Appendix 4E

Name of entity	3Q Holdings Limited
ABN	42 089 058 293
Year Ended	30 June 2012
Previous Corresponding Reporting Period	12 months to 30 June 2011

Results for announcement to the market

	Result	% Increase (Decrease)	$ Increase (Decrease)
Revenue and other income from ordinary activities	24,026,346	2.78%	649,040
Profit from ordinary activities after tax attributable to members	2,445,025	-17.79%	(529,040)
Net profit for the period attributable to members	2,445,025	-17.79%	(529,040)

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 (2011: Nil). It is not the current intention of the directors to declare a dividend in respect of this or the next financial year.

Financial Statements

2012 Audited Annual Accounts attached.

Dividends

3Q Holdings Limited has not declared a dividend in respect of the current financial year (2011: Nil). There is no dividend reinvestment plan in the current 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	-3.92 cents	-5. 06 cents

Gain/Loss of Entity

3Q Holdings Limited formed a new subsidiary in India during the year.

3Q Holdings Limited did not lose control over any 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, Statement of Comprehensive Income, Statement of Financial Position , Statement of Changes in Equity, Statement of Cash Flows and the notes thereto, all of which are attached, will provide a more detailed understanding of the Group.

Foreign Entity

3Q Holdings Limited 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.

The appendix 4E is also to be read in conjunction with the half yearly financial report for the period ended 31 December 2011 and all ASX releases under the code TQH.

Copies of all ASX releases are available for download on the ASX website.

For further information:

Alan Treisman
Company Secretary
3Q Holdings Limited
02 9369 8590

3Q

2012 Annual Report

Corporate Information

ABN 42 089 058 293

Directors
Shaun Rosen (Executive Chairman)
Clive Klugman
Alan Treisman
Mark McGeachen
Stephe Wilks
Gary Burg (appointed 29 March 2012)

Company Secretary
Alan Treisman

Registered Office
Level 14, Tower 2, 101 Grafton Street
Bondi Junction
NSW 2022
Australia

Principal Place of Business
Ground Floor, 35 Spring Street
Bondi Junction
NSW 2022
Australia
Phone 61 2 9369 8590
Website www.threeq.com.au

Share Register
Computershare Investor Services Pty Limited
Yarra Falls
452 Johnston Street
Abbotsford VIC 3067
Australian callers 1300 850 505
Overseas callers 61 3 9415 4000

Solicitors
Freehills
MLC Centre Martin Place
Sydney NSW 2000
Australia

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

Auditors
BDO
Level 10, 1 Margaret Street
Sydney NSW 2000
Australia

Stock Exchange Listing
Australian Stock Exchange, code: TQH

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Chairman's Report

I am pleased to present the Annual Report for 3Q Holdings Limited for the year ended 30 June 2012.

Once again, and despite the continuing negative economic climate, the strategies we implemented over the last couple of years have underpinned an excellent result:

- Underlying EBITDA of just over $6m (despite increasing staff levels almost 20% and expenses by approximately $1million).
- Revenues for the year up in absolute terms - despite reported revenue growth in terms of some local currencies being muted by the strong AUD on conversion for our reported result.
- Net debt now just over $6 million (about 1x EBITDA). This includes the convertible note – net debt without convertible note under $4 million.

This excellent result was achieved while continuing relevant R&D projects across a number of our product offerings around the world. In particular, we have made major headway - and immediately commenced selling and implementing our mobile customer offering, driving huge interest right across the customer base as well as new prospects. We have also completed substantial work on the next iteration of our web based cloud offering for our primary retail facing products. Whilst these projects require a substantial investment in both staff and time, the fact they have already begun to deliver real customer contract wins, demonstrates the value in the ongoing developments in this area, and keeps us at the forefront of competition in our chosen markets.

That competitive capability continues to be borne out, not just in sales of our new mobile offerings (to customers such as One Teaspoon, TopShop, Ozland, Marcs, David Lawrence and Dune), but also in the ongoing maintenance revenue from customers receiving updated software each year. We also have had a number of strategic wins over the year. Some of these new customer wins included retailers such as Primark, Sideways, Phone Mania, Peek…Aren't You Curious, Jean Jones, Whitcoulls, Baby City, and Reebonz.

In addition, we continued to successfully implement the large scale projects won in current and previous years, and - driving our existing resources to capacity but supplementing them with additional staff where cost effective – efficiently and effectively delivered yet another increase in services revenue.

On the corporate front, we also had a number of successes:

- Completed the buyback of around 17.5 million shares (just over 10% of shares on issue) at a material discount to intrinsic value, substantially improving the Company's capital base.
- Took on a new investment partner in the form of a syndicate of Investec Bank (Australia) and a company controlled by Gary Burg (who is now a Director of the Company) - issuing $2.4 million in convertible notes with an option for another $900,000.
- Refinanced our existing debt with NAB on materially improved terms (and on an interest only basis effective from 31 January 2013), reducing cost and increasing flexibility. With net debt standing at around 1x EBITDA, the Company's balance sheet is very well placed.

Outlook

Whilst external economic conditions look set to remain challenging in the coming financial year, the Board continues to focus on core business.

As the company's largest shareholder, I recognise the concern of all of the Company's shareholders at the depressed performance of our share price. I do not believe that the share price reflects the value inherent in the operating business, as evidenced by the results. This depressed share price has also created challenges in our ongoing strategy of seeking value adding acquisitions, as we are effectively limited to offering cash consideration, rather than our preferred mixture of cash and equity.

