Income Statement, Balance Sheet, Statement of Changes in Equity, Cash Flow Statement and the notes thereto, all of which are attached, will provide a more detailed understanding of the Company.

## Foreign Entity

3Q Holdings is not a Foreign Entity. The financial report is a general-purpose financial report, which has been prepared in accordance with the requirements of the Corporations Act 2001, applicable Accounting Standards and other mandatory professional reporting requirements except some of the disclosure requirements under Accounting Standards have not been included where the information that would be disclosed is not considered relevant nor material.

The historical financial information contained in this report has been prepared and presented in accordance with the Australian equivalents to International Financial Reporting Standards (A-IFRS). Compliance with AIFRS ensures that the financial report of 3Q Holdings Limited complies with International Financial Reporting Standards ("IFRS").

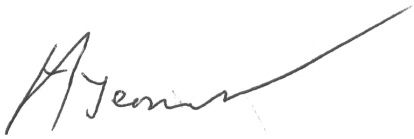
## Auditing of Accounts

This report is based on accounts that have been audited. The accounts are not subject to audit dispute or qualification.

Copies of all ASX releases are available for download at www.asx.com.au

For further information:

Alan Treisman
Company Secretary
3Q Holdings Limited
02 9369 8590



# 3Q HOLDINGS LIMITED

## 2009 Annual Report

# Corporate Information

ABN 42 089 058 293

**Directors**
Shaun Rosen (Executive Chairman)
Clive Klugman
Alan Treisman
Mark McGeachen
Stephe Wilks

**Company Secretary**
Alan Treisman

**Registered Office**
Level 14, Tower 2, 500 Oxford Street
Bondi Junction
NSW 2022
Australia

**Principal Place of Business**
Ground Floor, 35 Spring Street
Bondi Junction
NSW 2022
Australia
Phone 61 2 9369 5890
Website www.threeq.com.au

**Share Register**
Computershare Investor Services Pty Ltd
Level 2, 45 St George's Terrace
Perth WA 6000
Phone 61 8 1300 557 010
Website www.computershare.com

**Solicitors**
Freehills
MLC Centre Martin Place
Sydney NSW 2000
Australia

**Bankers**
National Australia Bank
Bondi Junction, Sydney NSW
George Street, Sydney NSW

Commonwealth Bank of Australia
Bondi Junction, Sydney NSW

St George Bank
George Street, Sydney NSW

**Auditors**
PKF
Level 10, 1 Margaret Street
Sydney NSW 2000
Australia

**Stock Exchange Listing**
Australian Stock Exchange, code: TQH

3Q

Annual Report 2009

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# Executive Chairman's Report

I am pleased to present the Annual Report for 3Q Holdings Limited for the year ended 30 June 2009.

This has been a successful year for the company, with a strong emphasis on the integration and consolidation of our two most recent acquisitions – Advance Retail, and Island Pacific. The company has achieved a satisfactory financial outcome despite the challenging global retail environment.

## Financial Overview & Highlights

The substantial increase in revenue and underlying EBITDA for the year was primarily driven by the successful integration of Island Pacific. This was over and above the organic growth of the existing business.

The Board is pleased to see the success of the strategic model it is pursuing namely:

- Building a scalable business with a substantial contracted recurring revenue base from maintenance agreements
- Organic growth from sales of superior retail technology to new customers
- Adding new products for sale to our existing and acquired customers

In the course of the year, the Company increased revenue from $20.5m in 2008, to $25m in 2009, a growth of approximately 22%. Underlying EBITDA of the business increased some 23%, from $4.3m in 2008 to $5.3m in 2009.

The adjustments from EBITDA to 'Underlying EBITDA' are to eliminate certain non-operating costs, which are also substantially non-cash items. These adjustments are primarily the exclusion of the following significant expense items:

- Swap interest expenses of $539,706
- Foreign exchange losses arising from restating the balance of US$ bank debt in the Company's books and from exchange rate fluctuations from intercompany trade accounts of $1,869,069

The adjusted figure also excludes the gain realised on the settlement with Retail Pro on the vendor financing and other debt of $2,939,127.

It is heartening to report such a robust result in the context of a very challenging global financial environment which has been characterised by severely depressed retail markets. This has been particularly evident in the United States and United Kingdom.

Significantly, the Company has been able to substantially reduce its outstanding debt over the period by almost $9 million giving our company a strong platform to enter the current financial year.

## Financial Highlights

| | 2009 | 2008 | Percentage Increase/(Decrease) | |
|---|---|---|---|---|
| Revenue | $24,990,105 | $20,552,262 | ↑ | 22% |
| Gross Profit Percentage | 88% | 78% | ↑ | 10% |
| Underlying EBITDA* | $5,311,106 | $4,305,814 | ↑ | 23% |
| Net Profit after tax | $1,579,957 | $1,517,611 | ↑ | 4% |
| Earnings per Share (cents) | 1.07 | 1.03 | ↑ | 4% |
| Number of Employees | 106 | 113 | ↓ | (6%) |

** Underlying EBITDA excludes foreign exchange losses on US$ bank loan and intercompany trade accounts, and gain on settlement of Retail Pro.*

## Company and Operations

Over the course of the financial year, the Company demonstrated the value of its long-term strategy of sustainable growth. That growth will continue to come from the development of the businesses already controlled by the Group, as well as through acquisition. Having completed the previous significant acquisitions, the Board and Management focused this year on ensuring the fundamentals were secured, so that the Company continued to have a sound foundation for its further development.

Not only did the business demonstrate great resilience at the operating level in the face of a global economic contraction, but we also took the opportunity to substantially reduce the outstanding debt burden on the balance sheet. During the year, we settled the remaining vendor financing obligations for the successful Island Pacific acquisition (recording a one off gain of approximately $3m); and made bank repayments, including interest, of over $8.5m over the period. This substantially reduced debt position provides the Company with great flexibility for future acquisitions where appropriate.

In addition, the product team were not resting on their laurels with new product development in moving the Company's product road map forward leading to some $1m in capitalised development costs for the financial year.

Contracted revenue from established maintenance contracts again provided a solid basis for the ongoing operations. Even more pleasing, in spite of the global financial crisis, was the number and nature of significant sales to new customers achieved by the Company during the year, including:

- Jaycar (POS)
- Denim (G-Star) (POS & Planning)
- Marco Gianni (POS, Head Office & Financials)
- Whitestuff (Planning)
- L K Bennett (Head Office, Merchandising & Planning)

At the same time, the team also achieved significant new business with existing customers, including:

- Bridgestone (POS)
- Jigsaw (Planning)
- PacSun (Merchandising) and Eye Care Centres of America (Planning)

With these successes behind us, many to be implemented fully during the current financial year, the Company is also fortunate to have a strong pipeline of prospects to be pursued over the coming year.

## Financial Outlook

Although external economic conditions will again be challenging this financial year, the Board continues to focus on the business in hand, and believes that the current year will allow further organic development of the existing client base and product portfolio. The Company's strong record in the 2009 and previous financial years gives me great confidence that the management team is well placed to execute on the strategic plan for the business.

The Board also believes that opportunities continue to exist in consolidation of the retail software and services industry, both in Australia and overseas. We look forward to acting on these opportunities in the coming years, where they fall within the capital capacity of the company, and meet the stringent criteria of the Board, which ensure that any acquisition adds substantial value to the existing operations, shareholders and other stakeholders.

I am, once again, delighted to present this report to you – proving the success of the strategic vision for the Company, and highlighting the strength of the platform we have built for future growth.

Shaun Rosen
Chairman

# Directors' Report

## Directors & Company Secretary

The names and details of the Directors of 3Q Holdings Limited in office during or since the end of the financial year are as follows:

**Shaun Rosen - Executive Chairman**
Shaun Rosen joined the Board as the Executive Chairman on 22 December 2005, as part of the acquisition of QQQ Systems Pty Limited. He completed a Bachelor of Computer Science degree at the University of Cape Town in 1982 and founded Divergent Technologies in South Africa in 1983, where he served as Managing Director. The focus of the business was developing software for retailers, wholesalers and manufacturers. He has had more than 25 years experience in the information technology industry. In 1986 he immigrated to Australia and started Divergent Technologies in Sydney in 1987. In 1994, 20% of Divergent was sold to Tag Pacific and in 1996, 100% of Divergent was sold to SVI Holdings Inc, which was listed on the OTC Bulletin Board. Shaun retired in late 1999. In 2002, Shaun bought back SVI Retail with his business partner, Clive Klugman. Together they traded the Company back into profitability.

**Clive Klugman - Executive Director**
Clive joined the Board as Executive Director on 22 December 2005, as part of the acquisition of QQQ Systems Pty Limited. Clive studied Computer Science at the University of Cape Town, graduating in 1979. He formed Divergent Technologies with Shaun Rosen and has worked with Shaun since that time. He has had more than 30 years experience in the information technology industry. He has the role of Chief Executive Officer of QQQ Systems Pty Limited.

**Alan Treisman - Executive Director & Company Secretary**
Alan Treisman joined the Board as Executive Director and CFO on 22 December 2005. He completed a Bachelor of Commerce degree and a Bachelor of Accountancy degree in 1989, and qualified as a Chartered Accountant in 1990. Alan joined Divergent Technologies in 1994 where he worked for almost 8 years as Financial Controller and then Finance Director. He has had more than 10 years experience in the information technology industry. He now combines the role of Mergers and Acquisitions with that of Chief Financial Officer while also serving as the Company Secretary.

**Stephe Wilks - Non-Executive Director**
Stephe holds Bachelor of Science and Law degrees from Macquarie University and a Master of Laws from Sydney University.

He has over 15 years experience in the telecommunications industry in a variety of senior management roles including Regional Director Regulatory Affairs with BT Asia Pacific (1995 to 1998), Director Regulatory and Public Affairs at Optus, and Managing Director of XYZed Pty Limited (an Optus Company) (1998 to 2002), Chief Operating Officer of Nextgen Networks (2002 to 2003), Chief Operating Officer at Personal Broadband Australia and Consulting Director at NM Rothschild & Sons (2003 to 2005).

Stephe is an active non-executive director with public and private company experience. He is presently a Non-Executive Director of Service Stream Limited and Tel.Pacific Limited; Chairman of Mooter Media Limited, and an Advisory Board member of the Network Insight Group.

**Mark McGeachen - Executive Director**
Mark joined the board on 5 April 2007 as part of the acquisition of AdvanceRetail Technology Limited, where he had served as Managing Director. As one of the initial founders of AdvanceRetail Technology Limited, Mark has experience in international software sales, as well as consulting experience with a number of the regions leading retailers. He has more than 23 years experience in the information technology sector, including over 17 years experience in the retail software market.

## Principal Activities

The principal activities of the Company during the financial year have been to provide solutions to its target markets in Australia, New Zealand, USA, UK and Asia.

The principal activities include the developing, selling, implementing and integrating of retail technology solutions and professional services. The retail technology solutions encompass software, hardware, services, consulting and maintenance.

The target markets include a wide range of retail businesses, operating in the fashion, electronics, department stores, supermarkets, tourist attractions, furniture, general merchandise, jewellery and discount variety industries.

## Dynamics of the Business and Business Strategies

The Retail sector can be characterised as the combination of hardware, software and services being provided by one or more parties to an end user. Due to the nature of the point of service and in particular the need for a fully integrated front and back end application, most end user organisations want to work with one party – a systems integrator – who is ultimately responsible for providing a working solutions.

3Q has always been focused on being a one-stop shop for providing customers with a full working solution and ongoing maintenance and support since its formation in 1987.

There are a number of well run retail solutions providers in the market, some specialising in software, others in services and most with a loyal client base. These organisations are examples of the type of company that 3Q is looking to acquire in order to grow the client base and it's stable of software solutions.

The Company is currently well established in the "specialty retail" sector and boasts an impressive client list that includes many brand retailers. In addition, following completion of the most recent acquisitions, the Company is also now very well established in the 'back office' and merchandising solutions segment of the market for high-end 'Fortune 500' retailers.

It is from that established base that the Company is able to continue its organic growth, both increasing the scope and scale of its contracted maintenance agreements, and through the acquisition of new customers at both the speciality retail end of the business, and the merchandising and 'back office' solutions markets. In addition, the breadth of the existing client base and the scope of the Company's product offerings provide significant opportunities to cross sell products to existing customers currently using only a subset of the Company's overall portfolio.

## Summary of the Company Business Plan

In addition to the opportunities available to the Company to grow its existing business organically – a major driver of the Company's Business Plan - the retail software sector in Australia and Worldwide is in a fragmented state and presents a major opportunity for sector consolidation.

A key focus in coming years will be to build on the value of the existing base to lock in a major stronghold in the retail software sector both in Australia and overseas. This will be achieved through acquisitions of similar companies, wherever synergies and economies of scale from the acquisitions are anticipated to increase profitability. This has already been displayed with the acquisitions of Island Pacific and Applied Retail Solutions in the USA and UK, and AdvanceRetail Technology in New Zealand and Australia.

Prior acquisitions by the management team illustrate its success in implementing a strategy of growth by acquisition and the Board and Management of the Company are committed to building 3Q as quickly as possible, taking into account the key requirement of only acquiring organisations that offer immediate upside to the profitability of the Company and ensuring the ongoing robustness of the Company's focus on enhancing the existing business opportunities and growing them in parallel.

## Review of Operations

During the financial year, the Company focused on ensuring the fundamentals of the business were secured, so that the Company continued to have a sound foundation for its further development. The key focus was on ensuring the existing operations operated to their full potential, while fully integrating the Island Pacific acquisition.

Contracted revenue from established maintenance contracts again provided a solid basis for the ongoing operations. Even more pleasing (again, in spite of the global financial crisis) was the number and nature of significant sales to new customers achieved by the Company during the year, including:

- Jaycar (POS)
- Denim (G-Star) (POS & Planning)
- Marco Gianni (POS, Head Office & Financials)
- Whitestuff (Planning)
- L K Bennett (Head Office, Merchandising & Planning)

At the same time, the team also achieved significant new business with existing customers, including:

- Bridgestone (POS)
- Jigsaw (Planning)
- PacSun (Merchandising) and Eye Care Centres of America (Planning)

In addition to many of these customer installations which are to be implemented fully during the current financial year, the Company has established a strong pipeline of prospects to be pursued over the coming year.

The Board is very pleased to see that the business demonstrated great resilience at the operating level in the face of a global economic contraction. In addition, the Company reached a settlement of the remaining vendor financing obligations following the successful Island Pacific acquisition (recording a one off gain of approximately $3m). The Company also made bank repayments, including interest, of over $8.5m over the period.

This substantially reduced debt position, provides the Company with greater flexibility for future acquisitions where appropriate.

In addition, the product team undertook new product development in line with the Company's product road map, leading to some $1m in capitalised development costs for the financial year.

## Operating Results for the Year

The substantial increase in revenue and underlying EBITDA for the year was primarily driven – over and above the normal organic growth of the existing business - by the successful integration of Island Pacific.

In the course of the year, the Company increased revenue by almost 22% from $20.5m in 2008, to $25m in 2009. Underlying EBITDA of the business (a measure of the ongoing earnings generated by the business) increased some 23%, from $4.3m in 2008 to $5.3m in 2009.

The adjustments from EBITDA to 'Underlying EBITDA' are to eliminate certain non-operating costs, which are also substantially non-cash items. These adjustments are primarily the exclusion of the following significant expense items:

- Swap interest expenses of $539,706
- Foreign exchange losses arising from restating the balance of US$ bank debt in the Company's books and from exchange rate fluctuations from intercompany trade accounts of $1,869,069

The adjusted figure also excludes the gain realised on the settlement with Retail Pro on the vendor financing and other debt of $2,939,127.

## Financial Highlights

| | 2009 | 2008 | Percentage Increase/(Decrease) | |
|---|---|---|---|---|
| Revenue | $24,990,105 | $20,552,262 | ↑ | 22% |
| Gross Profit Percentage | 88% | 78% | ↑ | 10% |
| Underlying EBITDA* | $5,311,106 | $4,305,814 | ↑ | 23% |
| Net Profit after tax | $1,579,957 | $1,517,611 | ↑ | 4% |
| Earnings per Share (cents) | 1.07 | 1.03 | ↑ | 4% |
| Number of Employees | 106 | 113 | ↓ | (6%) |

* *Underlying EBITDA excludes foreign exchange losses on US$ bank loan and intercompany trade accounts, and gain on settlement of Retail Pro.*

## Liquidity and Capital Resources

The consolidated cash flow statement illustrates that there was a decrease in cash and cash equivalents in the year ended 30 June 2009 of $5,921,375 (2008: increase of $4,111,240). The decrease was primarily due to repayments to the National Australia Bank of interest and capital of approximately $8.5 million during the year.

Operating activities generated approximately $2,342,559 (2008: $3,399,057) of net cash in-flows. A major part of this difference was the settlement of Retail Pro.

There was a net decrease in the cash flows from investing activities of $1,242,214 (2008: $17,438,726), which was mainly attributable to the investment in software development of approximately $1 million (the decrease in 2008 was due to the acquisition of Island Pacific for $17,006,937).

There was a net decrease (increase in 2008) in cash flows from financing activities of $7,382,601 million (2008: $18,346,963) due primarily to repayment to National Australia Bank of $7.3 million of capital (2008 an increase due to net banking finance received of $18,333,439 for the acquisition of Island Pacific).

## Asset and Capital Structure

The profile of the Group's asset and capital structure is as follows:

| Consolidated | 2009 | 2008 |
|---|---|---|
| | $ | $ |
| Interest Bearing Loans & Borrowings | 13,284,685 | 22,227,379 |
| Cash & Short Term Deposits | (579,929) | (6,267,050) |
| Net Debt | 12,704,756 | 15,960,329 |
| Total Equity | 13,584,518 | 10,918,604 |
| Total Capital Employed | 26,289,274 | 26,878,933 |
| Gearing (%) | 48.33% | 59.37% |

## Profile of Debts

The profile of the Group's debt finance is as follows:

| | 2009 | 2008 |
|---|---|---|
| | $ | $ |
| Bank Loans | 13,284,685 | 18,973,817 |
| Other Loans | - | 3,253,562 |
| **TOTAL DEBT** | **13,284,685** | **22,227,379** |

## Share issues during the year

There were no shares issued during the current year.

## Options issued during the year

5,000,000 options were issued to staff during the current year (15 January 2009).

4,000,000 options expired during the current year (27 September 2008).

No options were exercised during the financial year.

## Directors' interest in shares and options

As at the date of this report, the interests of the Directors in the shares and options of 3Q are as follows:

| Director | Ordinary Shares | Options |
|---|---|---|
| Shaun Rosen | 57,500,000 | 1,000,000 |
| Clive Klugman | 57,500,000 | 1,000,000 |
| Stephe Wilks | 115,000 | - |
| Alan Treisman | 100,000 | 1,000,000 |
| Mark McGeachen | 9,389,500 | - |

## Dividends

3Q Holdings Limited paid no dividends during the reporting period, and none were recommended or declared for payment.

## Risk Management

The Group takes a proactive approach to risk management. The Board is responsible for ensuring that risks, and also opportunities, are identified on a timely basis and that the Group's objectives and activities are aligned with the risks and opportunities identified by the Board.

The Group believes that it is crucial for all Board members to be a part of this process.

## Significant Changes in the State of Affairs

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

## Significant Events After the Balance Date

Other than what has been reported in note 26 to the accounts, there were no significant events after the balance date.

## Environmental Regulation and Performance

The Directors do not consider that there are any significant environmental issues that relate to the Group's activities.

## Indemnification and Insurance of Directors and Officers

The company has paid premiums to insure the directors and officers against liabilities for costs and expenses incurred by them in defending any legal proceedings arising out of their conduct while acting in their capacity of director and officer of the company, other than conduct involving a wilful breach of duty in relation to the company

## Proceedings on Behalf of the 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 part for the purpose of taking responsibility on behalf of the company for all or any part of those proceedings.

The company was not a party to any such proceedings during the year.

## Non-Audit Services

The following non-audit services were provided by the Company's auditor, PKF:

- Provision of accounting advice –$1,433.

The Directors are satisfied that the provision of non-audit services is compatible with the general standard of independence for auditors imposed by the *Corporations Act 2001*. The nature and scope of the non-audit services provided is the reason why auditor independence was not compromised.

The following amount was paid or payable to the Groups auditors for the provision of non-audit services:

- Provision of accounting and tax advice - $183,876.

# Remuneration Report

## Remuneration philosophy

The performance of the Company depends upon the quality of its Directors and executives. To prosper, the Company must attract, motivate and retain highly skilled Directors and executives.

During 2009, the Directors received salary and bonuses, related to the performance of the Company seeking to align the interests of shareholders and Directors.

In considering the Group's performance and benefits for shareholder wealth, the remuneration committee have regard to a number of indices, including the following:

| | 2009 | 2008 | 2007 | 2006 |
|---|---|---|---|---|
| | $ | $ | $ | $ |
| Revenue | 24,990,105 | 20,552,262 | 11,196,055 | 7,918,924 |
| Net profit before tax | 2,222,857 | 2,148,606 | 1,938,933 | 2,277,322 |
| Net profit after tax | 1,579,957 | 1,517,611 | 2,077,834 | 1,998,324 |
| | | | | |
| Share price at end of year | 15c | 20c | 34c | 28c |
| Basic earnings per share | 1.07 | 1.03 | 1.69 | 3.23 |
| Diluted earnings per share | 0.98 | 0.93 | 1.57 | 1.57 |

The Company intends to continue to develop its remuneration framework, embodying the following principles:

- provide competitive rewards to attract high calibre executives; and
- link executive rewards to shareholder value, the Company's performance and the Director's ability to control the relevant segments' performance.

For the year ended 30 June 2009, the Directors' and executives' salary packages were considered relatively modest in relation to the performance of the Company and to market rates, although they were largely up on the previous year.

## Remuneration structure

The Company's Constitution provides that the remuneration of the Directors will not be more than the aggregate fixed sum determined by a general meeting.

The annual aggregate Directors remuneration (excluding annual salary) has been set at an amount of $700,000.

The remuneration of executive Directors are fixed by the Board and are paid by way of fixed salary and cash bonus where appropriate.

## Key management personnel remuneration

Shaun Rosen, Clive Klugman, Alan Treisman and Mark McGeachen are the only Executive Directors of the Company as at the date of this report. Shaun, Clive and Alan were appointed on 22 December 2005. Mark was appointed on 5 April 2007.

Stephe Wilks is the only Non-Executive Director of which he still is at the date of this report. He was appointed as such on 14 February 2008.

All Directors of the Company receive base Directors' fees of $60,000 per annum. For Executive Directors, these are included as part of their salary packages.

David Rosen, Andrew Bell, Mike Dotson and Richard Gaetano receive a set salary.

The Board may exercise its discretion in relation to approving Directors and key managements incentives, bonuses and options, and can recommend changes to Directors and key managements remuneration.

Directors' fees are paid partly by 3Q Holdings Limited, QQQ Systems Pty Limited and AdvanceRetail Limited.

## (a) Remuneration of key management personnel

| | Financial year | Short-term benefits | | Post-employment benefits | Equity-settled share-based payments | TOTAL |
|---|---|---|---|---|---|---|
| | | Cash salary, fees and commissions | Short-term cash profit sharing | Super-annuation | Options | |
| **Directors** | | $ | $ | $ | $ | $ |
| Shaun Rosen | 2009 | 328,242 | - | 88,000 | - | 416,242 |
| Executive Chairman | 2008 | 259,760 | - | 91,200 | 7,160 | 358,120 |
| Clive Klugman | 2009 | 264,759 | - | 97,000 | - | 361,759 |
| Executive Director | 2008 | 200,438 | - | 47,200 | 7,160 | 254,798 |
| Alan Treisman | 2009 | 250,438 | - | 12,385 | - | 262,823 |
| Finance Director & Secretary | 2008 | 187,940 | - | 12,385 | 33,160 | 233,485 |
| Mark McGeachen | 2009 | 177,450 | - | - | - | 177,450 |
| Executive Director | 2008 | 111,996 | - | - | - | 111,996 |
| Stephe Wilks | 2009 | 61,500 | - | - | - | 61,500 |
| Non-Executive | 2008 | 47,500 | - | - | - | 47,500 |

| | Financial year | Short-term benefits | | Post-employment benefits | Equity-settled share-based payments | TOTAL |
|---|---|---|---|---|---|---|
| | | Cash salary, fees and commissions | Short-term cash profit sharing | Super-annuation | Options | |
| **Executives** | | | | | | |
| David Rosen Director Island Pacific Systems Inc. | 2009 | 338,680 | - | 9,312 | - | 347,992 |
| | 2008 | 201,239 | - | - | - | 201,239 |
| Andrew Bell Chief Technical Officer AdvanceRetail Technology | 2009 | 169,476 | - | - | - | 169,476 |
| | 2008 | 111,996 | - | - | - | 111,996 |
| Richard Gaetano Chief Operating Officer Island Pacific USA | 2009 | 231,558 | - | 9,585 | 12,576 | 253,719 |
| | 2008 | 105,410 | - | - | - | 105,410 |
| Mike Dotson Chief Operating Officer Island Pacific UK | 2009 | 232,184 | - | 19,203 | 12,576 | 263,963 |
| | 2008 | 56,462 | - | - | - | 56,462 |
| **TOTAL** | **2009** | **2,054,287** | **-** | **235,485** | **25,152** | **2,314,924** |
| | **2008** | **1,282,741** | **-** | **150,785** | **47,480** | **1,481,006** |

## (b) Options issued as part of remuneration

During the financial year the following options over ordinary shares in the Company were granted as equity compensation benefits to key management personnel.

| Key management person | No. held at start of year | No. granted during year | Grant date | Fair value of options at grant date ($ per option) | Exercise price ($) | Exercise date | Expiry date | No. held at end of year |
|---|---|---|---|---|---|---|---|---|
| Richard Gaetano | - | 500,000 | 15/01/2009 | 0.095 | 0.15 | 15/01/2010 (one third) 15/01/2011 (one third) 15/01/2012 (one third) | 15/01/2013 | 500,000 |
| Mike Dotson | - | 500,000 | 15/01/2009 | 0.095 | 0.15 | 15/01/2010 (one third) 15/01/2011 (one third) 15/01/2012 (one third) | 15/01/2013 | 500,000 |
| **TOTAL** | **-** | **1,000,000** | **n/a** | **n/a** | **n/a** | **n/a** | **n/a** | **1,000,000** |

All options were granted for nil consideration.

### (c) Shares issued on Exercise of Compensation Options

During the year no options were exercised that were granted as compensation in prior periods.

### (d) Employment/contractor agreement

Mark McGeachen is the only Director employed/contracted by the Company under a contract.
Clive Klugman's employment agreement with the Company expired during the previous year.

### Contract Duration

Mark McGeachen – Mark is contracted by a subsidiary of the Company for a three-year period ending 5 April 2010.

### Notice periods required to terminate contracts

Mark McGeachen cannot terminate his contractor agreement with the subsidiary of the Company. The subsidiary of the Company may terminate Mark's contract by giving immediate written notice if certain circumstances occur which give right to the termination.

### Termination payments

The termination benefits payable to Mark will vary between no payment being made, to an amount equal to three months fees based on the annual fees immediately prior to the termination of the agreement.

## Directors' Meetings

The number of meetings of Directors held during the year and the number of meetings attended by each Director were as follows:

| Directors | Meetings Held | Attended |
|---|---|---|
| Shaun Rosen | 6 | 6 |
| Clive Klugman | 6 | 6 |
| Alan Treisman | 6 | 6 |
| Mark McGeachen | 6 | 6 |
| Stephe Wilks | 6 | 6 |

### Auditor's Independence Declaration

A copy of the Auditor's Independence Declaration, as required under Section 307C of the *Corporations Act 2001*, is set out on page 20.

Signed in accordance with a resolution of the Directors.

Shaun Rosen
Executive Chairman
Sydney, NSW
31 August, 2009

## Corporate Governance Statement

The company's website at www.threeq.com.au contains a Corporate Governance section that includes copies of the Company's Corporate Governance Policies.

| | ASX Best Practice Recommendation | 3Q Compliance Status | Comment |
|---|---|---|---|
| **1** | **Principle 1 – Lay solid foundations for management and oversight** | | |
| 1.1 | Establish the functions reserved to the board and those delegated to senior executives and disclose those functions. | Complies | In general, the Board is responsible for, and has the authority to determine, all matters relating to the policies, practices, management and operations of the Company. It is required to do all things that may be necessary to be done to carry out the objectives of the Company.<br><br>Senior management's primary function is to manage the Company in accordance with the direction and delegations of the Board. |
| 1.2 | Disclose the process for evaluating the performance of senior executives. | Complies | The Board has put in place ongoing evaluation of the performance of other senior executives at an operational level, with final approval of any reviews by the CEO and CFO. |
| 1.3 | Provide the information indicated in the Guide to reporting on Principle 1. | Complies | |
| **2** | **Principle 2 – Structure the board to add value** | | |
| 2.1 | A majority of the Board should be independent Directors | Does not comply | Stephe Wilks is considered to be independent. The skills, experience and knowledge of the other four Directors makes their contribution to the Company and the Board such that it is appropriate for them to remain on the Board, and given the size and nature of the Company it is not currently appropriate to expand the Board further. |
| 2.2 | The Chairperson should be an independent Director. | Does not comply | The Company's Chief Executive Officer and Chairman is the same person, Mr Shaun Rosen. Whilst not independent and an executive, the Board considers that it is appropriate for him to be Chairman due to the size and nature of the Company, given his skills, experience and knowledge of the Company. |
| 2.3 | The roles of Chairperson and Chief Executive Officer should not be exercised by the same individual. | Does not comply | |

| | ASX Best Practice Recommendation | 3Q Compliance Status | Comment |
|---|---|---|---|
| 2.4 | The Board should establish a Nomination Committee. | Does not comply | The Company does not have a nomination committee. The Board is of the opinion that due to the nature and size of the Company, the functions performed by a nomination committee can be adequately handled by the full Board. |
| 2.5 | Disclose the process for evaluating the performance of the board, its committees and individual directors. | Does not comply | Due to the size and nature of the company the Board believes that external formal evaluation is not necessary as performance is continually being evaluated on an ongoing basis. |
| 2.6 | Provide the information indicated in the ASX Guide to Reporting on Principle 2. | Complies | |
| **3** | **Principle 3 – Promote ethical and responsible decision-making** | | |
| 3.1 | Establish a code of conduct to guide the Directors, the Chief Executive Officer (or equivalent), the Chief Financial Officer (or equivalent) and any other key Executives as to:<br>▪ the practices necessary to maintain confidence in the company's integrity<br>▪ the practices necessary to take into account their legal obligations and the reasonable expectations of their stakeholders<br>▪ the responsibility and accountability of individuals for reporting and investigating reports of unethical practices. | Complies | The Board has adopted a Code of Conduct for Directors and employees of the Company.<br><br>The goal of establishing the Company as a significant Australian-based information technology Company is underpinned by its core values of honesty, integrity, common sense and respect for people.<br><br>The Company desires to remain a good corporate citizen and appropriately balance, protect and preserve all stakeholders' interests. |
| 3.2 | Establish a policy concerning trading in company securities by directors, senior executives and employees, and disclose the policy or a summary of that policy. | Complies | In summary, this policy requires that senior management or their associates only trade in the Company's securities:<br>▪ outside the 'results preparation' trading windows; and<br>▪ with the prior approval of the Chairman or Company Secretary. |
| 3.3 | Provide the information indicated in the ASX Guide to Reporting on Principle 3. | Complies | |

| | ASX Best Practice Recommendation | 3Q Compliance Status | Comment |
|---|---|---|---|
| **4** | **Principle 4 – Safeguard integrity in financial reporting** | | |
| 4.1 | The Board should establish an Audit Committee. | Does not comply | The Company does not have an audit committee. The Board believes that due to the nature and size of the Company, the functions performed by an audit committee can be adequately handled by the full Board. |
| 4.2 | Structure the Audit Committee so that it:<br>▪ consists only of non-executive directors<br>▪ consists of a majority of independent directors<br>▪ is chaired by an independent chair, who is not chair of the board<br>▪ has at least three members. | | |
| 4.3 | The Audit Committee should have a formal charter. | | |
| 4.4 | Provide the information indicated in the Guide to Reporting on Principle 4. | Complies | |
| **5** | **Principle 5 – Make timely and balanced disclosure** | | |
| 5.1 | Establish written policies and procedures designed to ensure compliance with ASX Listing Rule disclosure requirements and to ensure accountability at a senior management level for the compliance and disclosure of those policies or a summary of those policies. | Complies | The Company has policies and procedures that are designed to ensure compliance with ASX Listing Rule disclosure requirements and to ensure accountability at a senior management level for that compliance. This disclosure policy includes processes for the identification of matters that may have a material effect on the price of the Company's securities, notifying them to the ASX and posting them on the Company's website. |
| 5.2 | Provide the information indicated in the ASX Guide to Reporting on Principle 5. | Complies | |
| **6** | **Principle 6 – Respect the rights of shareholders** | | |
| 6.1 | Design a communications policy for promoting effective communication with shareholders and encouraging their participation at general meetings and disclose their policy or a summary of that policy.<br>Use company websites to complement the official release of material information to the market. | Complies | The Company has a strategy to promote effective communication with shareholders and encourage effective participation at general meetings through a policy of open disclosure to shareholders, regulatory authorities and the broader community of all material information with respect to the Company's affairs. |

| | ASX Best Practice Recommendation | 3Q Compliance Status | Comment |
|---|---|---|---|
| 6.2 | Provide the information indicated in the ASX Guide to Reporting on Principle 6. | Complies | |
| **7** | **Principle 7 – Recognise and manage risk** | | |
| 7.1 | The Board or appropriate Board Committee should establish policies on risk oversight and management of material business risk and disclose a summary of those policies. | Complies | The Company does not have a risk committee. The risks involved in an information technology company and the specific uncertainties for the Company continue to be regularly monitored and the full Board of the Company meets on a regular basis to formally review those risks. All proposals reviewed by the Board include a consideration of the issues and risks of the proposal. |
| 7.2 | The board should require management to design and implement the risk management and internal control system to manage the company's material business risks and report to it on whether those risks are being managed effectively. The board should disclose that management has reported to it as to the effectiveness of the company's management of its material business risks. | Complies | The company's internal control system is monitored by the CFO (and Board where necessary) and assessed regularly to ensure effectiveness and relevance to the Company's current and future operations. |
| 7.3 | The board should disclose whether it has received assurance from the chief executive officer (or equivalent) and the chief financial officer (or equivalent) that the declaration provided in accordance with section 295A of the Corporations Act is founded on a sound system of risk management and internal control and that the system is operating effectively in all material respects in relation to financial reporting risks. | Complies | A Director and the CFO declare in writing to the Board that the financial reporting risk management and associated compliance controls have been assessed and found to be operating efficiently and effectively in accordance with section 295A of the Corporations Act. This representation is made prior to the Board's approval of the release of the annual accounts. |
| 7.4 | Provide the information indicated in the ASX Guide to Reporting on Principle 7. | Complies | |

| | ASX Best Practice Recommendation | 3Q Compliance Status | Comment |
|---|---|---|---|
| **8** | **Principle 8 – Remunerate fairly and responsibly** | | |
| 8.1 | The board should establish a remuneration committee. | Complies | The Company Secretary and Independent Director together form the Remuneration Committee, with the Chairman and one other Director present if one of the Company Secretary or the Independent Director's remuneration is up for consideration. |
| 8.2 | Companies should clearly distinguish the structure of non-executive directors' remuneration from that of executive directors and senior executives. | Complies | Remuneration of Executive and Non-Executive Directors is reviewed annually by the Remuneration Committee, and remuneration packages are set at levels intended to attract and retain Directors and Executives capable of managing the Company's operations and adding value to the Company.<br><br>For details of remuneration paid to Directors and officers for the financial year please refer to the Remuneration Report on page 11. |
| 8.3 | Provide the information indicated in the ASX Guide to Reporting on Principle 8. | Complies | |

# Auditors Independence Declaration

PKF
Chartered Accountants
& Business Advisers

**Auditor's Independence Declaration**
**Under Section 307C of the Corporations Act 2001**

As lead auditor for the audit of 3Q Holdings Limited for the year ended 30 June 2009, I declare that to the best of my knowledge and belief, there have been:

(a) no contraventions of the auditor independence requirements of the *Corporations Act 2001* in relation to the audit; and

(b) no contraventions of any applicable code of professional conduct in relation to the audit.

This declaration is in respect of the company and the entities it controlled during the year.

**Arthur Milner**
Partner

**PKF**
Sydney, 31 August 2009

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PKF | ABN 83 236 985 726
Level 10, 1 Margaret Street | Sydney | New South Wales 2000 | Australia
DX 10173 | Sydney Stock Exchange | New South Wales

## Income Statement

For the year ended 30 June 2009

| | Note | Consolidated Group | | Parent Entity | |
|---|---|---|---|---|---|
| | | 2009 | 2008 | 2009 | 2008 |
| | | $ | $ | $ | $ |
| Revenue | 3(a) | 24,990,105 | 20,552,262 | 2,743,893 | 3,046,909 |
| Cost of sales | | (3,084,051) | (4,654,967) | (707,694) | (1,124,173) |
| Gross profit | | 21,906,054 | 15,897,295 | 2,036,199 | 1,922,736 |
| Other income | 3(b) | 3,379,918 | 301,395 | 1,898,984 | 621,317 |
| Operating expenses | 3(c) | (4,363,435) | (2,915,006) | (631,498) | (380,555) |
| Employee benefit expenses | | (12,672,305) | (8,957,831) | (1,546,381) | (756,441) |
| Earnings before tax, finance costs, depreciation, amortisation and Foreign exchange losses | | 8,250,232 | 4,325,853 | 1,757,304 | 1,407,057 |
| Depreciation | | (246,483) | (119,928) | (2,996) | (4,074) |
| Amortisation | | (1,641,866) | (911,540) | (796,841) | (527,692) |
| Finance costs | | (2,269,957) | (1,145,779) | (1,715,521) | (903,829) |
| Foreign exchange gain/(loss) on National Australia Bank US$ loan, intercompany trade accounts, & other trading | | (1,869,069) | - | (1,151,739) | - |
| **Profit before income tax** | | **2,222,857** | **2,148,606** | **(1,909,793)** | **(28,538)** |
| Income tax expense | 4 | (642,900) | (630,995) | 915,669 | 113,540 |
| **Profit for the year attributable to members of the parent entity** | | **1,579,957** | **1,517,611** | **(994,124)** | **85,002** |
| · Basic earnings per share (cents per share) | 5 | 1.07 | 1.03 | - | - |
| · Diluted earnings per share (cents per share) | 5 | 0.98 | 0.93 | - | - |

The Income Statement should be read in conjunction with the accompanying notes.

# Balance Sheet

As at 30 June 2009

| | Note | Consolidated Group | | Parent Entity | |
|---|---|---|---|---|---|
| | | 2009 | 2008 | 2009 | 2008 |
| | | $ | $ | $ | $ |
| **ASSETS** | | | | | |
| **Current Assets** | | | | | |
| Cash and cash equivalents | 7 | 579,929 | 6,267,050 | 2,555 | 2,711,529 |
| Trade and other receivables | 8 | 4,673,290 | 7,714,075 | 671,771 | 614,067 |
| Other assets | 9 | 374,451 | 382,762 | 138,565 | 220,952 |
| Inventories | 10 | 179,472 | 169,973 | - | - |
| **Total Current Assets** | | **5,807,142** | **14,533,860** | **812,892** | **3,546,548** |
| **Non-current Assets** | | | | | |
| Property, plant and equipment | 12 | 521,155 | 466,090 | 11,682 | 12,386 |
| Intangible assets | 13 | 27,589,476 | 26,780,127 | 7,789,995 | 8,532,762 |
| Financial assets | 11 | - | - | 23,846,445 | 24,426,103 |
| Trade and other receivables | 8 | - | - | 8,875,841 | 12,298,032 |
| Deferred tax assets | 19 | 3,278,139 | 1,644,789 | 2,043,359 | 1,127,690 |
| **Total Non-current Assets** | | **31,388,769** | **28,891,006** | **42,567,323** | **46,396,973** |
| **TOTAL ASSETS** | | **37,195,912** | **43,424,866** | **43,380,215** | **49,943,521** |
| **LIABILITIES** | | | | | |
| **Current Liabilities** | | | | | |
| Trade and other payables | 16 | 6,150,000 | 8,939,812 | 277,347 | 316,290 |
| Financial liabilities | 17 | 2,787,680 | 8,353,562 | 2,787,680 | 4,516,436 |
| Provisions | 18 | 741,310 | 380,026 | 15,328 | 6,354 |
| Current tax liabilities | 19 | 812,052 | 648,120 | 250,530 | 191,816 |
| **Total Current Liabilities** | | **10,491,041** | **18,321,520** | **3,330,885** | **5,030,896** |
| **Non-current Liabilities** | | | | | |
| Financial liabilities | 17 | 11,036,711 | 13,873,817 | 10,378,889 | 13,213,247 |
| Trade and other payables | 16 | - | - | 1,982,330 | 3,154,253 |
| Provisions | 18 | 132,360 | 86,804 | 14,504 | 5,550 |
| Deferred tax liabilities | 19 | 1,951,282 | 224,121 | - | - |
| **Total Non-current Liabilities** | | **13,120,353** | **14,184,742** | **12,375,724** | **16,373,050** |
| **TOTAL LIABILITIES** | | **23,611,394** | **32,506,262** | **15,706,608** | **21,403,946** |
| **NET ASSETS** | | **13,584,518** | **10,918,604** | **27,673,606** | **28,539,575** |
| **EQUITY** | | | | | |
| Issued capital | 20 | 6,985,237 | 7,059,243 | 45,468,939 | 45,542,945 |
| Reserves | 21 | 268,072 | (727,091) | 591,545 | 554,184 |
| Retained Earnings | | 6,331,209 | 4,586,452 | (18,386,878) | (17,557,554) |
| **TOTAL EQUITY** | | **13,584,518** | **10,918,604** | **27,673,606** | **28,539,575** |

The Balance Sheet should be read in conjunction with the accompanying notes.