Indeed, extremely small and infrequent share trades on the ASX can substantially impact the Company's market capitalisation - without any connection to the health of the underlying business. Those trades do not represent what the Board considers to be the intrinsic value of the Company, and arguably provide a very misleading impression of that value. This needs to be carefully reviewed, as the agility and flexibility of the Company is being impinged, in addition to the financial impact of the depressed market capitalisation.

We will continue to take opportunities to refine the capital structure for the Company, including a further unmarketable parcel acquisition. Importantly, the Board and I are focused on pursuing all opportunities available to the Company to realise value for shareholders.

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 Island Pacific Australia 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 30 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.

Gary Burg – Non-Executive Director

Gary joined the Board on 29 March 2012. He is a qualified Accountant and holds an MBA from the University of the Witwatersrand in Johannesburg, South Africa. Gary has been involved in investment banking for the past 17 years and has been instrumental in a number of Australian and South African publicly listed companies including being an investor and director of Capital Alliance Holdings Limited previously listed on the Johannesburg Stock Exchange. The Capital Alliance group included life insurance and banking operations. Gary was also a co –founder and director of the South African based Global Capital Pty Limited. The group is involved in Private equity.

Gary was the past CEO of Capital Alliance Holdings (Australia) Pty Ltd, whose investments included PrefSure Life Limited and InsuranceLine Holdings Limited. Both of these investments have been sold to Tower Australia Limited.

Clive Klugman - Executive Director

Clive joined the Board as Executive Director on 22 December 2005, as part of the acquisition of Island Pacific Australia 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 Island Pacific Australia Pty Limited.

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 25 years' experience in the information technology sector, including over 20 years' experience in the retail software market.

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 15 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 20 years' experience in 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 (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; and an Advisory Board member of the Network Insight Group.

Principal Activities

The principal activities of the Group 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 solution.

3Q has always been focused on being a one-stop shop for providing customers with a complete working solution together with 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 its stable of software solutions. The Group 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 Group is also now very well established in the 'back office' and merchandising solutions segment of the market for high-end 'Fortune 500' retailers in the United States.

It is from this established base that the Group 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 Group's product offerings provide significant opportunities to cross sell products to existing customers currently using only a subset of the Group's overall portfolio.

Summary of the Group Business Plan

In addition to the opportunities available to the Group to grow its existing business organically – a major driver of the Group's Business Plan - the retail software sector in Australia and around the world is in a fragmented state and presents opportunities 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 Group 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 Group and ensuring the ongoing robustness of the Group's focus on enhancing the existing business opportunities and growing them in parallel.

Review of Operations

Over the year, the Company continued to acquire new and important customers, establishing further relationships that we anticipate will be long and fruitful for each of us.

In addition, the Company continued to benefit from its already well established relationships with long standing customers, with substantial projects undertaken during the year.

Significant new customer wins over the year included:

- Primark
- TopShop
- Dune (mobile)
- Sideways
- Phone Mania
- Whitcoulls
- Peek…Aren't You Curious

The Company continues to push our resources to the limit – both in implementing new customers, and delivering additional services for customers. This uses our capacity effectively and efficiently, maintaining the Company's vision of extracting best value from our excellent people. It also ensures that the Company can continue to operate with great resilience in what continues to be challenging economic times.

We also took the opportunity this year to grow staffing levels some 20%, with over $900k in additional costs to the profit and loss statement – with the new staff focused on growth opportunities and deployed in major installations.

Operating Results for the Year

Financial Highlights

	2012	2011	Percentage Increase/(Decrease)	
Revenue	$ 24,026,346	$23,377,306	↑	3%
Gross Profit Percentage	89%	88%	↑	1%
Underlying EBITDA*	$6,156,108	$6,025,300	↑	2%
Underlying NPBT*	$3,689,394	$3,467,267	↑	6%
Underlying NPAT*	$2,794,002	$2,166,092	↑	29%
Net Profit after tax	$2,445,025	$2,974,065	↓	(18%)
Earnings per Share (cents)	1.47	1.84	↓	(20%)
Number of Employees	133	111	↑	20%

**Underlying EBITDA, NPBT and NPAT excludes foreign exchange gains and losses on US$ and GBP bank loans, intercompany trade accounts and share based expenses.*

Key outcomes for the 2012 Financial Year include:

- Underlying EBITDA and NPAT, revenues and gross margin up on last year.

- Net debt reduced by $800k from FY2011, even taking into account additional convertible notes issued of $2.4 mill (net debt now at $6.35 mill).

- Gearing ratio decreased from 31% to 25%.

Once again, the Company achieved improved margins during the year.

In our banking arrangements, 3Q refinanced our existing debt with NAB on materially improved terms (and on an interest only basis effective 31 January 2013), reducing cost and increasing flexibility. With net debt standing at around 1x EBITDA, the Group's balance sheet is very well placed. 3Q continues to maintain debt denominated in both Australian and US dollars, as well as GBP. This arrangement provides a natural hedge to the business, as exchange rates fluctuate across the different markets, allowing amortisation of the principal to be implemented in the most appropriate currency at the time.

Asset and Capital Structure

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

Consolidated	2012 $	2011 $
Interest Bearing Loans & Convertible Notes	10,003,744	9,620,960
Cash & Short Term Deposits	(3,653,456)	(2,456,811)
Net Debt	6,350,288	7,164,149
Total Equity	19,000,633	15,849,570
Total Capital Employed	25,350,921	23,013,719
Gearing (%)	25.05%	31.13%

Profile of Debts

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

	2012 $	2011 $
Bank Loans	7,486,080	9,563,499
Convertible Note	2,284,308	-
Other Finance Loans	233,356	57,461
TOTAL DEBT	**10,003,744**	**9,620,960**

Share issues during the year

No shares under the Employee Share Ownership Plan were issued during the year to staff and Senior Managers (2011: Nil).