## Statement of Changes in Equity

For the year ended 30 June 2009

| | Note | Consolidated Group | | Parent Entity | |
|---|---|---|---|---|---|
| | | 2009 | 2008 | 2009 | 2008 |
| | | $ | $ | $ | $ |
| **Issued Capital** | | | | | |
| Balance at start of year | | 7,059,243 | 7,019,719 | 45,542,945 | 45,503,421 |
| Issue of 100,000 shares to Director | | - | 26,000 | - | 26,000 |
| Issue of 56,337 shares as part of Rights issue | | - | 13,524 | - | 13,524 |
| Share buyback | | (74,007) | - | (74,007) | - |
| **Balance at end of year** | **20** | **6,985,237** | **7,059,243** | **45,468,939** | **45,542,945** |
| **Reserves** | | | | | |
| Balance at start of year | | (727,091) | 302,019 | 554,184 | 412,846 |
| Issue of options | | 202,161 | 141,338 | 202,161 | 141,338 |
| Cancellation of options | | (164,800) | - | (164,800) | - |
| Exchange differences on translating foreign operations | | 957,802 | (1,170,448) | - | - |
| **Balance at end of year** | **21** | **268,072** | **(727,091)** | **591,545** | **554,184** |
| **Retained Earnings** | | | | | |
| Balance at start of year | | 4,586,452 | 3,068,841 | (17,557,554) | (17,642,556) |
| Transfer from options reserve | | 164,800 | - | 164,800 | - |
| Profit for the year | | 1,579,957 | 1,517,611 | (994,124) | 85,002 |
| Dividend paid during the year | 6 | - | - | - | - |
| **Balance at end of year** | | **6,331,209** | **4,586,452** | **(18,386,878)** | **(17,557,554)** |
| **TOTAL EQUITY** | | **13,584,518** | **10,918,604** | **27,673,606** | **28,539,575** |

The Statement of Changes in Equity should be read in conjunction with the accompanying notes.

# Cash Flow Statement

For the year ended 30 June 2009

| | Notes | Consolidated Group | | Parent Entity | |
|---|---|---|---|---|---|
| | | 2009 | 2008 | 2009 | 2008 |
| | | $ | $ | $ | $ |
| **Cash flows from operating activities** | | | | | |
| Receipts from customers | | 23,806,520 | 21,055,631 | 1,870,451 | 3,087,764 |
| Payments to suppliers and employees | | (19,891,372) | (16,597,429) | (955,983) | (1,478,841) |
| Interest received | | 37,265 | 160,401 | 9,420 | 85,346 |
| Interest Paid | | (1,246,018) | (1,088,176) | (783,097) | (760,074) |
| Taxation paid | | (697,361) | (185,329) | (360,850) | (38,230) |
| Other income | | 333,525 | 53,959 | 279,521 | 11,176 |
| **Net cash flows from operating activities** | **7** | **2,342,559** | **3,399,057** | **59,462** | **907,141** |
| **Cash flows from investing activities** | | | | | |
| Purchase of property, plant and equipment | | (171,606) | (164,075) | (2,291) | (8,665) |
| Loans from (to) subsidiaries, and other entities | | 26,020 | (131,823) | 3,583,070 | (153,373) |
| Payment of development costs | | (1,040,753) | - | - | - |
| Payment for exclusivity deposit | | - | (120,287) | - | - |
| Refund for exclusivity deposit | | - | 122,100 | - | - |
| Cash paid for the purchase of NZ Subsidiary | | - | (164,090) | - | (177,003) |
| Net cash paid for the purchase of US Subsidiary | | (55,875) | (17,006,937) | (55,623) | (12,257,950) |
| Proceeds from disposal of listed investment | | - | 26,386 | - | 26,386 |
| **Net cash flows from investing activities** | | **(1,242,214)** | **(17,438,726)** | **3,525,156** | **(12,570,605)** |
| **Cash flows from financing activities** | | | | | |
| Proceeds from rights issued | | - | 13,524 | - | 13,254 |
| Proceeds from borrowings | | - | 22,530,057 | - | 17,729,952 |
| Repayment of borrowings | | (7,308,595) | (4,196,618) | (6,453,838) | (3,832,749) |
| Others- share buyback | | (74,006) | - | (74,007) | - |
| **Net cash flows from financing activities** | | **(7,382,601)** | **18,346,963** | **(6,527,845)** | **13,910,457** |
| Net increase/(decrease) in cash and cash equivalents | | (6,282,256) | 4,307,294 | (2,943,227) | 2,246,993 |
| Cash and cash equivalents at beginning of period | 7 | 6,267,050 | 2,155,810 | 2,711,529 | 464,536 |
| Exchange rate/translation adjustments | | 360,881 | (196,054) | - | - |
| **Cash and cash equivalents at end of period** | **7** | **345,675** | **6,267,050** | **(231,698)** | **2,711,529** |

The Cash Flow Statement should be read in conjunction with the accompanying notes.

# Notes to the Financial Statements

For the year ended 30 June 2009

## 1 Authorisation of Financial Report

The financial report of 3Q Holdings Limited (the Company) for the year ended 30 June 2009 was authorised for issue in accordance with a resolution of the Directors on 31 August 2009.

## 2 Statement of Significant Accounting Policies

The principal accounting policies adopted in the preparation of the financial report are set out below. These policies have been consistently applied to all years presented, unless otherwise stated.

### Basis of preparation

This general purpose financial report has been prepared in accordance with Australian Accounting Standards, other authoritative pronouncements of the Australian Accounting Standards Board, Australian Accounting Interpretations and the *Corporations Act 2001*. The financial report is presented in Australian dollars.

The financial report covers the consolidated group of 3Q Holdings Limited and controlled entities, and 3Q Holdings Limited as an individual parent entity. 3Q Holdings Limited is a listed public company, incorporated and domiciled in Australia.

The financial report has been prepared on an accruals basis and is based on historical costs modified, where applicable, by the revaluation of selected non current assets, financial assets and financial liabilities for which the fair value basis of accounting has been applied.

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

### Compliance with IFRS

Australian Accounting Standards include Australian equivalents to International Financial reporting standards ("AIFRS"). Compliance with AIFRS ensures that the financial report of 3Q Holdings Limited complies with International Financial Reporting standards ("IFRS").

### Early adoption of Standards

AASB 8 *Operating Segments* was early adopted by the Group in 2008-9. AASB 8 replaces AASB 114, Segment Reporting. The new standard requires a 'management approach', under which segment information is presented on the same basis as that used for internal reporting purpose. The adoption of AASB 8 has resulted in an increase of reportable segments. In addition, the segments are reported in a manner that is more consistent with internal reporting provided to the chief operating decision maker, being the Board of Directors.

### (i) Basis of consolidation

The consolidated financial statements comprise the financial statements of 3Q Holdings Limited and its subsidiaries as at 30 June of each year ("the Group").

The financial statements of the subsidiaries are prepared for the same reporting period as the parent company, using consistent accounting policies except where stated.

Adjustments are made to bring into line any dissimilar accounting policies that may exist.

All inter-company balances and transactions, including unrealised profits arising from intra-group transactions, have been eliminated in full.

Subsidiaries are consolidated from the date on which control is transferred to the Group and cease to be consolidated from the date on which control is transferred out of the Group. Investment in subsidiaries are measured at cost.

Where there is loss of control of a subsidiary, the consolidated financial statements would include the results for the part of the reporting period during which 3Q Holdings Limited has control.

**Reverse acquisition accounting**

The consolidated financial statements have been prepared following reverse acquisition accounting.

3Q Holdings Limited, the legal parent is not the (economic) acquirer for accounting purposes. QQQ Systems Pty Limited (a private entity) arranged for itself to be "acquired" by a small public entity, 3Q Holdings Limited. However, in economic substance the private entity (QQQ) undertook the acquisition.

If the legal subsidiary (QQQ) is identified as the acquirer, then the accounting for the business combination is as if the legal subsidiary acquired the legal parent. In comparison, under A-GAAP, 3Q Holdings Limited would be the acquirer and would fair value all of QQQ net assets including identifiable intangible assets and goodwill.

Consequently, the financial information contained in this report has been presented as if QQQ was the acquirer.

## (ii) Foreign currency translation

Both the functional and presentation currency of 3Q Holdings Limited and its Australian subsidiaries is Australian dollars (A$).

Transactions in foreign currencies are initially recorded in the functional currency at the exchange rates ruling at the date of the transaction.

All differences on settlement of such transactions in the consolidated financial report are taken to the income statement.

The functional currency of the foreign operation, Island Pacific Inc., is United States dollars (US$).
The functional currency of the foreign operation, AdvanceRetail Technology Limited, is New Zealand dollars (NZ$).
The functional currency of the foreign operation, Island Pacific (UK) Limited, is Great Britain Pounds.

As at the reporting date the assets and liabilities of these subsidiaries are translated into the presentation currency of 3Q Holdings Limited at the rate of exchange ruling at the balance sheet date and their income statements are translated at the average exchange rate for the year.

The exchange differences arising on the translation of the assets and liabilities of these subsidiaries are taken directly to a separate component of equity.

On disposal of a foreign entity, the deferred cumulative amount recognised in equity relating to that particular foreign operation is recognised in profit or loss.

## (iii) Property, plant and equipment

Plant and equipment are stated at cost less accumulated depreciation and any impairment in value.

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

## (iv) Depreciation

Depreciation is calculated on a straight-line and diminishing balance basis over the estimated useful life of the asset as follows:

- Straight line – 12.5% - 40%
- Diminishing balance – 13% - 60%

The assets residual values and useful lives are reviewed and adjusted if appropriate at each balance sheet date. 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.

## (v) Impairment of assets

At each reporting date, the Group reviews the carrying values of its tangible assets to determine whether there is any indication that those assets have been impaired. If such an indication exists, their recoverable amount of the asset, being the higher of the asset's fair value less costs to sell and value in use, is compared to the asset's carrying value. Any excess of the asset's carrying value over its recoverable amount is expensed to the income statement.

Impairment testing is performed annually for goodwill and intangible assets with indefinite lives.

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

## (vi) Borrowing costs

Borrowing costs are recognised as an expense when incurred.

## (vii) Intangibles

**Goodwill**

Goodwill and goodwill on consolidation are initially recorded at the mount by which the purchase price for a business combination exceeds the fair value attributed to the interest in the net fair value of identifiable assets, liabilities and contingent liabilities at date of acquisition. Goodwill on acquisitions of subsidiaries is included in intangible assets. Goodwill on acquisition of associates is included in investments in associates. Goodwill is tested annually for impairment and carried at cost less accumulated impairment losses. Gains and losses on the disposal of an entity include the carrying amount of goodwill relating to the entity sold.

Goodwill is allocated to cash generating units for the purpose of impairment testing.

**Intellectual property**

Costs incurred in developing products or systems and cost incurred in acquiring software and licences that will contribute to future period financial benefits through revenue generation and or cost reduction are capitalised to intellectual property.

**Trademarks and licences**

Trademarks and licences have a finite useful life and are carried at cost less accumulated amortisation and impairment losses. Amortisation is calculated using the straight-line method to allocate the cost of trademarks and licences over their estimated useful lives, which vary from 3 to 5 years.

**Customer relationships**

Customer relationships acquired separately as part of a business combination are recognised separately from goodwill. Customer relationships are carried at items fair value at the date of acquisition less accumulated amortisation and impairment losses. Amortisation is calculated based on the timing of projected cash flows from the customer relationships over their estimated useful lives, which are currently 10 years.

**Research and development**

Research expenditure is recognised as an expense as incurred. Costs incurred on development projects (relating to the design and testing of new or improved products) are recognised as intangible assets which it is probable that the project will, after considering its commercial and technical feasibility, be completed and generate future economic benefits and its costs can be measured reliably. The expenditure capitalised comprises all directly attributable costs, including costs of materials, services, direct labour and an appropriate proportion of overheads. Other development expenditures that do not meet these criteria are recognised as an expense incurred. Development costs previously recognised as an expense are not recognised as an asset in a subsequent period. Capitalised development costs are recorded as intangible assets and amortised from the point at which the asset is ready for use on a straight-line basis over its useful life, which varies from 5 to 15 years.

## (viii) Financial instruments

**Recognition**

Financial instruments are initially measured at fair value plus transaction costs, unless the financial instrument is classified at fair value through the profit and loss in which case these costs are expensed when the related contractual rights or obligations exist. Subsequent to initial recognition these instruments are measured as set out below.

**Financial assets at fair value through profit and loss**

A financial asset is classified in this category if acquired principally for the purpose of selling in the short term. Derivatives are also categorised as held for trading unless they are designated as hedges. Realised and unrealised gains and losses arising from changes in the fair value of these assets are included in the income statement in the period in which they arise.

**Loans and receivables**

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market and are stated at amortised cost using the effective interest rate method.

**Held-to-maturity investments**

These investments have fixed maturities, and it is the Group's intention to hold these investments to maturity. Any held-to-maturity investments held by the Group are stated at amortised cost using the effective interest rate method.

**Available-for-sale financial assets**

Available-for-sale financial assets include any financial assets not included in the above categories. Available-for-sale financial assets are reflected at fair value. Unrealised gains and losses arising from changes in fair value are taken directly to equity.

**Financial liabilities**

Non-derivative financial liabilities are recognised at amortised cost, comprising original debt less principal payments and amortisation.

## (ix) Inventories

Inventories are valued at the lower of cost and net realisable value. Costs are assigned on a first in first out basis.

Net realisable value is the estimated selling price in the ordinary course of business, less estimated costs of completion and the estimated costs necessary to make the sale.

A provision for stock obsolescence is recognised to the extent to which the cost of the stock exceeds its net realisable value.

## (x) Cash and cash equivalents

Cash and short-term deposits in the balance sheet comprise cash at bank and in hand and short-term deposits. For the purposes of the Cash Flow Statement, cash and cash equivalents consist of cash and cash equivalents as defined above.

## (xi) Borrowings

Borrowings are initially recognised at cost, being the fair value of the consideration received net of issue costs associated with the borrowing. Borrowings are subsequently measured at amortised costs.

## (xii) Provisions

Provisions are recognised when the Group has a present obligation (legal or constructive) as a result of a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation.

Provisions are measured at the present value of management's best estimate of the expenditure required to settle the present obligation at reporting date.

## (xiii) Leases

Finance leases, which transfer to the Group substantially all the risks and benefits incidental to ownership of the leased item, are capitalised at the inception of the lease at the fair value of the leased property or, if lower, at the present value of the minimum lease payments.

Lease payments are apportioned between the finance charges and reduction of the lease liability so as to achieve a constant rate of interest on the remaining balance of the liability. Finance charges are charged directly against income. Capitalised leased assets are depreciated over the lease term.

Leases where the lessor retains substantially all the risks and benefits of ownership of the asset are classified as operating leases. Initial direct costs incurred in negotiating an operating lease are added to the carrying amount of the leased asset and recognised over the lease term on the same bases as the lease income.

Operating lease payments are recognised as an expense in the income statement on a straight-line basis over the lease term.

## (xiv) Revenue

Revenues are recognised at fair value of the consideration received net of the amounts of goods and services tax payable to the taxation authority. The following specific recognition criteria must also be met before revenue is recognised:

**Sale of goods**

Revenue is recognised when the significant risks and rewards of ownership of the goods have passed to the buyer and can be measured reliably. Risks and rewards are considered passed to the buyer at the time of delivery and installation of the goods to the customer.

**Rendering of services**

Revenue from rendering of services is recognised when the service is provided to the customer.

**Interest**

Revenue is recognised as the interest accrues.

**Dividends**

Revenue is recognised when the shareholders' right to receive the payment is established.

## (xv) Income tax

Deferred income tax is provided on all temporary differences at the balance sheet date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

Deferred income tax liabilities are recognised for all taxable temporary differences:

- except where the deferred income tax liability arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and
- in respect of taxable temporary differences associated with investments in subsidiaries, associates and interests in joint ventures, except where the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

Deferred income tax assets are recognised for all deductible temporary differences, carry-forward of unused tax assets and unused tax losses, to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, and the carry-forward of unused tax assets and unused tax losses can be utilised:

- except where the deferred income tax asset relating to the deductible temporary difference arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and
- in respect of deductible temporary differences associated with investments in subsidiaries, associates and interests in joint ventures, deferred tax assets are only recognised to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilised.

The carrying amount of deferred income tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred income tax asset to be utilised.

Deferred income tax assets and liabilities are measured at the tax rates that are expected to apply to the year when the asset is realised or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted at the balance sheet date.

Income taxes relating to items recognised directly in equity are recognised in equity and not in the income statement.

3Q Holdings Limited and it's wholly owned Australian subsidiaries have formed an income tax consolidated group under tax consolidation legislation. Each entity in the group recognises its own current and deferred tax assets and liabilities. Such taxes are measured using the (stand-alone tax payer) approach to allocation. Current tax liabilities (assets) and deferred tax assets arising from unused tax losses and tax credits in the subsidiaries are immediately transferred to the head entity. The group notified the Australian Tax Office that it had formed an income tax consolidated group to apply from 22nd December 2005.

## (xvi) Goods and Services Tax (GST)

Revenues, expenses and assets are recognised net of the amount of GST except:

- where the GST incurred on a purchase of goods and services is not recoverable from the taxation authority, in which case the GST is recognised as part of the cost of acquisition of the asset or as part of the expense item as applicable; and
- receivables and payables are stated with the amount of GST included.

The net amount of GST recoverable from, or payable to, the taxation authority is included as part of receivables or payables in the balance sheet.

Cash flows are included in the Cash Flow Statement on a gross basis and the GST component of cash flows arising from investing and financing activities, which is recoverable from, or payable to, the taxation authority, are classified as operating cash flows.

Commitments and contingencies are disclosed net of the amount of GST recoverable from, or payable to, the taxation authority.

## (xvii) Share based payments

The Group provides benefits to employees (including Directors) of the Group in the form of share-based payment transactions, whereby employees render services in exchange for shares or rights over shares ('equity-settled transactions').

The cost of these equity-settled transactions with employees is measured by reference to the fair value at the date at which they are granted. The fair value is determined using a binomial model.

In valuing equity-settled transactions, in some scenarios consideration is given to performance conditions, other than conditions linked to the price of the shares.

The cost of equity-settled transactions is recognised, together with a corresponding increase in equity, over the period in which the performance conditions are fulfilled, ending on the date on which the relevant employees become fully entitled to the award ('vesting date').

The cumulative expense recognised for equity-settled transactions at each reporting date until vesting date reflects (i) the extent to which the vesting period has expired and (ii) the number of awards that, in the opinion of the Directors of the Group, will ultimately vest. This opinion is formed based on the best available information at balance date. No adjustment is made for the likelihood of market performance conditions being met as the effect of these conditions is included in the determination of fair value at grant date.

No expense is recognised for awards that do not ultimately vest, except for awards where vesting is conditional upon a market condition.

Where the terms of an equity-settled award are modified, as a minimum an expense is recognised as if the terms had not been modified. In addition, an expense is recognised for any increase in the value of the transaction as a result of the modification, as measured at the date of modification.

Where an equity-settled award is cancelled, it is treated as if it had vested on the date of cancellation, and any expense not yet recognised for the award is recognised immediately. However, if a new award is substituted for the cancelled award, and designated as a replacement award on the date that it is granted, the cancelled and new award are treated as if they were a modification of the original award, as described in the previous paragraph.

The dilutive effect, if any, of outstanding options is reflected as additional share dilution in the computation of earnings per share.

## (xviii) Trade and other payables

Trade payables and other payables are carried at amortised costs and represent liabilities for goods and services provided to the Group prior to the end of the financial year that are unpaid and arise when the Group becomes obliged to make future payments in respect of the purchase of these goods and services.

## (xix) Employee leave benefits

**Wages, salaries, annual leave and sick leave**

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

**Long service leave**

The liability for long service leave is recognised in the provision for employee benefits and measured as the present value of expected future payments to be made in respect of 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 currencies that match, as closely as possible, the estimated future cash outflows.

## (xx) Contributed equity

Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of new shares or options are shown in equity as a deduction, net of tax, from the proceeds.

## (xxi) Earnings per share

Basic earnings per share is calculated as net profit attributable to members of the parent, adjusted to exclude any costs of servicing equity (other than dividends), divided by the weighted average number of ordinary shares, adjusted for any bonus element.

Diluted earnings per share is calculated as net profit attributable to members of the parent, adjusted for:

- costs of servicing equity (other than dividends);
- the after tax effect of dividends and interest associated with dilutive potential ordinary shares that have been recognised as expenses; and
- other non-discretionary changes in revenues or expenses during the period that would result from the dilution of potential ordinary shares;
- divided by the weighted average number of ordinary shares and dilutive potential ordinary shares, adjusted for any bonus element.

## (xxii) Critical accounting estimates and judgments

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

**Key estimates – Impairment of goodwill**

The Group tests annually whether goodwill has suffered any impairment, in accordance with the accounting policy stated in note 2 (v). The recoverable amounts of cash-generating units have been determined based on value-in-use calculations. These calculations require the use of assumptions.

## (xxiii) Business combinations

The purchase method of accounting is used to account for all business combinations, including business combinations involving entities or businesses under common control, regardless of whether equity instruments or other assets are acquired. Cost is measured as the fair value of the assets given, shares issued or liabilities incurred or assumed at the date of exchange plus costs directly attributable to the acquisition. Where equity instruments are issued in an acquisition, the fair value of the instruments is their published market price as at the date of exchange unless, in rare circumstances, it can be demonstrated that the published price at the date of exchange is an unreliable indicator of fair value and that other evidence and valuation methods provide a more reliable measure of fair value. Transaction costs arising on the issue of equity instruments are recognised directly in equity.

Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date, irrespective of the extent of any minority interest. The excess of the cost of acquisition over the fair value of the Group's share of the identifiable net assets acquired is recorded as goodwill. If the cost of acquisition is less than the Group's share of the fair value of the identifiable net assets of the subsidiary acquired, the difference is recognised directly in the income statement, but only after a reassessment of the identification and measurement of the net assets acquired.

Where settlement of any part of cash consideration is deferred, the amounts payable in the future are discounted to their present value as at the date of exchange. The discount rate used is the entity's incremental borrowing rate, being the rate at which a similar borrowing could be obtained from an independent financier under comparable terms and conditions.

## (xxiv) Segment information

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision maker. The chief operating decision maker has been identified as the Board of Directors.

## (xxv) Accounting Standards and interpretations

The following Australian Accounting Standards have been issued or amended and are applicable to the parent and consolidated group but are not yet effective. They have not been adopted in preparation of the financial statements at reporting date.

| New or Revised Requirement | Effective for annual reporting periods beginning/ending on or after |
|---|---|
| **New and Revised Standards** | |
| AASB 1: First-time Adoption of Australian Accounting Standards<br><br>AASB 1 was first issued in July 2004 as AASB 1 First-time Adoption of Australian Equivalents to International Financial Reporting Standards in relation to the initial application of Australian equivalents to IFRSs for annual reporting periods beginning on or after 1 January 2005.<br><br>Subsequently, AASB 1 was amended many times to accommodate first-time adoption requirements resulting from new or amended Standards. As a result, the Standard became more complex and less clear. This new version of AASB 1 retains the substance of the previous version. However, the structure of the Standard has been changed to make it easier for the reader to understand and to better handle future changes | Beginning 1 July 2009 |
| AASB 3 (Revised): Business Combinations:<br><br>Changes the application of acquisition accounting for business combinations and the accounting for non-controlling (minority) interests. Key changes include: the immediate expensing of all transaction costs; measurement of contingent consideration at acquisition date with subsequent changes through the income statement; measurement of non-controlling (minority) interests at full fair value or the proportionate share of the fair value of the underlying net assets; guidance on issues such as re-acquired rights and vendor indemnities; and the inclusion of combinations by contract alone and those involving mutual entities.<br><br>Early adoption is only permitted for “For Profit” entities. | Beginning 1 July 2009 |
| AASB 101: Presentation of Financial Statements (Revised September 2007), AASB 2007-8 Amendments to Australian Accounting Standards & Interpretations and AASB 2007-10 Further Amendments to AASBs arising from AASB 101<br><br>The revised standard affects the presentation of changes in equity and comprehensive income. It does not change the recognition, measurement or disclosure of specific transactions and other events required by other AASB standards however, it is important to note that the AASB has decided that Australian issuers must make use in financial reports of the descriptions- Statement of Financial Performance and Position rather than Balance Sheet and Income Statement and use the term "Financial Report" and not "Financial Statement." The Amending Standard updates references in various other pronouncements. | Beginning 1 January 2009 |
| AASB 123: Borrowing Costs (Revised), AASB 2007-6 Amendments to Australian Accounting Standards 1, 101, 107, 111, 116, 138 and | Beginning 1 January 2009 |

| New or Revised Requirement | Effective for annual reporting periods beginning/ending on or after |
|---|---|
| Interpretations 1 & 12<br><br>This revision eliminates the option to expense borrowing costs on qualifying assets and requires that they be capitalised. The transitional provision provided allows for prospective application of this revision from either application date or adoption date if prior to 1 January 2009. The Amending Standard eliminates reference to the expensing option in various other pronouncements. | |
| AASB 127 (Amended): Consolidated and Separate Financial Statements:<br><br>Changes the accounting for investments in subsidiaries. Key changes include: the re-measurement to fair value of any previous/retained investment when control is obtained/lost, with any resulting gain or loss being recognised in the Income Statement; and the treatment of increases in ownership interest after control is obtained as transactions with equity holders in their capacity as equity holders.<br><br>Can only be early adopted if AASB 3 Revised is adopted at the same time. | Beginning 1 July 2009 |
| AASB 2007-3:Amendments to Australian Accounting Standards arising from AASB 8<br><br>[AASB 5, AASB 6, AASB 102, AASB 107, AASB 119, AASB 127, AASB 134, AASB 136, AASB 1023 & AASB 1038] | Beginning 1 January 2009 |
| AASB 2007-6: Amendments to Australian Accounting Standards arising from AASB 123<br><br>[AASB 1, AASB 101, AASB 107, AASB 111, AASB 116 & AASB 138 and Interpretations 1 & 12] | Beginning 1 January 2009 |
| AASB 2007-8: Amendments to Australian Accounting Standards arising from AASB 101 | Beginning 1 January 2009 |
| AASB 2008-1: Amendments to AASB 2 "Share Based Payments"<br>The amendment clarifies that vesting conditions are restricted to:<br><br>▪ Service conditions; and<br>▪ Performance conditions only.<br><br>Other features of a share-based payment are not vesting conditions. This restriction was not clearly stated in the pre-amended standards.<br>This means that all other terms and conditions are accounted for in the value of the share or option at grant date.<br>It also specifies that all cancellations, whether by the entity or by other parties, should receive the same accounting treatment. | Beginning 1 January 2009 |
| AASB 2008-3: Amendments to Australian Accounting Standards Arising from AASB 3 and AASB 127 [AASBs 1, 2, 4, 5, 7, 101, 107, 112, 114, 116, 121, 128, 131, 132, 133, 134, 136, 137, 138 & 139 and interpretations 9 & 107]<br><br>Consequential amendments to other standards arising from AASB 3 (Revised) and AASB 127 (Amended) Consolidated and Separate Financial Statements<br><br>Early adoption is only permitted for "For Profit" entities. AASB 127 | Beginning 1 July 2009 |

| New or Revised Requirement | Effective for annual reporting periods beginning/ending on or after |
|---|---|
| (Amended) can only be early adopted if AASB 3 (Revised) is adopted at the same time. | |
| 2008-5: Amendments to Australian Accounting Standards arising from the Annual Improvements Project include:<br><br>[AASB 5, 7, 101, 102, 107, 108, 110, 116, 118, 119, 120, 123, 127, 128, 129, 131, 132, 134, 136, 138, 139, 140, 141, 1023 & 1038]<br>[Refer Accounting Briefing AC649 for more detail] | Beginning 1 January 2009 |
| 2008-6: Further Amendments to Australian Accounting Standards arising from the Annual Improvements Project include:<br><br>[AASB 1 & AASB 5]<br>[Refer Accounting Briefing AC649 for more detail]. | Beginning 1 July 2009 |
| 2008-7: Amendments to Australian Accounting Standards – Cost of an Investment in a Subsidiary, Jointly Controlled Entity or Associate<br>[AASB 1, AASB 118, AASB 121, AASB 127 & AASB 136]<br>This Standard:<br>a. amends AASB 1 to allow first-time adopters, in their separate financial statements, to use a deemed cost option for determining the cost of an investment in a subsidiary, jointly controlled entity or associate. The deemed cost of such an investment can be either its:<br>(i) fair value (determined in accordance with AASB 139 Financial Instruments: Recognition and Measurement) at the entity's date of transition to Australian-equivalents-to-IFRSs; or<br>(ii) previous GAAP carrying amount at that date.<br>A first-time adopter may choose either deemed cost option to measure its investment in each subsidiary, jointly controlled entity or associate that it elects to measure using a deemed cost;<br>b. removes from AASB 118 the requirement to deduct dividends declared out of pre-acquisition profits from the cost of an investment in a subsidiary, jointly controlled entity or associate. Therefore, all dividends from a subsidiary, jointly controlled entity or associate are recognised by the investor as income;<br>c. amends AASB 127 to require, in particular circumstances, a new parent entity established in a group reorganisation to measure the cost of its investment at the carrying amount of the share of the equity items shown in the separate financial statements of the original parent at the date of the reorganisation. The relevant circumstances include that the reorganisation involves:<br>(i) the new parent obtaining control of the original parent through an exchange of equity instruments;<br>(ii) no change to the group's assets and liabilities;<br>(iii) no change to the owners' absolute and relative interests in the net assets; and<br>(iv) amends AASB 136 to include recognising a dividend from a subsidiary, jointly controlled entity or associate, together with other evidence, as an indication that the investment in the subsidiary, jointly controlled entity or associate may be | Beginning 1 January 2009 |

| New or Revised Requirement | Effective for annual reporting periods beginning/ending on or after |
|---|---|
| impaired. | |
| AASB 2008-8: Amendments to Australian Accounting Standards – Eligible Hedged Items amends the application guidance of AASB 139: Financial Instruments: Recognition and Measurement<br><br>The amendment clarifies how the principles that determine whether a hedged risk or portion of cash flows is eligible for designation should be applied in particular situations.<br><br>The amendment addresses two particular situations:<br><br>▪ the designation of a one-sided risk in a hedged item; and<br>▪ the designation of inflation in particular situations<br><br>Because of its limited scope, the amendment is expected to affect only those entities that designate hedging relationships in the two situations it addresses. The amendment is expected to reduce diversity in practice that exists, or is likely to occur, in those two situations. | 1 July 2009 |
| AASB 1039: (Revised): Concise Financial Reports<br><br>a. Changes have been made to terminology and descriptions of the financial statements to achieve consistency with that used in AASB 101,<br>b. The disclosure requirements relating to segments in paragraph 29 (formerly paragraph 6.2) have been re-worded to achieve consistency with the equivalent requirements in AASB 8 which is applicable for annual reporting periods beginning on or after 1 January 2009. | Beginning 1 January 2009. |
| AASB 2009-2: Amendments to Australian Accounting Standards – Improving Disclosures about Financial Instruments<br><br>The amendments to AASB 7 require enhanced disclosures about fair value measurements and liquidity risk. In particular, the amendments:<br><br>a. clarify that the existing fair value disclosure requirements in AASB 7 must be made separately for each class of financial instrument;<br>b. require disclosure of any change in a method for determining fair value and the reasons for the change<br>c. introduce a three-level hierarchy for making fair value measurements, as follows:<br>(i) level 1 – quoted prices (unadjusted) in active markets for identical assets or liabilities;<br>(iii) level 2 – inputs, other than quoted prices included within level 1, that are observable for the asset or liability; and<br>(iv) level 3 – inputs for the asset or liability that are not based on observable market data (unobservable inputs);<br><br>d. require disclosure about the relative reliability of each fair value measurement in the statement of financial position;<br>e. clarify that the current maturity analysis for non-derivative | Beginning 1 January 2009 & ending on or after 30 April 2009 |

| New or Revised Requirement | Effective for annual reporting periods beginning/ending on or after |
|---|---|
| financial instruments should include issued financial guarantee contracts; and<br>f. require disclosure of a maturity analysis for derivative financial liabilities The maturity analysis shall include the remaining contractual maturities for those derivative financial liabilities for which contractual maturities are essential for an understanding of the timing of the cash flows | |
| AASB 2009-3: Amendments to Australian Accounting Standards – Embedded Derivatives<br><br>The amendments require:<br><br>a. an entity to assess whether an embedded derivative is required to be separated from a host contract when the entity reclassifies a hybrid (combined) financial asset out of the fair value through profit or loss category;<br>b. the assessment to be made on the basis of the circumstances that existed on the later date of:<br>(i) when the entity first became a party to the contract; and<br>(ii) a change in the terms of the contract that significantly modified the cash flows that otherwise would have been required under the contract; and<br>if the fair value of an embedded derivative that would have to be separated cannot be reliably measured, the entire hybrid financial instrument must remain in the fair value through profit or loss category. | Ending on or after 30 June 2009 (early adoption is not permitted) |
| AASB 2009-4: Amendments to Australian Accounting Standards arising from the Annual Improvements Project. Amendments are made to AASB 2, AASB 138 and AASB Interpretations 9 & 16 [Refer Accounting Briefing AC 693 for further information]. | 1 July 2009 |
| AASB 2009-5: Further Amendments to Australian Accounting Standards arising from the Annual Improvements Project. Amendments are made to AASB 5, 8, 101, 107, 117, 118, 136 & 139.[Refer Accounting Briefing AC 694 for further information] | 1 January 2010 |
| AASB 2009-6: Amendments to Australian Accounting Standards # Operative for periods beginning on or after 1 Jan 2009 that end on or after 30 Jun 2009. Amendments made to most AASB. Refer Accounting Briefing AC 695 for further information] | 1 January 2009 |
| AASB 2009-7: Amendments to Australian Accounting Standards. Amends AASB 5, 7, 107, 112, 136 & 139 and Interpretation 17. Refer Accounting Briefing AC 695 for further information] | 1 July 2009 |
| AASB 2009-8: Amendments to Australian Accounting Standards – Group Cash-settled Share-based Payment Transactions [AASB 2].<br><br>The amendments clarify the scope of AASB 2 by requiring an entity that receives goods or services in a share-based payment arrangement to account for those goods or services no matter which entity in the group settles the transaction, and no matter whether the transaction is settled in shares or cash.<br><br>The amendments incorporate the requirements previously included in Interpretation 8 and Interpretation 11 and as a consequence these two | 1 January 2010 |

| New or Revised Requirement | Effective for annual reporting periods beginning/ending on or after |
|---|---|
| Interpretations are superseded by the amendments. | |
| **Interpretations** | |
| Interpretation16: Hedges of a Net Investment in a Foreign Operation concludes that:<br>a. the presentation currency does not create an exposure to which an entity may apply hedge accounting. Consequently, a parent entity may designate as a hedged risk only the foreign exchange differences arising from a difference between its own functional currency and that of its foreign operation.<br>b. the hedging instrument(s) may be held by any entity or entities within the group.<br>that while AASB 139 must be applied to determine the amount that needs to be reclassified to profit or loss from the foreign currency translation reserve in respect of the hedging instrument, AASB 121 must be applied in respect of the hedged item. | Beginning 1 October 2008 |
| Interpretation 17:<br><br>This Interpretation clarifies that:<br>a. a dividend payable should be recognised when the dividend is appropriately authorised and is no longer at the discretion of the entity;<br>b. an entity should measure the dividend payable at the fair value of the net assets to be distributed; and<br>c. an entity should recognise the difference between the dividend paid and the carrying amount of the net assets distributed in profit or loss, as a separate line item.<br><br>The Interpretation also requires an entity to provide additional disclosures if the net assets being held for distribution to owners meet the definition of a discontinued operation. | Beginning 1 July 2009 |

This is not an exhaustive list of accounting standards that have been issued but not yet effective but represents the standards most likely to have a material impact on Australian organisations.

## (xxvi) Current assets and current liabilities

Whilst the current liabilities exceed the current assets, a major component of the current liabilities is prepaid maintenance, deferred revenue and derivative financial liability (fair value of interest rate swap at balance date) of $4,541,124 (2008: $4,555,979) which is not expected to be paid in cash.

# 3 Revenue and Expenses

| | Consolidated Group | | Parent Entity | |
|---|---|---|---|---|
| | 2009 | 2008 | 2009 | 2008 |
| | $ | $ | $ | $ |
| **(a) Revenue** | | | | |
| Sales of goods/hardware | 1,552,272 | 1,515,152 | 300,094 | 7,121 |
| Rendering of services | 7,027,951 | 5,137,885 | 410,200 | 505,746 |
| Maintenance fees | 12,564,407 | 8,952,603 | 550,308 | 941,425 |
| Licence fees | 3,385,371 | 4,654,603 | 1,464,150 | 1,562,863 |
| Other revenue | 460,104 | 292,019 | 19,141 | 29,754 |
| | **24,990,105** | **20,552,262** | **2,743,893** | **3,046,909** |
| **(b) Other income** | | | | |
| Management fees- intra-group | - | - | 1,319,574 | 307,287 |
| Interest income | 106,895 | 187,378 | 299,585 | 313,651 |
| * Gain on Retail Pro's settlement | 2,939,127 | - | - | - |
| Other income | 333,897 | 114,017 | 279,826 | 379 |
| | **3,379,918** | **301,395** | **1,898,984** | **621,317** |

| | |
|---|---|
| * Gain on Retail Pro settlement in May 2009 | |
| Vendor loan | 3,930,495 |
| Other working capital amounts | (178,765) |
| Total owing | 3,751,730 |
| Cash paid on settlement | (812,603) |
| Gain on settlement | 2,939,127 |

| | Consolidated Group | | Parent Entity | |
|---|---|---|---|---|
| | 2009 | 2008 | 2009 | 2008 |
| | $ | $ | $ | $ |
| **(c) Other expenses** | | | | |
| Accounting and audit fee | 570,091 | 295,538 | 202,029 | 146,225 |
| Bad and doubtful debts | 32,830 | 535 | - | - |
| Legal fees | 273,667 | 135,666 | 22,953 | 89,276 |
| Rental expense and operating lease | 1,160,924 | 718,286 | - | 15,444 |
| Other expenses | 2,325,924 | 1,764,981 | 406,517 | 129,610 |
| | **4,363,435** | **2,915,006** | **631,498** | **380,555** |

## 4 Income Tax

| | Consolidated Group | | Parent Entity | |
|---|---|---|---|---|
| | 2009 | 2008 | 2009 | 2008 |
| | $ | $ | $ | $ |
| **(a) Income Tax Expenses (Benefit) Comprise:** | | | | |
| Current tax | 530,351 | 826,678 | - | - |
| Deferred tax | 792,817 | (58,340) | (729,512) | (113,540) |
| Recoupment/recognition of prior and current year tax losses | (680,268) | (137,343) | (186,157) | - |
| | **642,900** | **630,995** | **(915,669)** | **(113,540)** |
| **(b) Reconciliation** | | | | |
| The prima facie tax on profit from ordinary activities before income tax is reconciled to the income tax as follows: | | | | |
| Prima facie tax payable on profit from ordinary activities before income tax at 30% (2008: 30%) | | | | |
| consolidated group | 666,857 | 644,582 | - | - |
| parent entity | - | - | (572,938) | (8,561) |
| Add: | | | | |
| Tax effect of: | | | | |
| non-deductible depreciation and amortisation | - | 8,838 | - | 8,838 |
| other non-allowable items | 19,249 | 31,874 | 2,881 | 25,346 |
| adjustment for differences in tax rates | 535,624 | 203,843 | - | - |
| share options expensed during year | 60,648 | 42,401 | 60,648 | 42,401 |
| under provision for income tax in prior year | 5,882 | - | - | - |
| other tax adjustments | 9,697 | 114,491 | (23,711) | (38,692) |
| | 1,297,956 | 1,046,029 | (533,119) | 29,332 |
| Less: | | | | |
| Tax effect of: | | | | |
| investment allowances | (2,964) | - | (2,964) | - |
| capital profits not subject to income tax | - | - | - | - |
| capitalisation costs in relation to capital raising | (157,639) | (104,885) | (157,639) | (104,885) |
| deduction for current year US state taxes | (144,961) | - | - | - |
| foreign currency exchange profit not subject to income tax | - | - | - | - |
| share of net profits of associates and joint venture entities netted directly | - | - | - | - |
| recoupment of tax losses not previously recognised | 38,843 | (37,987) | 38,843 | (37,987) |
| recognition of prior tax losses not previously brought to account | (388,336) | (272,162) | (225,000) | - |
| **Income tax attributable to entity** | **642,900** | **630,995** | **(879,879)** | **(113,540)** |
| The applicable weighted average effective tax rates are as follows: | 29% | 29% | 46% | 398% |

The movement in average effective consolidated tax rate for 2009 is mainly a result of the higher tax rates in the US of 42% as compared with Australian rates of 30%.