No shares under a Share Purchase Plan were issued during the year to existing 3Q Shareholders.

Options issued during the year

- No options were issued during the year.
- No options expired during the year.
- No options were issued during the prior year.
- 7,470,000 options expired during the prior 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	61,765,900	-
Clive Klugman	33,015,674	-
Stephe Wilks	2,376,452	-
Alan Treisman	5,850,000	-
Mark McGeachen	3,127,900	-
Gary Burg	2,000,000	-

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.

Future Developments and Expected Results

Likely developments in the operations of the consolidated entity and the expected results of those operations in future financial years have not been included in this report as the inclusion of such information is likely to result in unreasonable prejudice to the consolidated entity.

Significant Changes in the State of Affairs

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

Significant Events After the Reporting Date

In August 2012, the Group completed a buyback of 17,484,326 shares held by Eastfall Pty Limited, a company associated with Clive Klugman, a Director of the Company, at 5c per share, for a total consideration of $874,216. This represents just over 10% of the Company's share capital.

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 Group has indemnified the directors and executives of the Group for costs incurred, in their capacity as a director or executive, for which they may be held personally liable, except where there is a lack of good faith.

During the financial year, the Group paid a premium in respect of a contract to insure the directors and executives of the Group against a liability to the extent permitted by the Corporations Act 2001. The contract of insurance prohibits disclosure of the nature of liability and the amount of the premium.

Proceedings on Behalf of the Group

No person has applied for leave of court to bring proceedings on behalf of the Group or intervene in any proceedings to which the Group is a part for the purpose of taking responsibility on behalf of the Group for all or any part of those proceedings.

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

Non-Audit Services

Details of the amounts paid or payable to the auditor for non-audit services provided during the financial year by the auditor are outlined in Note 25 to the financial statements.

The directors are satisfied that the provision of non-audit services during the financial year, by the auditor (or by another person or firm on the auditor's behalf), is compatible with the general standard of independence for auditors imposed by the Corporations Act 2001.

The directors are of the opinion that the services as disclosed in Note 25 to the financial statements do not compromise the external auditor's independence for the following reasons:

- all non-audit services have been reviewed and approved to ensure that they do not impact the integrity and objectivity of the auditor, and
- none of the services undermine the general principles relating to auditor independence as set out in APES 110 Code of Ethics for Professional Accountants issued by the Accounting Professional and Ethical Standards Board, including reviewing or auditing the auditor's own work, acting in a management or decision-making capacity for the Group, acting as advocate for the Group or jointly sharing economic risks and rewards.

Indemnity and Insurance of Auditor

The Group has not, during or since the financial year, indemnified or agreed to indemnify the auditor of the Group or any related entity against a liability incurred by the auditor.

During the financial year, the Group has not paid a premium in respect of a contract to insure the auditor of the Group or any related entity.

Remuneration Report (Audited)

Remuneration philosophy

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

During the year, all of the Director's and the Key Management's remuneration was not linked to the performance of the Group.

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

	2012	2011	2010	2009	2008
	$	$	$	$	$
Revenue	24,026,346	23,377,306	23,333,887	24,990,105	20,853,657
Net profit before tax	3,340,417	4,275,240	1,979,969	2,222,857	2,148,606
Net profit after tax	2,445,025	2,974,065	1,298,016	1,579,957	1,517,611
Share price at end of year (cents)	5.4	6	8	15	20
Basic earnings per share (cents)	1.47	1.84	0.84	1.07	1.03
Diluted earnings per share (cents)	1.38	1.73	0.77	0.98	0.93

The Group intends to embody the following principles in its remuneration framework:

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

For the year ended 30 June 2012, the Directors' and executives' salary packages were considered relatively modest in relation to the performance of the Group and to market rates.

Remuneration structure

The Group'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 Group 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 and Gary Burg are the only Non-Executive Directors as at the date of this report. Stephe and Gary were appointed on 14 February 2008 and 29 March 2012 respectively.

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

David Rosen, Andrew Bell, Mike Dotson and Richard Gaetano receive a set salary. Discretionary bonuses are paid to key management personnel, with no formal key performance indicators under contract.

A Remuneration Committee has been formed. The Company Secretary and both Independent Directors together form the Remuneration Committee, with the Chairman and one other Director present if the Company Secretary or an Independent Director's remuneration is up for consideration.

Directors' fees are paid partly by 3Q Holdings Limited and Island Pacific Australia Pty Limited.