The recognition of prior year losses not previously brought into account are also a major reason for the decrease in average effective rate.

3Q Holdings Limited had income tax losses of $15,595,427 at 30 June 2009 ($15,724,903 as at 30 June 2008), of which $4,107,443 of these losses have been recognised as a deferred tax asset in accordance with note 2 (a) (xvi).

The recoupment of these carried forward tax losses is subject to the company satisfying the loss recoupment provisions contained in the *Income Tax Assessment Act 1997*.

### Tax consolidation

The Australian Tax Consolidation Legislation allows groups, comprising of a parent entity and its wholly-owned Australian resident entities, to elect to consolidate and be treated as a single entity for Australian income tax purposes.

3Q Holdings Limited and its 100% owned Australian resident subsidiaries consolidated under this legislation effective 22 December 2005.

3Q Holdings Limited as the head entity of the tax consolidated group and subsidiary members entered a tax sharing and funding agreement in order to allocate income tax expense to the wholly owned subsidiaries on a pro-rata basis. The agreement provides for the allocation of income tax liabilities between the entities should the head entity default on its tax payment obligations. At the balance date, the possibility of default is remote.

## 5 Earnings per Share

The following reflects the income and share data used in the basic and diluted earnings per share computations:

| | Consolidated Group | |
|---|---|---|
| | 2009<br>$ | 2008<br>$ |
| Net profit attributed to ordinary equity holders of the parent | 1,579,957 | 1,517,611 |
| Weighted average number of ordinary shares for basic earnings per share | 147,280,967 | 147,400,019 |
| Effect of dilution: share options | 14,692,603 | 14,940,000 |
| Weighted average number of ordinary shares adjusted for the effect of dilution | 161,973,570 | 162,988,393 |

There have been no other transactions involving ordinary shares or potential ordinary shares between the reporting date and the date of completion of these financial statements.

## 6 Dividends Paid and Proposed

There are no dividends payable or receivable at reporting date.

Franking Account Balance

| | Consolidated Group | | Parent Entity | |
|---|---|---|---|---|
| | 2009 $ | 2008 $ | 2009 $ | 2008 $ |
| **Franking Credit Balance** | | | | |
| The amount of franking credits available for the subsequent financial year are: | | | | |
| - Franking account balance as at end of the financial year at 30% (2008 - 30%) | 1,400,607 | 1,126,984 | 1,400,607 | 1,126,984 |
| - Franking credits that will arise from the payment of income tax payable as at the end of the financial year | 129,686 | 141,278 | 129,686 | 141,278 |
| The amount of franking credits available for future reporting periods | 1,530,293 | 1,268,262 | 1,530,293 | 1,268,262 |

## 7 Cash and Cash Equivalents

### (a) Cash Balance

| | Consolidated Group | | Parent Entity | |
|---|---|---|---|---|
| | 2009 $ | 2008 $ | 2009 $ | 2008 $ |
| Cash at bank | 579,929 | 3,848,959 | 2,555 | 636,550 |
| Short-term deposits | - | 2,418,091 | - | 2,074,979 |
| | **579,929** | **6,267,050** | **2,555** | **2,711,529** |

Cash at bank earns interest at floating rates based on daily bank deposit rates. Short-term deposits are made for varying periods of between one day and three months, depending on the immediate cash requirements of the Group, and earn interest at the respective short-term deposit rates.

Cash at the end of the financial year shown in the Cash Flow Statement is reconciled to items in the Balance Sheet as follows:

| | Consolidated Group | | Parent Entity | |
|---|---|---|---|---|
| | 2009 $ | 2008 $ | 2009 $ | 2008 $ |
| Cash and cash equivalents | 579,929 | 6,267,050 | 2,555 | 2,711,529 |
| Overdraft | (234,254) | - | - | - |
| **Cash per Cash flow statement** | **345,675** | **6,267,050** | **2,555** | **2,711,529** |

**(b) Reconciliation of cash flow from operations with profit after income tax**

| | Consolidated Group | | Parent Entity | |
|---|---|---|---|---|
| | 2009 $ | 2008 $ | 2009 $ | 2008 $ |
| **Profit after income tax** | **1,579,957** | **1,517,611** | **(994,124)** | **85,002** |
| Non-cash flows in profit: | | | | |
| Depreciation expenses | 246,483 | 118,779 | 2,996 | 4,075 |
| Amortisation expenses | 1,641,866 | 911,540 | 796,841 | 527,692 |
| Net profit/loss on disposal of property, plant and equipment | 3,126 | 9,492 | - | - |
| Share option expenses | 202,161 | 61,338 | 202,161 | (54,031) |
| Net foreign exchange difference | (298,159) | (12,920) | - | - |
| Changes in assets and liabilities (net of settlement) | | | | |
| (Increase)/decrease in inventories | (9,496) | (47,660) | - | - |
| (Increase)/decrease in trade and other receivables | (522,154) | 1,307,854 | (1,419,498) | 48,667 |
| (Increase)/decrease in prepayment | 66,408 | (383,278) | 85,167 | (83,071) |
| (Increase)/decrease in deferred tax assets | (1,262,189) | 19,259 | (915,669) | (113,540) |
| Increase/(decrease) in current/deferred tax liability | 1,881,540 | 683,401 | (338,315) | (38,230) |
| Increase/(decrease) in trade and other payables | (2,433,206) | (73,934) | 2,768,696 | 527,238 |
| Increase/(decrease) in provisions | 355,824 | 70,121 | 17,928 | - |
| Increase/(decrease) in maintenance in advance | 890,398 | (782,546) | (146,722) | 3,339 |
| **Net Cash from Operating Activities** | **2,342,559** | **3,399,057** | **59,462** | **907,141** |

## 8 Trade and other receivables – Current

### Current assets – trade and other receivables

| | Consolidated Group | | Parent Entity | |
|---|---|---|---|---|
| | 2009 $ | 2008 $ | 2009 $ | 2008 $ |
| **Current** | | | | |
| Trade receivables | 4,280,587 | 6,426,358 | 210,079 | 355,142 |
| Less: Provision for impairment (a) | (40,794) | (17,428) | - | - |
| | 4,239,793 | 6,408,930 | 210,079 | 355,142 |
| Unbilled receivables | 327,017 | 306,203 | - | - |
| Receivable from related party | 106,481 | 201,029 | - | 256,145 |
| Receivable from subsidiaries | - | - | 461,692 | - |
| Others | - | 797,913 | - | 2,780 |
| | **4,673,290** | **7,714,075** | **671,771** | **614,067** |

### (a) Allowance for impairment loss

Trade receivables are non-interest bearing and are generally on 7-30 day terms. An allowance for impairment loss is recognised when there is objective evidence that an individual trade receivable is impaired. An impairment loss of $23,366 has been recognized in the current year.

At 30 June 2009, the ageing analysis of trade receivables is as follows:

| | Consolidated Group | | Parent Entity | |
|---|---|---|---|---|
| | 2009<br>$ | 2008<br>$ | 2009<br>$ | 2008<br>$ |
| 0-30 days | 3,413,921 | 2,337,774 | 109,791 | 276,741 |
| 31-60 days/PDNI* | 199,659 | 2,247,300 | 48,349 | 10,180 |
| 31-60 days/CI* | - | - | - | - |
| 61-90 days/PDNI* | 71,724 | 357,812 | (449) | 15,511 |
| 61-90 days/CI* | - | - | - | - |
| + 91 days/PDNI* | 554,489 | 1,466,044 | 52,387 | 52,710 |
| + 91 days/CI* | 40,794 | 17,428 | - | - |
| | **4,280,586** | **6,426,358** | **210,079** | **355,142** |

* Past due not impaired ('PDNI')
* Considered impaired ('CI')

Receivables past due but not considered impaired are: Consolidated $825,872 (2008: $4,071,156); Parent $100,287 (2008: $78,401). Payment terms on these amounts have in some cases been re-negotiated, however in certain circumstances credit has been stopped until payment is made. Each operating unit has been in direct contact with the relevant debtor and is satisfied that payment will be received in full.

Other balances within trade and other receivables do not contain impaired assets.

### (b) Related party receivables

For terms and conditions of related party receivables refer to note 25.

### (c) Fair value and credit risk

Due to the short term nature of these receivables, their carrying value is assumed to approximate their fair value.

The maximum exposure to credit risk is the fair value of receivables. Collateral is not held as security, with the exception of Australia and New Zealand where there is retention of title over hardware which is sold. It is also not the Group's policy to transfer (on-sell) receivables to special purpose entities.

### (d) Foreign exchange and interest rate risk

Details regarding foreign exchange and interest rate risk exposure are disclosed in note 22.

### Non-current assets - receivables

| | Consolidated Group | | Parent Entity | |
|---|---|---|---|---|
| | 2009 $ | 2008 $ | 2009 $ | 2008 $ |
| Receivables from wholly owned subsidiaries | - | - | 8,875,841 | 12,298,032 |
| | **-** | **-** | **8,875,841** | **12,298,032** |

All amounts are receivable in Australian Dollars and are not considered past due or impaired.

#### (a) Loan notes

These loan notes are all Group loans made by the Parent to the respective Subsidiary companies. Most are interest bearing and have no fixed terms of repayment.

#### (b) Fair values

The carrying values of the Loans are assumed to approximate their fair values.

#### (c) Interest rate risk

Most loans are subject to Interest. The rates are reviewed at least once annually by the directors. There is interest rate risk for the Parent, however not for the Group.

#### (d) Credit risk

The credit risk is not applicable as there are no terms for repayment of the loans. No collateral is held as security.

## 9 Other Assets

| | Consolidated Group | | Parent Entity | |
|---|---|---|---|---|
| | 2009 $ | 2008 $ | 2009 $ | 2008 $ |
| Prepayments | 374,451 | 382,762 | 138,565 | 220,952 |
| | **374,451** | **382,762** | **138,565** | **220,952** |

## 10 Inventories

| | Consolidated Group | | Parent Entity | |
|---|---|---|---|---|
| | 2009 $ | 2008 $ | 2009 $ | 2008 $ |
| Finished goods at net realisable value | 179,472 | 169,973 | - | - |
| | **179,472** | **169,973** | **-** | **-** |

## 11 Financial Assets

| | Consolidated Group | | Parent Entity | |
|---|---|---|---|---|
| | 2009 $ | 2008 $ | 2009 $ | 2008 $ |
| Shares in subsidiaries at cost | - | - | 23,846,445 | 24,426,103 |
| | **-** | **-** | **23,846,445** | **24,426,103** |

## 12 Property, Plant & Equipment

| | Consolidated Group | | Parent | |
|---|---|---|---|---|
| | 2009 $ | 2008 $ | 2009 $ | 2008 $ |
| **(a) Furniture & Equipment** | | | | |
| At cost | 929,580 | 780,266 | 18,752 | 16,460 |
| Accumulated depreciation | (559,665) | (368,236) | (7,070) | (4,074) |
| | **369,915** | **412,030** | **11,682** | **12,386** |
| **Movement in carrying amount** | | | | |
| Balance of the beginning of the year | 412,030 | 233,359 | 12,386 | 7,796 |
| Additions - Operation | 152,131 | 185,349 | 2,292 | 8,664 |
| Acquisition through business combinations | - | 115,709 | - | - |
| Disposal | (2,566) | - | - | - |
| Depreciation expense | (209,034) | (107,281) | (2,996) | (4,074) |
| Foreign currency exchange difference | 17,354 | (15,105) | - | - |
| **Balance at the end of year** | **369,915** | **412,030** | **11,682** | **12,386** |
| **(b) Leasehold improvements** | | | | |
| At cost | 169,763 | 60,972 | - | - |
| Accumulated depreciation | (30,082) | (14,085) | - | - |
| | **139,680** | **46,887** | **-** | **-** |
| **Movement in carrying amount** | | | | |
| Balance of the beginning of the year | 46,887 | 37,157 | - | - |
| Additions - Operation | 108,624 | 1,426 | - | - |
| Acquisition through business combinations | - | 20,095 | - | - |
| Disposal | - | - | - | - |
| Depreciation expense | (15,873) | (12,050) | - | - |
| Foreign currency exchange difference | 42 | 259 | - | - |
| **Balance at the end of year** | **139,680** | **46,887** | **-** | **-** |
| **(c) Software** | | | | |
| At cost | 31,786 | 7,769 | - | - |
| Accumulated depreciation | (20,227) | (596) | - | - |
| | **11,559** | **7,173** | **-** | **-** |
| **Movement in carrying amount** | | | | |
| Balance of the beginning of the year | 7,173 | - | - | - |
| Additions - Operation | 25,043 | 7,770 | - | - |
| Acquisition through business combinations | - | - | - | - |

| | Consolidated Group | | Parent | |
|---|---|---|---|---|
| | 2009 $ | 2008 $ | 2009 $ | 2008 $ |
| Disposal | - | - | - | - |
| Depreciation expense | (21,577) | (597) | - | - |
| Foreign currency exchange difference | 920 | - | - | - |
| **Balance at the end of year** | **11,559** | **7,173** | **-** | **-** |
| | | | | |
| **Total Property, Plant & Equipment** | | | | |
| At cost | 1,131,129 | 849,006 | 18,752 | 16,460 |
| Accumulated depreciation | (609,974) | (382,916) | (7,070) | (4,074) |
| | **521,155** | **466,090** | **11,682** | **12,386** |
| | | | | |
| **Movement in carrying amount** | | | | |
| Balance of the beginning of the year | 466,090 | 270,516 | 12,386 | 7,796 |
| Additions - Operation | 285,798 | 194,544 | 2,292 | 8,664 |
| Acquisition through business combinations | - | 135,803 | - | - |
| Disposal | (2,566) | - | - | - |
| Depreciation expense | (246,483) | (119,928) | (2,996) | (4,074) |
| Foreign currency exchange difference | 18,316 | (14,846) | - | - |
| **Balance at the end of year** | **521,155** | **466,090** | **11,682** | **12,386** |

## 13 Intangible Assets

| **Consolidated Group** | **Intellectual Property** $ | **Customer relationship** $ | **Tradename** $ | **Goodwill** $ | **Development costs** $ | **Total** $ |
|---|---|---|---|---|---|---|
| 2008 | | | | | | |
| At cost | 5,825,219 | 6,702,294 | 693,081 | 14,735,271 | 322,674 | 28,278,539 |
| Accumulated Amortisation | (1,116,384) | (353,545) | (25,943) | - | (2,540) | (1,498,412) |
| **Net carrying value** | **4,708,835** | **6,348,749** | **667,138** | **14,735,271** | **320,134** | **26,780,127** |
| | | | | | | |
| 2009 | | | | | | |
| At cost | 6,296,198 | 7,384,079 | 787,299 | 14,878,982 | 1,345,811 | 30,692,370 |
| Accumulated Amortisation | (1,861,375) | (1,127,915) | (77,793) | - | (35,811) | (3,102,894) |
| **Net carrying value** | **4,434,823** | **6,256,165** | **709,507** | **14,878,982** | **1,310,000** | **27,589,476** |
| | | | | | | |
| Balance of the beginning of the year 2008 | 1,745,180 | - | - | 8,029,007 | - | 9,774,187 |
| Capitalised cost | - | - | - | - | - | - |
| Acquisition through business combinations | 3,465,404 | 7,392,862 | 693,081 | 7,516,867 | 304,896 | 19,373,110 |
| Additional | - | - | - | - | 17,778 | 17,778 |
| Amortisation | (501,749) | (353,545) | (25,943) | - | (2,540) | (883,777) |
| Foreign currency exchange difference | - | (690,568) | - | (810,603) | - | (1,501,171) |
| **Balance at the end of year** | **4,708,835** | **6,348,749** | **667,138** | **14,735,271** | **320,134** | **26,780,127** |

| Consolidated Group | Intellectual Property $ | Customer relationship $ | Tradename $ | Goodwill $ | Development costs $ | Total $ |
|---|---|---|---|---|---|---|
| Balance of the beginning of the year 2009 | 4,708,835 | 6,348,749 | 667,138 | 14,735,271 | 320,134 | 26,780,127 |
| Capitalised cost | - | - | - | - | 978,508 | 978,508 |
| Cost reallocation | 470,967 | - | 94,230 | (565,197) | - | - |
| Additional | - | - | - | 11,619 | (11,619) | - |
| Amortisation | (744,979) | (807,874) | (51,862) | - | (37,151) | (1,641,866) |
| Foreign currency exchange difference | - | 715,289 | - | 697,289 | 60,128 | 1,472,706 |
| **Balance at the end of year** | **4,434,823** | **6,256,164** | **709,507** | **14,878,982** | **1,310,000** | **27,589,476** |

| Parent Entity | Intellectual Property $ | Customer relationship $ | Tradename $ | Goodwill $ | Development costs $ | Total $ |
|---|---|---|---|---|---|---|
| 2008 | | | | | | |
| At cost | 5,275,219 | - | 693,081 | 3,156,789 | - | 9,125,089 |
| Accumulated Amortisation | (566,384) | - | (25,943) | - | - | (592,327) |
| **Net carrying value** | **4,708,835** | **-** | **667,138** | **3,156,789** | **-** | **8,532,762** |
| 2009 | | | | | | |
| At cost | 5,746,198 | - | 787,299 | 2,645,666 | - | 9,179,163 |
| Accumulated Amortisation | (1,311,375) | - | (77,793) | - | - | (1,389,167) |
| **Net carrying value** | **4,434,823** | **-** | **709,507** | **2,645,666** | **-** | **7,789,995** |
| Balance of the beginning of the year 2008 | 1,745,180 | - | - | 2,538,348 | - | 4,283,528 |
| Capitalised cost | - | - | - | - | - | - |
| Acquisition through business combinations | 3,465,404 | - | 693,081 | 618,441 | - | 4,776,926 |
| Additional | - | - | - | - | - | - |
| Amortisation | (501,749) | - | (25,943) | - | - | (527,692) |
| Foreign currency exchange difference | - | - | - | - | - | - |
| **Balance at the end of year** | **4,708,835** | **-** | **667,138** | **3,156,789** | **-** | **8,532,762** |
| Balance of the beginning of the year 2009 | 4,708,835 | - | 667,138 | 3,156,789 | - | 8,532,762 |
| Capitalised cost | - | - | - | - | - | - |
| Acquisition through business combinations | - | - | - | - | - | - |
| Cost reallocation | 470,967 | - | 94,230 | (565,198) | - | - |
| Additional | - | - | - | 54,074 | - | 54,074 |
| Amortisation | (744,979) | - | (51,862) | - | - | (796,841) |
| Foreign currency exchange difference | - | - | - | - | - | - |
| **Balance at the end of year** | **4,434,823** | **-** | **709,507** | **2,645,665** | **-** | **7,789,995** |

Intangible assets, other than goodwill, have finite useful lives. Goodwill is not amortised but is subject to annual impairment testing (see note 14). No impairment loss was recognised in the 2009 financial year.