(a) Remuneration of key management personnel

	Financial year	Short-term benefits		Post-employment benefits	Equity-settled share-based payments	TOTAL	Proportion of element of remuneration related to performance
		Cash salary, fees and commissions $	Short-term cash profit sharing $	Super-annuation $	Shares and Options $	$	%
Directors							
Shaun Rosen	**2012**	289,081	-	35,571	-	324,652	-
Executive Chairman	**2011**	281,149	-	35,800	-	316,949	-
Clive Klugman	**2012**	310,739	-	45,338	-	356,077	-
Executive Director	**2011**	212,003	-	37,420	-	249,423	-
Alan Treisman	**2012**	337,801	-	17,722	-	355,523	-
Finance Director & Secretary	**2011**	272,161	-	20,388	-	292,549	-
Mark McGeachen	**2012**	194,861	-	-	-	194,861	-
Executive Director	**2011**	197,847	-	-	-	197,847	-
Stephe Wilks	**2012**	78,000	-	-	-	78,000	-
Non-Executive	**2011**	60,000	-	-	-	60,000	-
Gary Burg	**2012**	-	-	-	-	-	-
Non-Executive	**2011**	-	-	-	-	-	-

	Financial year	Short-term benefits		Post-employment benefits	Equity-settled share-based payments	TOTAL	Proportion of element of remuneration related to performance
Executives		**Cash salary, fees and commissions $**	**Short-term cash profit sharing $**	**Superannuation $**	**Shares and Options $**	**$**	**%**
David Rosen	**2012**	267,410	-	9,674		277,084	-
Director Island Pacific Systems Inc.	**2011**	268,421	-	9,564	-	277,985	-
Andrew Bell	**2012**	187,070	-	-	-	187,070	-
Chief Technical Officer AdvanceRetail Technology	**2011**	189,936	-	-	-	189,936	-
Richard Gaetano	**2012**	236,709	-	9,674	2,731	249,114	-
Chief Operating Officer Island Pacific USA	**2011**	182,257	-	9,564	9,149	200,970	-
Mike Dotson	**2012**	239,122	-	9,335	2,731	251,188	-
Managing Director Island Pacific UK	**2011**	174,522	-	9,138	9,149	192,809	-
TOTAL	**2012**	**2,140,793**	**-**	**127,314**	**5,462**	**2,273,569**	**-**
	2011	**1,838,296**	**-**	**121,875**	**18,298**	**1,978,469**	**-**

All the above key management personnel (excluding Mark McGeachen) do not operate under fixed contracts specifying duration of employment or notice required for termination.

(b) Options issued as part of remuneration

No options were issued during the year to Directors and key management personnel.

No options were issued during the previous financial year to Directors and Key Management Personnel.

(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 Group under a contract.

Contract Duration

Mark McGeachen – Mark is contracted by a subsidiary of the Group for a five year period ending 5 April 2015.

Notice periods required to terminate contracts

Both the subsidiary of the Group and Mark McGeachen may terminate the contractor agreement for convenience by giving 6 months written notice. The subsidiary of the Group may terminate Mark's contract by giving immediate written notice if certain circumstances occur which give right to the termination.

Termination payments

There are no provisions in the agreement for termination payments.

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	4	4
Clive Klugman	4	4
Alan Treisman	4	4
Mark McGeachen	4	4
Stephe Wilks	4	4
Gary Burg	2	2

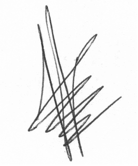
Auditor’s Independence Declaration

A copy of the Auditor’s Independence Declaration, as required under Section 307C of the *Corporations Act 2001*, is set out on page 13.

Auditor Details

BDO East Coast Partnership (formerly known as PKF) continues in office in accordance with section 327 of the Corporations Act 2001.

Signed in accordance with a resolution of the Directors.



Shaun Rosen
Executive Chairman
Sydney, NSW
30 August, 2012

Auditors Independence Declaration

Tel: 61 2 9251 4100
Fax: 61 2 9240 9821
www.bdo.com.au

Level 10, 1 Margaret St
Sydney NSW 2000
Australia

DECLARATION OF INDEPENDENCE BY PAUL BULL TO THE DIRECTORS OF 3Q HOLDINGS LIMITED

As lead auditor of 3Q Holdings Limited for the year ended 30 June 2012, I declare that, to the best of my knowledge and belief, there have been no contraventions of:

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

This declaration is in respect of 3Q Holdings Limited and the entities it controlled during the period.

Paul Bull

Partner

BDO East Coast Partnership

Sydney, 30 August 2012

Corporate Governance Statement

The Group's website at www.threeq.com.au contains a Corporate Governance section that includes copies of the Group's Corporate Governance Policies. On 30 June 2010, ASX Corporate Governance Council (ASXCGU) released amendments to the second edition in relation to diversity, remuneration, trading policies and briefings which applied to the Group from 1 January 2011.

	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 Group. It is required to do all things that may be necessary to be done to carry out the objectives of the Group. Senior management's primary function is to manage the Group 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 and Gary Burg are considered to be independent. The skills, experience and knowledge of the other four Directors makes their contribution to the Group and the Board such that it is appropriate for them to remain on the Board, and given the size and nature of the Group it is not currently appropriate to expand the Board further.
2.2	The Chairperson should be an independent Director.	Does not comply	The Group'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 Group, given his skills, experience and knowledge of the Group.
2.3	The roles of Chairperson and Chief Executive Officer should not be exercised by the same individual.	Does not comply	
2.4	The Board should establish a Nomination Committee.	Does not comply	The Group does not have a Nomination Committee. The Board is of the opinion that due to the nature and size of the Group, the functions performed by a Nomination Committee can be adequately handled by the full Board.