Intellectual Property includes software and principal technology.

This software is amortised between 5 to 15 years.

The current amortisation charge is included under the depreciation and amortisation expense in the Income Statement.

## 14 Goodwill impairment testing and cash-generating units

Goodwill is allocated to cash-generating units as set out below. The recoverable amount of each cash-generating unit has been determined based on a value-in-use calculation. Value-in-use is calculated based on the present value of cash flow projections over a 5-year period, including a terminal value in the 6th year. The cash flows are discounted using the weighted average cost of capital at the beginning of the budget period of 10%.

Goodwill is allocated to cash-generating units as follows:

| | Consolidated Group | |
|---|---|---|
| | 2009 | 2008 |
| | $ | $ |
| 3Q Holdings & QQQ Systems (excluding AdvanceRetail Division of 3Q Holdings) | 3,119,661 | 3,119,657 |
| Business of AdvanceRetail Technology (Subsidiary in New Zealand and division of 3Q Holdings in Australia) | 4,682,169 | 4,667,432 |
| Business of Island Pacific (Subsidiaries in US and UK) | 7,077,152 | 6,948,182 |
| | **14,878,982** | **14,735,271** |

Key assumptions used

The following describes each key assumption on which management has based its cash flow projections when determining the value in use:

- Budgeted gross margins — the basis used to determine the value assigned to the budgeted gross margins is the average gross margins achieved in the year immediately before the budgeted year. Thus, values assigned to gross margins reflect past experience.
- Sales and all applicable variable costs are budgeted at an average annual increase of between 5 and 7.5%.
- Certain fixed costs are budgeted at the same annual cost achieved in the year immediately before the budgeted year.
- Cash flows exclude cost of borrowings, tax and other costs of finance.

## 15 Share-based payments

(i) On 20 August 2008, 580,000 share options were granted to employees from the acquired AdvanceRetail business under the 3Q Holdings Limited Employee Option Plan to take up ordinary shares at an exercise price of 20c each. The options are exercisable on or before 20 August 2012. The options hold no voting or dividend rights and are not transferrable.

On 15 January 2009, 5,000,000 share options were granted to employees from the recently acquired Island Pacific business under the 3Q Holdings Limited Employee Option Plan to take up ordinary shares at an exercise price of 15c each. The options are exercisable on or before 15 January 2013. The options hold no voting or dividend rights and are not transferrable.

(ii) Options granted to key management personnel are as follows:

| Grant Date | Number |
|---|---|
| 15 January 2009 | 1,000,000 |

These options vest over a 3-year period with a third vesting on the first anniversary of the grant date, one-third vesting on the second anniversary of the grant date and the final one third vesting on the third anniversary of the grant date. Further details of these options are provided in the Directors' Report. The options hold no voting or dividend rights. The options lapse when a key management personnel cease their employment with the Group. During the financial year, no options vested with key management personnel (2008: 1,500,000).

(iii) The company established the 3Q Public Employee Share Option Scheme on 8 November 2006 as a long term incentive scheme to recognise talent and motivate executives to strive for group performance. Employees are granted options which vest over 3 years. The options are issued for no consideration and carry no entitlements to voting rights or dividends of the Group. The number available to be granted is determined by the Board and is based on performance.

Options are forfeited immediately after the holder ceases to be employed by the Group, unless the Board determines otherwise.

The options are issued with strike price that is determined by the Board at the time.

(iv)

| | Number | Weighted Average Exercise Price (cents) |
|---|---|---|
| **Options outstanding as at 30 June 2007** | 15,590,000 | 20 |
| Granted | - | - |
| Forfeited | - | - |
| Exercised | - | - |
| Expired | 650,000 | 20 |
| **Options outstanding as at 30 June 2008** | 14,940,000 | 20 |
| Granted | 5,580,000 | 15.5 |
| Forfeited | - | - |
| Exercised | - | - |
| Expired | 4,000,000 | 20 |
| **Options outstanding as at 30 June 2009** | 16,520,000 | 18.5 |
| Options exercisable at 30 June 2009 | 16,520,000 | |
| Options exercisable at 30 June 2008 | 14,940,000 | |

The weighted average remaining contractual life of options outstanding at year-end was 1.88. The weighted average exercise price of outstanding options at reporting date was 18.5c

The fair value of the options granted to employees is deemed to represent the value of the employees services received over the vesting period.

The weighted average fair value of options granted during the year was 2.39c. These values were calculated using the Black-Scholes option pricing module applying the following inputs:

| | |
|---|---|
| Weighted average exercise price | 15.5c |
| Weighted average live of the option | 3.46 years |
| Underlying share price | 20c |
| Expected share price volatility | 35% |
| Risk free interest rate | 5.75% |

Historically volatility has been the basis for determining expected share price volatility as it assumed that this is indicative of future movements. The life of the options is based on the historical exercise patterns which may not eventuate in the future.

(v) No shares were granted to key management personnel during the year (2008: 100,000).

Included under employee benefits expense in the income statement was $26,000 in 2008 which relates to equity settled share based payment transactions.

## 16 Trade and Other Payables

| | Consolidated Group | | Parent Entity | |
|---|---|---|---|---|
| | 2009 $ | 2008 $ | 2009 $ | 2008 $ |
| **Current** | | | | |
| Trade payable | 1,798,660 | 2,489,323 | 175,885 | 161,585 |
| Vendor payable | - | 1,589,752 | - | - |
| Deferred revenue | 4,001,418 | 4,555,979 | 38,471 | 185,192 |
| Other payable | 349,923 | 304,758 | 62,991 | (30,487) |
| | **6,150,000** | **8,939,812** | **277,347** | **316,290** |
| **Non-current** | | | | |
| Payables to wholly owned subsidiaries | - | - | 1,982,330 | 3,154,253 |
| | **-** | **-** | **1,982,330** | **3,154,253** |
| | **6,150,000** | **8,939,812** | **2,259,677** | **3,470,543** |

Trade payables are non-interest bearing and are normally settled on 30-day terms.

The Sydney offices are rented from Isalux Pty Limited, a related party. The rental paid to Isalux is at normal market related prices and on arm's length commercial terms

### (a) Fair value

Due to the short-term nature of these payables, their carrying value is assumed to approximate their fair value.

### (b) Financial guarantees

The Group has guaranteed the National Australia Bank bank facility, which commits the individual companies within the Group to make payments on behalf of the other entities in the Group upon the failure by any such entity to perform under the terms of the relevant facility agreement.

### (c) Related party payables

For terms and conditions relating to related party payables refer to note 25.

### (d) Interest rate, foreign exchange and liquidity risk

Information regarding interest rate, foreign exchange and liquidity risk exposure is set out in note 22.

## 17 Financial Liabilities

| | Consolidated Group | | Parent Entity | |
|---|---|---|---|---|
| | 2009 $ | 2008 $ | 2009 $ | 2008 $ |
| **Current** | | | | |
| Vendor loan | - | 3,209,645 | - | |
| Bank loan | 2,247,974 | 5,143,917 | 2,247,974 | 4,516,436 |
| Derivative financial liability | 539,706 | - | 539,706 | - |
| | **2,787,680** | **8,353,562** | **2,787,680** | **4,516,436** |
| **Non-current** | | | | |
| Bank loan | 11,036,711 | 13,873,817 | 10,378,889 | 13,213,247 |
| | **11,036,711** | **13,873,817** | **10,378,889** | **13,213,247** |
| **TOTAL FINANCIAL LIABILITIES** | **13,824,391** | **22,227,379** | **13,166,569** | **17,729,683** |

### Bank loan

The bank loan is secured by a charge over the assets of the group, held by National Australia Bank.

Interest is charged at both fixed and variable rates.

The bank loan facilities above include:

- Tranche A Facility with a limit of $8,632,039 which is a 3-year amortising non-revolving cash advance facility. This facility is made up of:- 1) a Market Rate Facility with a limit at balance date of $1,465,287 made available 3Q Holdings Limited which bears interest at a variable rate of 3.198 % at balance date with a margin of 1.75% (4.948%), and interest fixed at a rate of 7.88% plus a margin of 1.75% (9.63%). At balance date $1,465,286 of this amount was drawn down. 2) a Foreign Currency Loan with a limit at balance date of AUD$ 657,822 (US$535,642) made available to Island Pacific Systems Inc which bears interest at a variable rate of 2.7 % at balance date with a margin of 1.75% (4.45%). At balance date US$535,642 of this amount was drawn down. 3) a Foreign Currency Loan with a limit at balance date of AUD$6,508,930 (US$5,300,000) made available to 3Q Holdings Limited which bears interest at a variable rate of 2.7 % at balance date with a margin of 1.75% (4.45%). At balance date US$5,300,000 of this amount was drawn down.

- Tranche B Facility of $4,418,393 which is a 3-year bullet non-revolving cash advance facility. The facility bears interest at a variable rate of 7.70 % at balance date with a margin of 2% (9.70%), and interest fixed at a rate of 7.88% plus a margin of 2% (9.88%). At balance date $4,418,393 was drawn down.

- At balance date, AUD$5,600,000 and US$5,300,000 has been fixed and the balance is variable.

- A revolving overdraft facility made available to 3Q Holdings Limited with a limit of $750,000. The facility terminates on 31 December 2009. This facility bears interest at the aggregate of the Overdraft Reference Rate plus a liquidity margin.

- The bank loan facilities are for the primary purpose of funding the acquisition of AdvanceRetail Technology and Island Pacific.

**Financing facilities available**

As at balance date, the following financing facilities had been negotiated and were available:

| | Consolidated Group | | Parent Entity | |
|---|---|---|---|---|
| | 2009 $ | 2008 $ | 2009 $ | 2008 $ |
| Total facilities- bank loan | 13,800,431 | 19,500,000 | 13,142,609 | 18,064,854 |
| Facilities used at reporting date-bank loans | 13,284,685 | 19,017,734 | 12,626,863 | 17,729,683 |
| Facilities unused at reporting date-bank loans | 515,746 | 482,266 | 515,746 | 335,171 |

Details of these bank loan facilities are set out above. The facilities were available to both the parent and its subsidiaries jointly and severally.

**(a) Fair values**

The carrying amount of the Group's current and non-current borrowings approximate their fair value.

**(b) Interest rate, foreign exchange and liquidity risk**

Details regarding interest rate, foreign exchange and liquidity risk is disclosed in note 19.

**(c) Assets pledged as security**

The carrying amounts of assets pledged as security for current and non-current interest bearing liabilities are:

| | Note | Consolidated Group | | Parent | |
|---|---|---|---|---|---|
| | | 2009 $ | 2008 $ | 2009 $ | 2008 $ |
| **Current** | | | | | |
| Cash and cash equivalents | 7 | 579,929 | 6,267,050 | 2,555 | 2,711,529 |
| Trade and other receivables | 8 | 4,673,290 | 7,714,075 | 671,771 | 614,067 |
| Other Assets | 9 | 374,451 | 382,762 | 138,565 | 220,952 |
| Inventories | 10 | 179,472 | 169,973 | - | - |
| | | **5,807,142** | **14,533,860** | **812,892** | **3,546,548** |
| **Non-current** | | | | | |
| Property, plant and equipment | 12 | 521,155 | 466,090 | 11,682 | 12,386 |
| Intangible assets | 13 | 27,589,476 | 26,780,127 | 7,789,995 | 8,532,762 |
| Financial assets | 11 | - | - | 23,846,445 | 24,426,103 |
| Trade and other receivables | 8 | - | - | 8,875,841 | 12,298,032 |
| Deferred tax assets | 19 | 3,278,139 | 1,644,789 | 2,043,359 | 1,127,690 |
| **Total Non-current Assets** | | **31,388,769** | **28,891,006** | **42,567,323** | **46,396,973** |
| **TOTAL ASSETS** | | **37,195,912** | **43,424,866** | **43,380,215** | **49,943,521** |

The National Australia Bank have a fixed and floating charge over all the assets of the Group.

### (d) Defaults and breaches

At the balance date there were no breaches or defaults with National Australia Bank.

## 18 Provisions

| | Consolidated Group | | Parent Entity | |
|---|---|---|---|---|
| | 2009 $ | 2008 $ | 2009 $ | 2008 $ |
| Current - Provision for annual leave | 741,310 | 380,026 | 15,328 | 6,354 |
| Non-current - Provision of long service leave | 132,360 | 86,804 | 14,504 | 5,550 |
| | **873,670** | **466,830** | **29,832** | **11,904** |
| **Movement in provision** | | | | |
| Balance of the beginning of the year | 466,830 | 358,736 | 11,904 | 23,057 |
| Amounts provided | 860,998 | 526,538 | 23,064 | 34,310 |
| Leave taken | (465,050) | (400,889) | (5,136) | (45,463) |
| Translation differences | 10,892 | (17,555) | - | - |
| **Balance at the end of year** | 873,670 | 466,830 | 29,832 | 11,904 |

## 19 Tax

| | Consolidated Group | | Parent Entity | |
|---|---|---|---|---|
| | 2009 $ | 2008 $ | 2009 $ | 2008 $ |
| **CURRENT** | | | | |
| **Income Tax Payable** | **812,052** | **648,120** | **250,530** | **191,816** |

**NON-CURRENT**

| | Opening Balance | Charged to Income | Charged Directly to Equity | Changes in Tax Rate | Exchange Differences | Closing Balance |
|---|---|---|---|---|---|---|
| | $ | $ | $ | $ | $ | $ |
| **Consolidated Group** | | | | | | |
| **Deferred Tax Liability** | | | | | | |
| Property, Plant and Equipment, Intangibles | | | | | | |
| tax allowance | 1,432 | 97,418 | - | - | (5,346) | 93,504 |
| Capitalisation development costs | - | 137,961 | - | - | (7,344) | 130,617 |
| **Balance at June 2008** | **1,432** | **235,379** | **-** | **-** | **(12,690)** | **224,121** |
| Property Plant and Equipment, Intangibles | | | | | | |
| tax allowance | 93,504 | 1,235,435 | - | - | 91,414 | 1,420,353 |
| Capitalisation development costs | 130,617 | 354,770 | - | - | 45,541 | 530,929 |
| **Balance at June 2009** | **224,121** | **1,590,205** | **-** | **-** | **136,955** | **1,951,282** |

| | Opening Balance | Charged to Income | Charged Directly to Equity | Changes in Tax Rate | Exchange Differences | Closing Balance |
|---|---|---|---|---|---|---|
| **Deferred Tax Assets** | | | | | | |
| Provisions | 112,113 | 67,730 | - | - | (3,271) | 176,572 |
| Unrealised foreign exchange loss | - | (232,255) | - | - | (10,617) | (242,872) |
| tax allowance | 130,900 | 173,680 | - | - | - | 304,580 |
| Recognition of tax losses | 1,007,233 | 381,724 | - | - | (18,825) | 1,370,132 |
| Other | 4,281 | 40,183 | - | - | (8,087) | 36,377 |
| **Balance at 30 June 2008** | **1,254,526** | **431,062** | **-** | **-** | **(40,800)** | **1,644,788** |
| | | | | | | |
| Provisions | 176,572 | 301,048 | - | - | 3,742 | 481,362 |
| Transaction costs on equity issue | - | 79,501 | - | - | - | 79,501 |
| Unrealised foreign exchange gain | (242,872) | 75,405 | 365,007 | - | 11,307 | 208,847 |
| tax allowance | 304,580 | 72,751 | - | - | 93 | 377,424 |
| Recognition of tax losses | 1,370,132 | 721,501 | - | - | (90,783) | 2,000,850 |
| Other | 36,377 | 227,451 | - | - | (133,672) | 130,155 |
| **Balance at 30 June 2009** | **1,644,789** | **1,477,657** | **365,007** | **-** | **(209,313)** | **3,278,139** |

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

- tax losses: operating losses $3,446,395 (2008: $3,671,395)

| | Opening Balance | Charged to Income | Charged Directly to Equity | Changes in Tax Rate | Exchange Differences | Closing Balance |
|---|---|---|---|---|---|---|
| | $ | $ | $ | $ | $ | $ |
| **Parent Entity** | | | | | | |
| **Deferred Tax Assets** | | | | | | |
| Provisions | 6,917 | (3,346) | - | - | - | 3,571 |
| Unrealised foreign exchange gain | - | (66,411) | - | - | - | (66,411) |
| Property, Plant and Equipment, Intangibles | - | 183,297 | - | - | - | 183,297 |
| Recognition of tax losses | 1,007,233 | - | - | - | - | 1,007,233 |
| **Balance at 30 June 2008** | **1,014,150** | **113,540** | **-** | **-** | **-** | **1,127,690** |
| | | | | | | |
| Provisions | 3,571 | 182,290 | - | - | - | 185,861 |
| Transaction costs on equity issue | - | 79,501 | - | - | - | 79,501 |
| Unrealised foreign exchange gain | (66,411) | 344,931 | - | - | - | 278,520 |
| tax allowance | 183,297 | 83,947 | - | - | - | 267,244 |
| Recognition of tax losses | 1,007,233 | 225,000 | - | - | - | 1,232,233 |
| **Balance at 30 June 2009** | **1,127,690** | **915,669** | **-** | **-** | **-** | **2,043,359** |

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

- tax losses: operating losses $3,446,395 (2008: $3,671,395)

## 20 Issued Capital

| | Consolidated Group | | Parent Entity | |
|---|---|---|---|---|
| | Number | $ | Number | $ |
| **2009** | | | | |
| (a) Ordinary shares | | | | |
| Fully paid | 147,076,542 | 6,985,237 | 147,076,542 | 45,468,939 |
| Partially paid | - | - | - | - |
| | **147,076,542** | **6,985,237** | **147,076,542** | **45,468,939** |
| (b) Movements in ordinary share on issue | | | | |
| Balance at the beginning of the year | 147,501,797 | 7,059,243 | 147,501,797 | 45,542,945 |
| Share buyback | (425,255) | (74,007) | (425,255) | (74,007) |
| **Balance at the end of the year** | **147,076,542** | **6,985,237** | **147,076,542** | **45,468,939** |
| **2008** | | | | |
| (a) Ordinary shares | | | | |
| Fully paid | 147,501,797 | 7,059,243 | 147,501,797 | 7,059,243 |
| Partially paid | - | - | - | - |
| | **147,501,797** | **7,059,243** | **147,501,797** | **7,059,243** |
| (b) Movements in ordinary share on issue | | | | |
| Balance at the beginning of the year | 147,345,460 | 7,019,719 | 147,345,460 | 45,503,421 |
| Shares issued to directors | 100,000 | 26,000 | 100,000 | 26,000 |
| Shares issued as part of rights issue | 56,337 | 13,524 | 56,337 | 13,524 |
| **Balance at the end of the year** | **147,501,797** | **7,059,243** | **147,501,797** | **45,542,945** |

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

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

### Capital management

When managing capital, management's objective is to ensure the entity continues as a going concern as well as to maintain optimal returns to shareholders and benefits for other stakeholders. Management also aims to maintain a capital structure that ensures a balanced cost of capital available to the entity.

No dividends were paid during the year.

One method that Management monitors capital, is through the gearing ratio (net debt / total capital). The gearing ratio at balance date has been substantially reduced from the prior year due to the large amounts repaid to National Australia Bank during the current year and also the settlement of the Retail Pro Vendor loan. Management intend to continually reduce this ratio by repaying part of its debt using internally generated funds.

The gearing ratios based on operations at 30 June 2009 and 2008 were as follows:

| | Consolidated Group | | Parent | |
|---|---|---|---|---|
| | 2009 $ | 2008 $ | 2009 $ | 2008 $ |
| Interest bearing on loans & borrowings | 13,284,685 | 22,227,379 | 12,626,863 | 17,729,683 |
| Cash & equivalent | (579,929) | (6,267,050) | (2,555) | (2,711,529) |
| **Net debt** | 12,704,756 | 15,960,329 | 12,624,308 | 15,018,154 |
| Total equity | 13,584,518 | 10,918,604 | 27,673,606 | 28,539,575 |
| **Total capital employed** | 26,289,274 | 26,878,933 | 40,297,914 | 43,557,729 |
| **Gearing (%)** | 48.33% | 59.38% | 31.33% | 34.48% |

## 21 Reserves

| | Consolidated Group | | Parent Entity | |
|---|---|---|---|---|
| | 2009 $ | 2008 $ | 2009 $ | 2008 $ |
| (a) Foreign currency translation reserve | | | | |
| Balance at the beginning of the year | (1,227,508) | (57,059) | - | - |
| Gain/(loss) on translation of overseas controlled entities | 957,802 | (1,170,449) | - | - |
| **Balance at the end of the year** | **(269,706)** | **(1,227,508)** | **-** | **-** |
| (b) Employee equity benefits reserve | | | | |
| Balance at the beginning of the year | 500,417 | 359,079 | 554,184 | 412,846 |
| Cancellation of options during the year | (164,800) | - | (164,800) | - |
| Options expenses during the year | 202,161 | 141,338 | 202,161 | 141,338 |
| **Balance at the end of the year** | **537,778** | **500,417** | **591,545** | **554,184** |
| **Total reserves** | **268,072** | **(727,091)** | **591,545** | **554,184** |

### Foreign Currency Translation Reserve

Exchange differences arising in translation of the Company's foreign subsidiaries are taken to the foreign currency translation reserve, as described in note 2(ii). The reserve is recognised in profit and loss at such time as the Company disposes of its net investment.