	ASX Best Practice Recommendation	3Q Compliance Status	Comment
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 Group the Board believes that external formal evaluation is not necessary as performance is continually being evaluated on an ongoing basis. The Board provides incoming Directors with information that will enable them to carry out their duties in the best interests of the Group. This includes supporting ongoing education of the Directors for the benefit of the Group.
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: ▪ the practices necessary to maintain confidence in the company's integrity; ▪ the practices necessary to take into account their legal obligations and the reasonable expectations of their stakeholders; and ▪ 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 Group. The goal of establishing the Group as a significant Australian-based information technology Group is underpinned by its core values of honesty, integrity, common sense and respect for people. The Group desires to remain a good corporate citizen and appropriately balance, protect and preserve all stakeholders' interests.
3.2	Establish a policy concerning diversity and disclose the policy or a summary of that policy. The policy should include requirements for the board to establish measurable objectives for achieving gender diversity for the board to assess annually both the objectives and progress in achieving them.	Does not comply	The Group does not have a policy concerning diversity. The Board is of the opinion that due to the nature and size of the Group, the purpose of this can be adequately handled by the full Board.
3.3	Disclose in each annual report the measurable objectives for achieving gender diversity set by the board in accordance with the diversity policy and progress towards achieving them.	Does not comply	The Group does not have a policy concerning gender diversity. The Board is of the opinion that due to the nature and size of the Group, the purpose of this can be adequately handled by the full Board.
3.4	Disclose in each annual report the proportion of women employees in the whole organisation, women in senior executive positions and women on the board.	Does not comply	The Group does not have a policy concerning gender diversity. The Board is of the opinion that due to the nature and size of the Group, the purpose of this can be adequately handled by the full Board.
3.5	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 Group has not met 4.2 of the Corporate Governance Council's recommendations that the Audit Committee consists of non-executives and has at least three members.
4.2	Structure the Audit Committee so that it: ▪ consists only of non-executive directors; ▪ consists of a majority of independent directors; ▪ is chaired by an independent chair, who is not chair of the board; and ▪ 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 Group 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 Group's securities, notifying them to the ASX and posting them on the Group'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. Use company websites to complement the official release of material information to the market.	Complies	The Group 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 Group's affairs.
6.2	Provide the information indicated in the ASX Guide to Reporting on Principle 6.	Complies	

	ASX Best Practice Recommendation	3Q Compliance Status	Comment
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 Group does not have a risk committee. The risks involved in an information technology company and the specific uncertainties for the Group continue to be regularly monitored and the full Board of the Group 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 Group's internal control system is monitored by the CFO (and Board where necessary) and assessed regularly to ensure effectiveness and relevance to the Group'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	
8	**Principle 8 – Remunerate fairly and responsibly**		
8.1	The Board should establish a remuneration committee.	Complies	The Company Secretary and both Independent Directors 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	The remuneration committee should be structured so that it: ▪ consists of a majority of independent directors; ▪ is chaired by an independent chair; and ▪ has at least three members.	Complies	The remuneration committee consists of the two Non-Executive Directors plus the Company Secretary. The remuneration committee is chaired by one of the Non-Executive Directors. The remuneration committee has three members.

	ASX Best Practice Recommendation	3Q Compliance Status	Comment
8.3	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 Group's operations and adding value to the Group.
8.4	Provide the information indicated in the ASX Guide to Reporting on Principle 8.	Complies	

Consolidated Statement of Comprehensive Income

For the year ended 30 June 2012

	Note	Consolidated Group 2012 $	Consolidated Group 2011 $
Revenue	3(a)	24,026,346	23,377,306
Cost of sales		(2,600,442)	(2,896,614)
Gross profit		21,425,904	20,480,692
Other income	3(b)	75,662	46,915
Operating expenses	3(c)	(3,993,453)	(3,971,158)
Employee benefit expenses		(11,322,227)	(10,527,953)
Earnings before tax, finance costs, depreciation, amortisation, foreign exchange gains/(losses) and share based payments		6,185,886	6,028,496
Depreciation		(218,918)	(263,720)
Amortisation		(1,686,364)	(1,597,888)
Finance costs		(591,210)	(699,621)
Foreign exchange gains/(losses)		(321,668)	910,874
Share based payments/expenses		(27,309)	(102,901)
Profit before income tax		**3,340,417**	**4,275,240**
Income tax expense	4	(895,392)	(1,301,175)
Profit for the year		**2,445,025**	**2,974,065**
Other comprehensive income:			
Exchange difference on translating foreign operations (net of tax)		488,591	(2,297,122)
Other comprehensive income for the year		**488,591**	**(2,297,122)**
Total comprehensive income for the year		2,933,616	676,943
Profit attributable to:			
Owners of the parent		2,445,025	2,974,065
Total comprehensive income attributable to:			
Owners of the parent		2,933,616	676,943
Earnings per share for profit attributable to the owners:			
· Basic earnings per share (cents per share)	5	1.47	1.84
· Diluted earnings per share (cents per share)	5	1.38	1.73

The accompanying notes form part of these Consolidated Financial Statements.