### Options reserve

The options reserve records items recognised as expenses on valuation of options over their respective vesting periods.

## 22 Financial Risk Management Objectives and Policies

The Group's principal financial instruments comprise receivables, payables, bank loans, cash and short-term deposits and derivatives.

The Group manages its exposure to key financial risks, including interest rate and currency risk in accordance with the Group's financial risk management policy. The objective of the policy is to support the delivery of the Group's financial targets whilst protecting future financial security.

The Group enters into derivative transactions, principally interest rate swaps and forward currency contracts (to a limited extent).The purpose is to manage the interest rate and currency risks arising from

the Group's operations and its sources of finance. These derivatives provide economic hedges, but do not qualify for hedge accounting. The main risks arising from the Group's financial instruments are interest rate risk and foreign currency risk. The Group restructured its debt in the current year by converting part of the debt repayable in Australian dollars, into debt repayable in US dollars. The reasons for doing this were to hedge against currency risks from its US earnings. The Group uses different methods to measure and manage different types of risks to which it is exposed. These include monitoring levels of exposure to interest rate and foreign exchange risk and assessments of market forecasts for interest rate and foreign exchange. Ageing analyses and monitoring of specific credit allowances are undertaken to manage credit risk, liquidity risk is monitored through the development of future rolling cash flow forecasts.

The Board reviews the risks identified below, including the setting of limits for trading in derivatives, hedging cover of foreign currency and interest rate risk, credit allowances, and future cash flow forecast projections.

## Risk Exposures and Responses

### Interest rate risk

The Group's exposure to market interest rates relates primarily to the Group's debt obligations. The level of debt is disclosed in note 17.

At balance date, the Group had the following mix of financial assets and liabilities exposed to Australian, USA, UK and New Zealand Variable interest rate risk that are not designated in cash flow hedges:

| | Consolidated Group | | Parent Entity | |
|---|---|---|---|---|
| | 2009<br>$ | 2008<br>$ | 2009<br>$ | 2008<br>$ |
| **Financial assets** | | | | |
| Cash and equivalents | 579,929 | 1,740,102 | 2,555 | 636,550 |
| | **579,929** | **1,740,102** | **2,555** | **636,550** |
| **Financial liabilities** | | | | |
| Bank overdrafts | 234,354 | - | 234,354 | - |
| Bank loans | 1,481,207 | 8,517,733 | 823,385 | 7,229,682 |
| Vendor loan | - | 3,209,646 | - | - |
| | **1,715,461** | **11,727,379** | **1,057,639** | **7,229,682** |
| **Net exposure** | **1,135,531** | **9,987,277** | **1,055,084** | **6,593,132** |

The Group's policy is to manage its finance costs using a mix of fixed and variable rate debt. The Group's policy is to maintain between 50% and 80% of its bank borrowings at fixed rates which are carried at amortised cost and it is acknowledged that fair value exposure is a by-product of the Group's attempt to manage its cash flow volatility arising from interest rate changes. To manage this mix in a cost-efficient manner, the Group enters into interest rate swaps, in which the Group agrees to exchange, at specified intervals, the difference between fixed and variable rate interest amounts calculated by reference to an agreed-upon notional principal amount. These swaps are designated to hedge underlying debt obligations. At 30 June 2009, after taking into account the effect of interest rate swaps, approximately 80% of the Group's bank borrowings are at a fixed rate of interest (2008: 55%).

During the year the Group restructured its interest rate swaps (together with the restructure of its debt), and approximately 80% of the Group's bank borrowings are now at a fixed rate of interest.

The Group constantly analyses its interest rate exposure. Within this analysis consideration is given to potential renewals of existing positions, alternative financing, alternative hedging positions and the mix of fixed and variable interest rates.

The following sensitivity analysis is based on the interest rate risk exposures in existence at the balance sheet date:

At 30 June 2009, if interest rates had moved, as illustrated in the table below, with all other variables held constant, post tax profit and equity would have been affected as follows:

| Judgments of reasonably possible movements | Consolidated Group | | Parent | |
|---|---|---|---|---|
| | 2009 $ | 2008 $ | 2009 $ | 2008 $ |
| **Post tax profit** | | | | |
| + 1% (100 basis points) | (8,071) | (65,916) | (5,690) | (65,916) |
| - 0.5% (50 basis points) | 4,036 | 32,958 | 2,845 | 32,958 |
| **Equity** | | | | |
| + 1% (100 basis points) | (8,071) | (65,916) | (5,690) | (65,916) |
| - 0.5% (50 basis points) | 4,036 | 32,958 | 2,845 | 32,958 |

The movements in profit are due to higher/lower interest rates from variable rate debt and cash balances that earn interest which is not fixed.

### Foreign currency risk

As a result of significant operations in the United States, United Kingdom and New Zealand following the acquisition of Island Pacific in December 2007 and AdvanceRetail in March 2007, the Group's balance sheet can be affected significantly by movements in the US$/A$,GBP/A$ and NZ$/A$ exchange rates. The Group has mitigated the effect of its foreign currency exposure by increasing its borrowing in US Dollars in July 2008. The reason only US Dollar debt has been increased and not other currencies is because the Board believe the US Dollar is the most volatile of currencies to the AUD Dollar, in comparison to the GBP and NZ Dollar.

The Group also has transactional currency exposures. Such exposure arises from sales or purchases by an operating entity in currencies other than the functional currency.

The Group has no forward currency contracts at balance date.

The following sensitivity analysis is based on the exchange rate exposures in existence at the balance sheet date:

At 30 June 2009, if the US$/A$, GBP/A$ and NZ$/A$ had moved, as illustrated in the table below, with all other variables held constant, post tax profit and equity would have been affected as follows:

| | Consolidated Group | | Parent Entity | |
|---|---|---|---|---|
| | 2009 $ | 2008 $ | 2009 $ | 2008 $ |
| Net Profit after tax | 2,819,357 | (109,766) | (1,443,064) | - |
| **Net Profit after tax subject to exposure** | **2,819,357** | **(109,766)** | **(1,443,064)** | **-** |
| **Equity** | | | | |
| Assets | 24,685,212 | 27,208,277 | - | - |
| | 24,685,212 | 27,208,277 | - | - |

| | Consolidated Group | | Parent Entity | |
|---|---|---|---|---|
| | 2009 $ | 2008 $ | 2009 $ | 2008 $ |
| Liability | | | | |
| Bank loans | 7,166,752 | 1,288,051 | 6,508,930 | - |
| Vendor loans | - | 3,209,646 | - | - |
| Others | 21,110,283 | 22,476,967 | - | - |
| | 28,277,035 | 26,974,664 | 6,508,930 | - |
| **Equity to exposure** | **(3,591,822)** | **(12,108,930)** | **6,508,930)** | **-** |
| | | | | |
| **Post tax profit** | | | | |
| - 5% movement | 104,428 | 7,957 | (44,306) | - |
| - 1% movement | 20,886 | 1,591 | (8,861) | - |
| + 1% movement | (20,886) | (1,591) | 8,861 | - |
| + 5% movement | (104,428) | (7,957) | 44,306 | - |
| | | | | |
| **Equity** | | | | |
| - 5% movement | (179,591) | 11,681 | (325,447) | - |
| - 1% movement | (35,918) | 2,336 | (65,089) | - |
| + 1% movement | 35,918 | (2,336) | 65,089 | - |
| + 5% movement | 179,591 | (11,681) | 325,447 | - |

The Group has a US$ borrowing of $5,835,462 (2008: $1,231,462) that is used as a hedge of the net investment in the US operation.

At 30 June 2009, the Group hedged none of its foreign currency purchases that are firm commitments.

### Price risk

The Group's exposure to commodity price risk is minimal.

### Credit risk

Credit risk arises from the financial assets of the Group, which comprise cash and cash equivalents, trade and other receivables, available-for-sale financial assets and derivative instruments. The Group's exposure to credit risk arises from potential default of the counter party, with a maximum exposure equal to the carrying amount of these instruments. Exposure at balance date is addressed in each applicable note.

The Group does not hold any credit derivatives to offset its credit exposure.

The Group trades only with recognised, creditworthy third parties, and as such collateral is not requested nor is it the Group's policy to securitise its trade and other receivables. In addition, the Group has the ability to “withhold support” to its customers should it be difficult to receive payment from them. In addition, receivable balances are monitored on an ongoing basis with the result that the Group's exposure to bad debts is not significant.

### Liquidity risk

The Group's objective is to maintain a balance between continuity of funding and flexibility through the use of bank loans.

The table below reflects all contractually fixed pay-offs for settlement, repayments and interest resulting from recognised financial liabilities as of 30 June 2009. Cash flows for liabilities without fixed amount or timing are based on the conditions existing at 30 June 2009.

The remaining contractual maturities of the Group's and parent entity's financial liabilities are:

| | Consolidated Group | | Parent Entity | |
|---|---|---|---|---|
| | 2009<br>$ | 2008<br>$ | 2009<br>$ | 2008<br>$ |
| 6 months or less | 7,363,571 | 14,957,359 | 754,058 | 4,561,558 |
| 6-12 months | 1,574,108 | 2,336,015 | 837,248 | 321,989 |
| 1-5 years | 11,036,711 | 13,873,817 | 11,852,609 | 13,213,246 |
| Over 5years | - | - | 1,982,330 | 3,103,433 |
| | **19,974,391** | **31,167,191** | **15,426,246** | **21,200,226** |

### Maturity analysis of financial liabilities based on management's expectation

The risk implied from the values shown in the table below, reflects a balanced view of cash outflows.

| | Consolidated Group | | Parent Entity | |
|---|---|---|---|---|
| | 2009<br>$ | 2008<br>$ | 2009<br>$ | 2008<br>$ |
| **Trade & other payable** | | | | |
| < 6 months | 6,122,458 | 8,860,817 | 249,804 | 315,121 |
| 6 - 12 months | 27,542 | 78,995 | 27,542 | 51,989 |
| 1-5 years | - | - | - | - |
| Over 5years | - | - | 1,982,330 | 3,103,433 |
| | **6,150,000** | **8,939,812** | **2,259,677** | **3,470,543** |
| **Interest bearing loans & borrowings** | | | | |
| < 6 months | 1,241,114 | 6,096,542 | 504,254 | 4,246,437 |
| 6 - 12 months | 1,546,566 | 2,257,020 | 809,706 | 270,000 |
| 1-5 years | 11,036,711 | 13,873,817 | 11,852,609 | 13,213,246 |
| Over 5years | - | - | - | - |
| | **13,824,391** | **22,227,379** | **13,166,569** | **17,729,683** |
| | **19,974,391** | **31,167,191** | **15,426,246** | **21,200,226** |

The Group monitors its forecasts of liquidity reserves on the basis of expected cash flow.

### Fair value

The methods for estimating fair value are outlined in the relevant notes to the financial statements.

## 23 Business Combinations

### Acquisition of Island Pacific Inc in the prior year

On 21 December 2007, Applied Retail Solutions Inc and Island Pacific (UK) Limited, wholly owned subsidiaries of 3Q Holdings Limited, acquired the assets and business of a division of Island Pacific Inc. Island Pacific Inc .is a provider of software solutions and services to the retail industry.

In connection with the business combination, 3Q Holdings Limited and its wholly owned subsidiaries paid $19,451,505.

The acquired business contributed revenues of $7,599,859 and a net income of $547,928 for the period 22 December 2007 to 30 June 2008.

The consolidated net profit and consolidated revenues that would have resulted had the acquisition been made on 1 July 2007 have not been disclosed as their estimation is unreliable due to the previous structure of the business.

Details of the fair values of identifiable assets and liabilities as at the date of acquisition and the goodwill acquired are as follows:

| | $ |
|---|---|
| Cash at bank | 2,000,000 |
| Accounts Receivable | 3,956,484 |
| Property Plant and Equipments | 135,806 |
| Existing Technology | 3,465,404 |
| Customer Relationships | 7,392,861 |
| Trade Name | 693,081 |
| Payables and Accruals | (6,027,794) |
| **Total Fair Value of net assets** | **11,615,842** |
| Goodwill arising on acquisition | 7,516,867 |
| **Total** | **19,132,709** |

Intangible assets acquired excluding goodwill, will be amortised over their expected useful lives ranging from 8-15 years.

| Purchase consideration: | $ |
|---|---|
| Cash consideration | 18,357,741 |
| Cost of Acquisition | 774,968 |
| **Total Consideration** | **19,132,709** |

# 24 Commitments and Contingencies

## Commitments

### Operating Leases – consolidated

The group entered into the operating lease agreements set out below, with the following commitments for minimum lease payments (not capitalised in the financial statements).

| | Consolidated Group | | Parent Entity | |
|---|---|---|---|---|
| | 2009<br>$ | 2008<br>$ | 2009<br>$ | 2008<br>$ |
| Within one year | 608,350 | 288,331 | - | - |
| After one year, but not more than five year | 1,619,536 | 677,790 | - | - |
| | **2,227,886** | **966,121** | **-** | **-** |

(i) A commercial property lease for use of its Sydney head office. The lease is a three-year lease and expires on 16 September 2010. There is no option to renew. The lease includes a clause to enable upward revision of the rental charge on an annual basis at 4%.

(ii) A commercial property lease for use of its Auckland offices. The lease is a six-year lease and expires on 2 April 2013. There is an option to renew for a further three years. The lease includes a clause to enable upward revision of the rental charge on two occasions within the lease term and also on the renewal date if the lease is renewed, according to the prevailing consumer price index.

(iii) A commercial property lease for use of its USA Irvine office. The lease is a 63 month lease and expires on 31 October 2014. There is an option to renew for 5 years. The lease includes a clause to enable upward revision of the rental charge at 3% per annum.

(iv) A commercial property lease for use of its USA San Diego office. The lease is a three-year lease and expires on 30 April 2010. There is no option to renew. The lease includes a clause to enable upward revision of the rental charge at 4% per annum.

(v) A commercial property lease for use of its UK office. The lease is a two-year lease and expires on 31 May 2010. There is no option to renew. The lease is for furnished offices and includes a minimum monthly lease charge based on 6 workstations.

(vi) A lease for a photocopier in New Zealand. The lease is a four-year lease and expires on 30 June 2013.

## Parent

There are no commitments for the parent company at balance date.

## Contingencies – consolidated

There are no contingencies for the Group or parent company at balance date.

## 25 Related party disclosure

The following table provides the total amount of transactions that were entered into with related parties for the relevant financial year (for information regarding outstanding balances at year-end, refer to note 8 and note 16):

| Consolidated | | 2009 $ | 2008 $ |
|---|---|---|---|
| Sales financed by Related Parties excluding GST | Note 1 | - | - |
| Rent paid to Related Parties excluding GST | Note 2 | - | 94,000 |
| Compensation of David Rosen | Note 2 | - | 185,875 |
| Amounts owed by Related Parties for financed sales | Note 1 | 106,481 | 118,481 |
| Amounts owed to Related Parties for rent | Note 2 | (14,300) | (14,300) |
| Compensation of McGeachen Bell and Associates (Mark McGeachen) | Note 5 | - | 111,996 |
| Compensation of McGeachen Bell and Associates (Andrew Bell) | Note 6 | - | 111,996 |
| Loan to Related Party –Isalux | Note 7 | - | 75,044 |
| Compensation of High Expectations Pty Ltd (Stephe Wilks) | Note 8 | - | 47,500 |

### Note 1 - Sales financed by related parties

Sales to certain customers of QQQ Systems Pty Limited are financed by Isalux Pty Limited, a related party of the Group. Isalux Pty Ltd is 100% owned by Shaun Rosen, Clive Klugman and David Rosen (through their personally-related entities), who are also Directors of Isalux. Isalux repays QQQ on a monthly basis.

### Note 2 - Rent paid to related parties

The Sydney offices are rented from Isalux Pty Limited, a related party. The rental paid to Isalux is at normal market related prices and on arm's length commercial terms.

### Note 3 - Distributor

Under an agreement with Pyramid Merchandising Software (Pty) Limited, QQQ Systems Pty Limited was appointed the worldwide master distributor in all territories outside Africa of PMS's merchandising software product know as "IP Planning". David Rosen, who has a 50% interest in Elabrook Pty Limited, one of the vendors of QQQ Systems Pty Limited, and who is a Director of Island Pacific Systems Inc, is an owner of 25% of the issued capital of PMS.

### Note 4 - Director of Related Party

As disclosed as part of the distributor note above, David Rosen has a 50% interest in Elabrook Pty Limited, one of the vendors of QQQ Systems Pty Limited, and is a Director of Island Pacific Systems Inc, a related party. By virtue of his directorship in Island Pacific Systems Inc., a related party, David is a related party himself. David receives remuneration as a Director of Island Pacific Systems Inc, which is disclosed above as a related party transaction.

### Note 5 – Company controlled by Director - McGeachen Bell Associates Limited

Mark McGeachen, a Director of 3Q Holdings Limited, has a 50% interest in McGeachen Bell Associates Limited. Mark McGeachen provides all the administrative and management services required for AdvanceRetail Technology to operate efficiently on a day-to-day basis, including the normal day-to-day management of the Company, through McGeachen Bell Associates Limited.

Mark, being a Director of 3Q Holdings Limited, is a related party. By virtue of his controlling interest in McGeachen Bell Associates Limited, this makes McGeachen Bell Associates Limited a related party as well. McGeachen Bell Associates Limited receives remuneration from AdvanceRetail Technology for Mark's services, which is disclosed above as a related party transaction.

**Note 6 – Company controlled by Key Management Personnel - McGeachen Bell Associates Limited**

Andrew Bell, a Key Management Personnel of AdvanceRetail Technology, has a 50% interest in McGeachen Bell Associates Limited. Andrew Bell provides all the technical services required for AdvanceRetail Technology to operate efficiently on a day-to-day basis, including the normal day-to-day management of all the technical aspects of the Company, through McGeachen Bell Associates Limited.

Andrew, being a Key Management Personnel of AdvanceRetail Technology, is a related party. By virtue of his controlling interest in McGeachen Bell Associates Limited, this makes McGeachen Bell Associates Limited a related party as well. McGeachen Bell Associates Limited receives remuneration from AdvanceRetail Technology for Andrew's services, which is disclosed above as a related party transaction.
Notes to the Financial Statements continued

**Note 7 – Loan to related party – Isalux Pty Limited**

During the prior year the Group made certain loans to Isalux Pty Limited.

**Note 8 – Company controlled by Director - High Expectations Pty Limited**

Stephe Wilks, a Director of 3Q Holdings Limited, has a 40% interest in High Expectations Pty Limited. Stephe is paid his Director's fees through High Expectations Pty Ltd.

Stephe, being a Director of 3Q Holdings Limited, is a related party. By virtue of his controlling interest in High Expectations Pty Ltd, this makes High Expectations Pty Ltd a related party as well. The Director's fees paid to Stephe are disclosed above as a related party transaction.

**Note 9 - Other Transactions**

From time to time, Specified Directors and Executives of the Company may purchase goods from the Company. These purchases are on favourable terms and are trivial in nature.

## 26 Events after balance sheet date

There were no material events after the balance sheet date.