Consolidated Statement of Financial Position

As at 30 June 2012

	Note	Consolidated Group 2012 $	2011 $
ASSETS			
Current Assets			
Cash and cash equivalents	7	3,653,456	2,456,811
Trade and other receivables	8	5,793,053	3,954,100
Other assets	9	386,403	635,002
Inventories	10	186,321	193,521
Total Current Assets		**10,019,233**	**7,239,434**
Non-current Assets			
Property, plant and equipment	11	587,987	486,118
Trade and other receivables	8	58,445	129,987
Intangible assets	12	25,502,764	24,248,248
Deferred tax assets	18	3,352,259	2,937,361
Total Non-current Assets		**29,501,455**	**27,801,714**
TOTAL ASSETS		**39,520,688**	**35,041,148**
LIABILITIES			
Current Liabilities			
Trade and other payables	15	5,415,057	5,360,702
Financial liabilities	16	1,862,719	2,388,589
Provisions	17	1,215,635	1,072,249
Current tax liabilities	18	362,899	428,386
Total Current Liabilities		**8,856,310**	**9,249,926**
Non-current Liabilities			
Financial liabilities	16	8,183,526	7,282,340
Trade and other payables	15	-	-
Provisions	17	31,394	51,811
Deferred tax liabilities	18	3,448,825	2,607,501
Total Non-current Liabilities		**11,663,745**	**9,941,652**
TOTAL LIABILITIES		**20,520,055**	**19,191,578**
NET ASSETS		**19,000,633**	**15,849,570**
EQUITY			
Issued capital	19	7,586,837	7,586,837
Reserves	20	(2,068,143)	(2,774,181)
Retained Earnings		13,481,939	11,036,914
TOTAL EQUITY		**19,000,633**	**15,849,570**

The accompanying notes form part of these Consolidated Financial Statements.

Consolidated Statement of Changes in Equity

For the year ended 30 June 2012

	Note	Issued Capital	Reserves	Retained Earnings	Option Premium on Convertible Notes	Total
		$	$	$	$	$
Balance at 1 July 2010		**7,335,437**	**(292,137)**	**7,786,425**	**-**	**14,829,725**
Profit for the year		-	-	2,974,065	-	2,974,065
Other comprehensive income for the year, net of tax		-	(2,297,122)	-	-	(2,297,122)
Total comprehensive income for the year		-	(2,297,122)	2,974,065	-	676,943
Transactions with owners in their capacity as owners:						
Share-based payments		-	102,901	-	-	102,901
Movement in equity for ESOP shares issued		-	(11,399)	-	-	(11,399)
Expiry of options		-	(276,424)	276,424	-	-
Shares issued		251,400	-	-	-	251,400
Balance at 30 June 2011	**19**	**7,586,837**	**(2,774,181)**	**11,036,914**	**-**	**15,849,570**
Balance at 1 July 2011		**7,586,837**	**(2,774,181)**	**11,036,914**	**-**	**15,849,570**
Profit for the year		-	-	2,445,025	-	2,445,025
Other comprehensive income for the year, net of tax		-	488,591	-	-	488,591
Total comprehensive income for the year		-	488,591	2,445,025	-	2,933,616
Transactions with owners in their capacity as owners:						
Share-based payments		-	27,309	-	-	27,309
Issue of convertible notes		-	-	-	190,138	190,138
Balance at 30 June 2012	**19**	**7,586,837**	**(2,258,281)**	**13,481,939**	**190,138**	**19,000,633**

The accompanying notes form part of these Consolidated Financial Statements.

Consolidated Statement of Cash Flows

For the year ended 30 June 2012

	Notes	Consolidated Group 2012 $	2011 $
Cash flows from operating activities			
Receipts from customers		22,881,294	25,191,632
Payments to suppliers and employees		(18,395,703)	(18,825,333)
Interest received		30,040	3,203
Interest paid		(535,242)	(1,002,620)
Income taxes paid		(494,378)	(306,351)
Other income		57,208	59,068
Net cash inflows from operating activities	**7**	**3,543,219**	**5,119,599**
Cash flows from investing activities			
Purchase of property, plant and equipment		(130,718)	(125,377)
Purchase of other non-current assets		(8,295)	-
Loans to other entities		-	(36,363)
Payment of development costs		(2,365,129)	(1,844,219)
Net cash outflows from investing activities		**(2,504,142)**	**(2,005,959)**
Cash flows from financing activities			
Proceeds from convertible notes issued		2,400,000	-
Repayment of borrowings		(2,150,000)	(1,625,000)
Repayment of finance lease liabilities		(43,361)	-
Shares issued		-	240,000
Net cash inflows/(outflows) from financing activities		**206,639**	**(1,385,000)**
Net increase in cash and cash equivalents		1,245,716	1,728,640
Cash and cash equivalents at beginning of period	7	2,293,082	831,744
Exchange rate/translation adjustments		114,658	(267,302)
Cash and cash equivalents at end of period	7	**3,653,456**	**2,293,082**

The accompanying notes form part of these Consolidated Financial Statements.

Notes to the Financial Statements

For the year ended 30 June 2012

1 Authorisation of Financial Report

The financial report of 3Q Holdings Limited and its controlled entities ("the consolidated entity and/or the Group") for the year ended 30 June 2012 was authorised for issue in accordance with a resolution of the Directors on 30 August 2012.

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 and Interpretations issued by the Australian Accounting Standards Board ('AASB') and the Corporations Act 2001, as appropriate for-profit oriented entities. This financial report also complies with International Financial Reporting Standards as issued by the International Accounting Standards Board ('IASB'). The financial report is presented in Australian Dollars, rounded to the nearest dollar.

The financial report covers the consolidated group of 3Q Holdings Limited and controlled entities. 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.

Comparative amounts

Comparative amounts are, where appropriate, reclassified so as to be comparable with the figures presented for the current financial year.

Going Concern

The Directors have prepared the financial report on a going concern basis, which assumes continuity of normal business activities and the realisation of assets and settlement of liabilities in the ordinary course of business.

A major component of the current liabilities is prepaid maintenance, deferred revenue, staff leave entitlements and derivative financial liability (fair value of interest rate swap at reporting date) of $4,688,148 (2011: $4,646,874) which is not expected to be paid in cash.

(i) Parent entity information

These financial statements present the results of the consolidated entity only. Supplementary information about the parent entity is disclosed in Note 30.

(ii) 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. Investments 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 had 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. Island Pacific Australia 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 (Island Pacific Australia Pty Limited) undertook the acquisition.

If the legal subsidiary (Island Pacific Australia Pty Limited) 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 Australian Accounting Standards, 3Q Holdings Limited would be the acquirer and would fair value all of Island Pacific Australia Pty Limited’s net assets including identifiable intangible assets and goodwill.

Consequently, the financial information contained in this report has been presented as if Island Pacific Australia Pty Limited was the acquirer.

(iii) 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 Statement of Comprehensive Income.

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 British Pounds (GBP).

The functional currency of the foreign operation, AdvanceRetail Technology Asia Sdn.Bhd, is Malaysian Ringgit (MYR).

The functional currency of the foreign operation, Island Pacific Retail Systems Private Limited, is Rupee (INR).

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 reporting 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 the foreign currency translation reserve.

On disposal of a foreign entity, the deferred cumulative amount recognised in equity relating to that particular foreign operation is recognised in the Statement of Comprehensive Income.

(iv) 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.

(v) Depreciation

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

- Leasehold improvements – 25% straight line
- Software - 25% straight line
- Property, plant, equipment, furniture and motor vehicles - 12.5% - 40% straight line

The assets residual values and useful lives are reviewed and adjusted if appropriate at each reporting 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.

(vi) Impairment of assets

At each reporting date, the Group reviews the carrying values of its tangible and intangible 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. The value-in-use is the present value of the estimated future cash flows relating to the asset using a pre-tax discount rate specific to the asset or cash-generating unit to which the asset belongs. Assets that do not have independent cash flows are grouped together to form a cash-generating unit.

Any excess of the asset's carrying value over its recoverable amount is expensed to the Statement of Comprehensive Income.

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.

(vii) Borrowing costs

Borrowing costs are recognised as an expense when incurred.

(viii) Intangibles

Goodwill

Goodwill and goodwill on consolidation are initially recorded at the amount 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 costs 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. Amortisation is calculated using the straight line method to allocate the cost of intellectual property over their estimated useful lives which vary between 5 and 15 years.

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 when 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 as 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.

(ix) 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 or loss in which case these costs are expensed to the Statement of Comprehensive Income immediately. Subsequent to initial recognition these instruments are measured as set out below.

Financial assets at fair value through profit or 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 Statement of Comprehensive Income 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.

Effective interest method

The effective interest method is a method of calculating the amortised cost of a financial asset (liability) and of allocating interest income (expense) over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash receipts (payments) (including all fees on points paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the financial asset (liability), or, where appropriate, a shorter period, to the net carrying amount on initial recognition.

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.

Compound financial instruments

Compound financial instruments issued by the Group comprise convertible notes which can be converted to share capital at the option of the holder. The number of shares to be issued does not vary with changes in their fair value and as such the financial instrument contains both an equity and a liability component.

The liability component of a compound financial instrument is recognised initially at the fair value of a similar liability that does not have an equity conversion option. The equity component is recognised initially as the difference between the fair value of the compound financial instrument as a whole and the fair value of the liability component. Any directly attributable transaction costs are allocated to the liability and equity components in proportion to their initial carrying amounts.

Subsequent to initial recognition, the liability component of a compound financial instrument is measured at amortised cost using the effective interest method, unless designated at fair value through profit or loss. The equity component of a compound financial instrument is not remeasured subsequent to initial recognition.

(x) 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.

(xi) Cash and cash equivalents

Cash and short-term deposits in the Statement of Financial Position comprise cash at bank and in hand and short-term deposits. For the purposes of the Statement of Cash Flows, cash and cash equivalents consist of cash and cash equivalents as defined above. Bank overdrafts are shown within borrowings in current liabilities on the Statement of Financial Position.

(xii) Borrowings

Borrowings are initially recognised at fair value of the consideration received net of transaction costs. Borrowings are subsequently measured at amortised cost using the effective interest method.

Where there is an unconditional right to defer settlement of the liability for at least 12 months after the reporting date, the loans or borrowings are classified as non-current.

(xiii) Provisions

Provisions are recognised when the Group has a present obligation (legal or constructive) as a result of a past event and 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, taking into consideration the risks and uncertainty surrounding the obligation.

(xiv) 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. 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. Operating lease payments are recognised as an expense in the Statement of Comprehensive Income on a straight-line basis over the lease term.

(xv) Revenue

Revenues are recognised at the 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.

However, for implementations of software that take 3 months or more, licence revenue will be recognised in proportion to the provision of services as determined with reference to the stage of completion of the transaction at the end of the reporting period and where outcome of the contract can be estimated reliably.

Stage of completion is determined with reference to the services performed to date as a percentage of total anticipated services to be performed.

Where the outcome cannot be estimated reliably, revenue is recognised only to the extent that related expenditure is recoverable.

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.

(xvi) Income tax

Deferred income tax is provided on all temporary differences at the reporting 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 reporting 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 reporting date.

Income taxes relating to items recognised directly in equity are recognised in equity and not in the Statement of Comprehensive Income.

3Q Holdings Limited (the "head entity") and its wholly owned Australian subsidiaries have formed an income tax consolidated group under the 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.

(xvii) Goods and Services Tax (GST)

Revenues, expenses, assets and liabilities 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 Statement of Financial Position.

Cash flows are included in the Statement of Cash Flows 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.

(xviii) 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.

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 reporting 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.

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.