## 27 Auditors' Remuneration

The auditor of 3Q Holdings Limited is PKF.

| | Consolidated Group | | Parent Entity | |
|---|---|---|---|---|
| | 2009 $ | 2008 $ | 2009 $ | 2008 $ |
| Amounts received, or due and receivable by PKF for: | | | | |
| ▪ Audit or review of financial reports of the entity | 182,501 | 128,932 | 182,501 | 128,932 |
| ▪ Other non-auditor services in relation to the entity | 1,433 | 15,248 | 1,433 | 15,248 |
| Remuneration of other auditors of subsidiaries for: | | | | |
| ▪ Audit or review of financial reports of the entity | 160,243 | 61,999 | - | - |
| ▪ Other non-auditor services in relation to the entity | 183,876 | 71,647 | 18,095 | 64,201 |
| | **528,053** | **277,826** | **202,029** | **208,381** |

## 28 Segment Information

Management has determined the operating segments based on the reports reviewed by the Board of Directors that are used to make strategic decisions. The Board of Directors considers the business from a product perspective and has identified 4 reportable segments. These operating segments are essentially based on reports reviewed by the Board of Directors' which are used to make strategic decisions. The operating segments identified comprise of individual businesses acquired by 3Q. All segments operate in the Retail technology industry providing IT services. The 3Q business is not considered to be a reportable segment.

| | QQQ | | ARS | | IP (UK&US) | | AdvanceRetail | | Total | |
|---|---|---|---|---|---|---|---|---|---|---|
| | **2009** | **2008** | **2009** | **2008** | **2009** | **2008** | **2009** | **2008** | **2009** | **2008** |
| Revenue from external customers | 4,975,374 | 5,197,816 | 1,546,115 | 1,411,479 | 14,284,306 | 7,599,859 | 4,033,111 | 4,214,661 | 24,838,905 | 18,423,816 |
| Inter-segment revenue | 653 | - | - | - | 1,362,439 | 626,671 | 392,172 | 628,391 | 1,755,264 | 1,255,062 |
| Interest revenue | 3,522 | 59,555 | 283 | 5,111 | 85,237 | 83,271 | 8,950 | 7,177 | 97,992 | 155,115 |
| **Total segment revenue** | 4,979,548 | 5,257,372 | 1,546,398 | 1,416,591 | 15,731,982 | 8,309,801 | 4,434,232 | 4,850,230 | 26,692,160 | 19,833,994 |
| **Adjusted EBITDA** | **939,043** | **1,060,923** | **240,606** | **(133,785)** | **2,555,675** | **2,666,441** | **625,196** | **143,856** | **4,360,520** | **3,737,435** |
| | | | | | | | | | - | - |
| Depreciation & amortisation | 68,773 | 66,320 | 28,175 | (25,060) | 966,040 | 424,249 | 286,627 | 296,375 | 1,349,615 | 761,884 |
| Income tax expenses | 323,572 | 247,474 | (15,193) | - | 1,580,495 | 388,600 | 34,703 | (256,826) | 1,923,577 | 379,247 |
| Interest expenses | - | - | - | - | 842,127 | 351,077 | 1,710 | 181,393 | 843,837 | 532,470 |
| | | | | | | | | | | - |
| **Total segment assets** | **4,059,249** | **3,664,009** | **803,404** | **622,553** | **20,997,586** | **23,412,321** | **6,982,304** | **8,342,673** | **32,842,543** | **36,041,556** |
| **Segment non-current assets, other than financial assets & deferred tax** | **525,901** | **187,402** | **19,207** | **28,206** | **14,548,499** | **13,270,172** | **5,981,138** | **3,594,660** | **21,074,745** | **17,080,440** |

### (a) Reconciliation of adjusted EBITDA to reported group EBITDA

The Board of Directors assesses the performance of the operating segments based on a measure of adjusted EBITDA. This measurement basis excludes the effects of non-recurring expenditure from the operating segments such as goodwill impairment when the impairment is the result of an isolated non-recurring event. Furthermore, the measure excludes the effects of equity-settled share-based payments and unrealised gains/losses on financial instruments.

| | Consolidation | |
|---|---|---|
| | 2009 | 2008 |
| | $ | $ |
| **Adjusted EBITDA** | **4,360,520** | **3,737,435** |
| 3Q's net revenue from external customers | 28,800 | 15,200 |
| 3Q's other sundry income | 278,475 | (3,118) |
| 3Q's operating expenses | (1,548,970) | (781,022) |
| Option expenses | (202,161) | (141,338) |
| Intersegment elimination | 2,394,442 | 1,478,656 |
| **Underlying EBITDA** | **5,311,106** | **4,305,814** |

### (b) Reconciliation of Revenue from external customer to reported group revenue

Sales between segments are carried out at arms length. The revenue from external parties reported to the Board of Directors is measured in a manner consistent with that in the income statement.

Revenues from external customers are derived from the sale of services, software, maintenance and hardware.

| | Consolidation | |
|---|---|---|
| | 2009 | 2008 |
| | $ | $ |
| **Revenue from external customers** | **24,838,905** | **18,423,816** |
| 3Q's revenue from external customers | 151,200 | 629,850 |
| Intersegment revenue | - | 1,498,596 |
| **Total group revenue** | **24,990,105** | **20,552,262** |

### (c) Reconciliation of segment assets to reported group assets

The amounts provided the Board of Directors with respect to the total assets are measured in a manner consistent with that of the financial statements. These assets are allocated based on the operations of the segment and the physical location of the asset.

| | Consolidation | |
|---|---|---|
| | 2009 | 2008 |
| | $ | $ |
| **Segment assets** | **32,842,543** | **36,041,556** |
| 3Q's assets | 39,282,133 | 44,723,932 |
| Intersegment elimination | (34,928,764) | (37,340,622) |
| **Total group assets** | **37,195,912** | **43,424,866** |

### (d) Reconciliation of segment non current assets to reported group non current assets

| | Consolidation | |
|---|---|---|
| | 2009 $ | 2008 $ |
| **Segment non-current assets, other than financial assets & deferred tax** | **21,074,745** | **17,080,440** |
| 3Q's non-current assets | 3,916,230 | 7,046,122 |
| Intersegment elimination | 3,119,656 | 3,119,656 |
| Unallocated: | | - |
| - Deferred tax assets | 3,278,139 | 1,644,789 |
| **Total group non current assets** | **31,388,769** | **28,891,006** |

## 29 Controlled Entities

The consolidated financial statements incorporate the assets, liabilities and results of the following subsidiaries in accordance with the accounting policy described in note 2 (i)

| Name of Entity | Country of Incorporation | Class of Shares | Equity Holding 2009 % | Equity Holding 2008 % |
|---|---|---|---|---|
| QQQ Systems Pty Limited | Australia | Ordinary | 100 | 100 |
| ARS Australia Pty Limited | Australia | Ordinary | 100 | 100 |
| Island Pacific Systems Inc | United States of America | Ordinary | 100 | 100 |
| AdvanceRetail Technology NZ Limited | New Zealand | Ordinary | 100 | 100 |
| Island Pacific (UK) Limited | United Kingdom | Ordinary | 100 | 100 |

The two subsidiaries incorporated in Australia have been granted relief from the necessity to prepare financial reports in accordance with Class Order 98/1418, issued by the Australian Securities and Investments Commission.

## 30 Derivative financial instruments

### (a) Instruments used by the Group

Derivative financial instruments are used by the Group in the normal course of business in order to hedge exposure to fluctuations in interest and foreign exchange rates.

### (i) Forward currency contracts - held for trading

The Group has not entered into any forward exchange contracts at the balance date.

### (ii) Interest rate swaps - cash flow hedges

The Groups Interest bearing loans at balance date bear an average variable interest rate of between 9.63% and 9.88% on Australian loans and 4.45% on US loans. In order to protect against rising interest rates the Group has entered into interest rate swap contracts under which it has a right to pay interest at fixed rates. Swaps in place over bank borrowings at 30 June 2009 cover approximately 80% (2008: 55%) of the principal outstanding and are timed to expire at the renewal dates of each loan. There are no swap contracts in place for all other interest bearing loans. The fixed interest rate at 30 June 2009 was 7.88% on Australian loans (excluding margin) and 4.04% on US loans (excluding margin).

**(iii) Hedge of net investments in foreign operations**

During the year the Group hedged the earnings of its US operations by converting Loans repayable in Australian dollars, into US dollars, amounting to US$5,600,000. These have been designated as a hedge of the net earnings in the US operations. It is being used to hedge the Group's exposure to changes in exchange rates on the value of its earnings in the US operations. Gains or losses on the translation of this borrowing will be transferred to Profit and loss.

In addition to the hedging benefits described above, the Group also saved a material amount on interest costs as a result of the US interest rates substantially less than the Australian interest rates.

**(b) Interest rate risk**

Information regarding interest rate risk exposure is set out in note 22.

## 31 Key Management Personnel Disclosures

**(a) Names and positions held of consolidated and parent entity key management personnel in office at any time during the financial year are:**

| Key Management Person | Position |
|---|---|
| Shaun Rosen | Chairman 3Q - Executive |
| Alan Treisman | Director 3Q and Chief Financial Officer - Executive |
| Clive Klugman | Director 3Q and CEO QQQ Systems Pty Limited - Executive |
| Mark McGeachen | Director 3Q and CEO AdvanceRetail - Executive |
| Stephe Wilks | Director 3Q – Non-Executive |
| David Rosen | Director and CEO of Island Pacific Systems Inc |
| Andrew Bell | Chief Technical Officer of AdvanceRetail |
| Richard Gaetano | Chief Operating Officer of Island Pacific USA |
| Mike Dotson | Chief Operating Officer of Island Pacific UK |

| | Consolidated Group | | Parent Entity | |
|---|---|---|---|---|
| | 2009 $ | 2008 $ | 2009 $ | 2008 $ |
| Short-term employee benefits | 2,054,287 | 1,282,741 | 821,516 | 510,200 |
| Post employment benefits | 235,485 | 150,785 | 12,385 | 103,585 |
| Other long-term benefits | - | - | - | - |
| Share-based payment | 25,152 | 47,480 | 25,152 | 47,480 |
| | **2,314,924** | **1,481,006** | **859,053** | **661,265** |

Key management personnel remuneration has been included in the Remuneration Report section of the Directors Report.

**(b) Option Holdings of Directors & Executives**

At the reporting period there were 4 million options over ordinary shares in the Company held by Directors or Executives.

The movement during the current financial year in the number of options over ordinary shares in the Company held directly, indirectly or beneficially, by each Specified Director or Executive, including their personally-related entities, is as follows:

| | | Opening balance | Granted | Exercised | Lapsed | Total |
|---|---|---|---|---|---|---|
| Shaun Rosen | 2008 | 1,000,000 | - | - | - | 1,000,000 |
| | 2009 | 1,000,000 | - | - | - | 1,000,000 |
| Clive Klugman | 2008 | 1,000,000 | - | - | - | 1,000,000 |
| | 2009 | 1,000,000 | - | - | - | 1,000,000 |
| Alan Treisman | 2008 | 1,000,000 | - | - | - | 1,000,000 |
| | 2009 | 1,000,000 | - | - | - | 1,000,000 |
| Stephe Wilks | 2008 | - | - | - | - | - |
| | 2009 | - | - | - | - | - |
| Mark McGeachen | 2008 | - | - | - | - | - |
| | 2009 | - | - | - | - | - |
| Andrew Bell | 2008 | - | - | - | - | - |
| | 2009 | - | - | - | - | - |
| David Rosen | 2008 | - | - | - | - | - |
| | 2009 | - | - | - | - | - |
| Richard Gaetano | 2008 | - | - | - | - | - |
| | 2009 | - | 500,000 | - | - | 500,000 |
| Mike Dotson | 2008 | - | - | - | - | - |
| | 2009 | - | 500,000 | - | - | 500,000 |

### (c) Shareholdings

The movement during the reporting period in the number of ordinary shares in the Company held directly, indirectly, beneficially or as relevant interest, by each Specified Director or Executive, including their personally-related entities, is as follows:

| | Held at 30 June 2008 | Received as compensation | Options exercised | Net change others* | Held at 30 June 2009 |
|---|---|---|---|---|---|
| Shaun Rosen | 57,500,000 | - | - | - | 57,500,000 |
| Clive Klugman | 57,500,000 | - | - | - | 57,500,000 |
| Alan Treisman | 100,000 | - | - | - | 100,000 |
| Stephe Wilks | 115,000 | - | - | - | 115,000 |
| Mark McGeachen | 9,389,500 | - | - | - | 9,389,500 |
| Andrew Bell | 9,389,500 | - | - | - | 9,389,500 |
| David Rosen | 57,500,000 | - | - | - | 57,500,000 |
| Richard Gaetano | - | - | - | - | - |
| Mike Dotson | - | - | - | - | - |
| | 191,494,000 | - | - | - | 191,494,000 |

* Net Change Other refers to shares purchased or sold during the financial year.

# Directors' Declaration

The directors of 3Q Holdings Limited declare that:

(a) in the directors' opinion the financial statements and notes on pages 21 to 71, and the remuneration disclosures that are contained in the Remuneration report in the Directors' report, set out on pages 11 to 14, are in accordance with the Corporations Act 2001, including:

  (i) giving a true and fair view of the company's and the consolidated entity's financial position as at 30 June 2008 and of their performance, for the financial year ended on that date; and

  (ii) complying with Australian Accounting Standards (including the Australian Accounting Interpretations) and Corporations Regulations 2001.

(b) the financial report also complies with International Financial Reporting Standards as disclosed in note 2; and

(c) the remuneration disclosures that are contained in the Remuneration report in the Directors' report comply with Australian Accounting Standard AASB 124 *Related Party Disclosures*, the Corporations Act 2001 and the Corporations Regulations 2001; and

(d) there are reasonable grounds to believe that the company will be able to pay its debts as and when they become due and payable.

The directors have been given the declarations by the chief executive officer and chief financial officer for the financial year ended 30 June 2008, required by Section 295A of the Corporations Act 2001.

Signed in accordance with a resolution of the directors.

Dated at Sydney, 31 August 2009.

.....
Director

# Independent Auditor's Report

PKF
Chartered Accountants
& Business Advisers



## INDEPENDENT AUDITOR'S REPORT

To the members of 3Q Holdings Limited

### Report on the Financial Report

We have audited the accompanying financial report of 3Q Holdings Limited (the company), which comprises the balance sheet as at 30 June 2009, and the income statement, statement of changes in equity and cash flow statement for the year ended on that date, a summary of significant accounting policies and other explanatory notes and the directors' declaration of both the company and the consolidated entity. The consolidated entity comprises the company and the entities it controlled at the year's end or from time to time during the financial year.

### Directors' Responsibility for the Financial Report

The directors of the company are responsible for the preparation and fair presentation of the financial report in accordance with Australian Accounting Standards (including the Australian Accounting Interpretations) and the *Corporations Act 2001*. This responsibility includes establishing and maintaining internal controls relevant to the preparation and fair presentation of the financial report that is free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances. In Note 2, the directors also state, in accordance with Accounting Standard AASB 101 *Presentation of Financial Statements*, that compliance with Australian Equivalents to International Financial Reporting Standards ensures that the financial report, comprising the financial statements and notes, complies with International Financial Reporting Standards.

### Auditor's Responsibility

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

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

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Level 10, 1 Margaret Street | Sydney | New South Wales 2000 | Australia
DX 10173 | Sydney Stock Exchange | New South Wales

PKF
Chartered Accountants
& Business Advisers

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

**Independence**

In conducting our audit, we have complied with the independence requirements of the *Corporations Act 2001*.

**Auditor's Opinion**

In our opinion:

(a) the financial report of 3Q Holdings Limited is in accordance with the *Corporations Act 2001*, including:

(i) giving a true and fair view of the company's and consolidated entity's financial position as at 30 June 2009 and of their performance for the year ended on that date; and

(ii) complying with Australian Accounting Standards (including the Australian Accounting Interpretations) and the *Corporations Regulations 2001*; and

(b) the financial report also complies with International Financial Reporting Standards as disclosed in Note 2.

**Report on the Remuneration Report**

We have audited the Remuneration Report included in pages 11 to 14 of the directors' report for the year ended 30 June 2009. 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.

**Auditor's Opinion**

In our opinion the Remuneration Report of 3Q Holdings Limited for the year ended 30 June 2009, complies with section 300A of the *Corporations Act 2001*.

PKF

**PKF**

**Arthur Milner**
Partner

Sydney, 31 August 2009

# Additional ASX Information

Additional information required by the Australian Stock Exchange Listing Rules and not disclosed elsewhere in this report is set out below:

## SHAREHOLDINGS

As at 7 August 2009

### Substantial Shareholders

The number of shares held by substantial shareholders and their associates are set out below:

| | Ordinary Shares | % |
|---|---|---|
| Eastfall Pty Limited | 57,500,000 | 39.10 |
| Elabrook Pty Limited | 57,500,000 | 39.10 |
| AR Investments Limited | 9,389,500 | 6.38 |

### Voting Rights

Each ordinary shareholder is entitled to receive notice of and attend and vote at general meetings of the Company. At a general meeting, every ordinary shareholder present in person or by proxy, representative or attorney will have one vote on a show of hands and on a poll, one vote for each share held.

Holders of options over ordinary shares are not entitled to receive notice of general meetings nor are they entitled to vote.

### Distribution of equity security holders

As at 31 July 2009

| Category | Ordinary Shareholders | Options Holders |
|---|---|---|
| 1 – 1,000 | 530 | - |
| 1,001 – 5,000 | 194 | - |
| 5,001 – 10,000 | 64 | - |
| 10,001 – 100,000 | 85 | 54 |
| 100,001 and over | 47 | 37 |
| TOTAL | **920** | **91** |

The number of ordinary shareholders holding less than a marketable parcel of ordinary shares is 686

### Number of holders of each class of equity securities

| Equity Security | Number of Holders |
|---|---|
| Ordinary Shares | 920 |
| Options over ordinary shares | 91 |

## On-Market buy back

There is no current on-market buy back.

## Equity Securities on issue

| Equity Security | Number |
|---|---|
| Ordinary Shares | 147,076,542 |
| Options over ordinary shares | 16,520,000 |

## Twenty largest shareholders of quoted ordinary shares

As at 7 August 2009

| Name | Ordinary Shares | % |
|---|---|---|
| Eastfall Pty Limited | 57,500,000 | 39.10 |
| Elabrook Pty Limited | 57,500,000 | 39.10 |
| AR Investments Limited | 9,389,500 | 6.38 |
| Ron-Ton Fashions Pty Ltd (Retirement fund A/C) | 2,485,561 | 1.69 |
| Ron-Ton Fashions Pty Ltd (Ron-Ton Retirement fund A/C) | 1,800,172 | 1.22 |
| Hillridge Pty Ltd | 1,242,883 | 0.85 |
| Towns Corporation Pty Ltd PAE Family A/C | 1,190,000 | 0.81 |
| Sydney Boardriders Pty Ltd | 1,000,000 | 0.68 |
| Lewis Securities Ltd (LSL Holdings Pty Ltd A/C) | 950,000 | 0.65 |
| Tristania Holdings Pty Ltd | 890,399 | 0.61 |
| UBS Wealth Management Australia Nominees Pty Ltd | 638,535 | 0.43 |
| GDL Investments Pty Ltd | 584,243 | 0.40 |
| Cardy & Co Pty Ltd | 560,300 | 0.38 |
| HSBC Custody Nominees (Australia) Limited | 475,000 | 0.32 |
| BV Holdings Australia Pty Ltd | 400,000 | 0.27 |
| Ortis Investments SA | 392,870 | 0.27 |
| Mr David Marcuson | 330,000 | 0.22 |
| Mr Martin Gilbert | 325,000 | 0.22 |
| Mr Roland Bloch (Ricci L and Jamie Bloch acc) | 320,000 | 0.22 |
| Affinity Ltd c/o Mr Lax Sentinal | 300,000 | 0.20 |
| **TOTAL** | **138,274,463** | **94.02** |

## Quotation of Securities on other Stock Exchanges

The equity securities of the Company are not quoted on any other stock exchange, other than the Australian Stock Exchange.

## Restricted securities or securities subject to voluntary escrow

There are no restricted securities or securities subject to voluntary escrow.

## Unquoted Securities

| Unquoted Equity Security | Number of Holders | Securities on issue |
|---|---|---|
| Options over ordinary shares | 91 | 16,520,000 |

**Statement of usage of cash and assets in a form readily convertible to cash**

Since readmission of the Company to the Australian Stock Exchange, the Company has used its cash and assets in a form readily convertible to cash, primarily to repay debt. However, at this stage, as with 2008 year end, the funds have not been used on research and development of the Thin POS to the extent that is consistent with its business objectives. As was disclosed in the Prospectus dated 25 November 2005, of the cash resources that were raised, $250,000 was to be allocated to research and development of the Thin POS. At the date of this report, the amount spent on research and development of the Thin POS has been minimal and there are no further amounts expected to be spent.

Instead, these resources were used primarily to repay debt and for working capital.