(xix) Trade and other payables

Trade payables and other payables are carried at amortised cost 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.

(xx) Employee leave benefits

Wages, salaries and annual 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.

Defined contribution superannuation expense

Contributions to defined contribution superannuation plans are expensed in the period in which they are incurred.

(xxi) 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.

(xxii) 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;
- other non-discretionary changes in revenues or expenses during the period that would result from the dilution of potential ordinary shares; and
- divided by the weighted average number of ordinary shares and dilutive potential ordinary shares, adjusted for any bonus element.

(xxiii) 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.

The judgements, estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below.

Key estimates – Impairment of goodwill

The Group assesses impairment at the end of each reporting period by evaluating conditions and events specific to the Group that may be indicative of impairment triggers. Recoverable amounts of relevant assets are reassessed using value-in-use calculations which incorporate various key assumptions.

With respect to cash flow projections for the Group, growth rates of between 2.5%-5% have been factored into valuation models for the next five years on the basis of management's expectations around the Group's continued ability to capture market share from competitors. Cash flow growth rates of 2.5%-5% subsequent to this period have been used. The rates used incorporate allowance for inflation. Post tax discount rates of 11% (Pre-tax rates of 13.59%) have been used in all models.

No impairment has been recognised in respect of goodwill, intangibles, plant and equipment at the end of the reporting period.

Impairment of non-financial assets other than goodwill and other indefinite life intangible assets

The consolidated entity assesses impairment of non-financial assets other than goodwill and other indefinite life intangible assets at each reporting date by evaluating conditions specific to the consolidated entity and to the particular asset that may lead to impairment. If an impairment trigger exists, the recoverable amount of the asset is determined. This involves fair value less costs to sell or value-in-use calculations, which incorporate a number of key estimates and assumptions.

Income tax

The consolidated entity is subject to income taxes in the jurisdictions in which it operates. Significant judgement is required in determining the provision for income tax. There are many transactions and calculations undertaken during the ordinary course of business for which the ultimate tax determination is uncertain. The consolidated entity recognises liabilities for anticipated tax audit issues based on the consolidated entity's current understanding of the tax law. Where the final tax outcome of these matters is different from the carrying amounts, such differences will impact the current and deferred tax provisions in the period in which such determination is made.

Recovery of deferred tax assets

Deferred tax assets are recognised for deductible temporary differences and brought forward income tax losses only if the consolidated entity considers it is probable that future taxable amounts will be available to utilise those temporary differences and losses.

Share-based payment transactions

The consolidated entity measures the cost of equity-settled transactions with employees by reference to the fair value of the equity instruments at the date at which they are granted. The fair value is determined by using either the Binomial or Black-Scholes model taking into account the terms and conditions upon which the instruments were granted. The accounting estimates and assumptions relating to equity-settled share-based payments would have no impact on the carrying amounts of assets and liabilities within the next annual reporting period but may impact profit or loss and equity.

Provision for impairment of receivables

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

Non-derivative financial liabilities

Fair value is calculated based on the present value of future principal and interest cash flows, discounted at the market rate of interest at the reporting date. In respect of the liability component of convertible notes, the market rate of interest is determined by reference to similar liabilities that do not have a conversion option. In addition, the liability component has been classified as a non-current liability which reflects the Directors' view of when the Group would be required to make repayments in the event that the Noteholders do not convert to 3Q shares by the conversion date.

(xxiv) 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 Statement of Comprehensive Income, 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.

(xxv) Segment information

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

(xxvi) Accounting Standards and interpretations

New, revised or amending Accounting Standards and Interpretations adopted

The consolidated entity has adopted all of the new, revised or amending Accounting Standards and Interpretations issued by the Australian Accounting Standards Board ('AASB') that are mandatory for the current reporting period.

Any new, revised or amending Accounting Standards or Interpretations that are not yet mandatory have not been early adopted.

Any significant impact on the accounting policies of the consolidated entity from the adoption of these Accounting Standards and Interpretations are disclosed in the relevant accounting policy.

The adoption of these Accounting Standards and Interpretations did not have any material impact on the financial performance or position of the consolidated entity.

New Accounting Standards and Interpretations not yet mandatory or early adopted

The following Australian Accounting Standards and Interpretations have recently been issued or amended but are not yet mandatory, have not been early adopted by the consolidated entity for the annual reporting period ended 30 June 2012. This list is not complete, however, it represents the key standards applicable to the consolidated entity.

AASB 9 Financial Instruments, 2009-11 Amendments to Australian Accounting Standards arising from AASB 9 and 2010-7 Amendments to Australian Accounting Standards arising from AASB 9

This standard and its consequential amendments are applicable to annual reporting periods beginning on or after 1 January 2013 and completes phase I of the IASB's project to replace IAS 39 (being the international equivalent to AASB 139 'Financial Instruments: Recognition and Measurement'). This standard introduces new classification and measurement models for financial assets, using a single approach to determine whether a financial asset is measured at amortised cost or fair value. To be classified and measured at amortised cost, assets must satisfy the business model test for managing the financial assets and have certain contractual cash flow characteristics. All other financial instrument assets are to be classified and measured at fair value. This standard allows an irrevocable election on initial recognition to present gains and losses on equity instruments (that are not held-for-trading) in other comprehensive income, with dividends as a return on these investments being recognised in profit or loss. In addition, those equity instruments measured at fair value through other comprehensive income would no longer have to apply any impairment requirements nor would there be any 'recycling' of gains or losses through profit or loss on disposal. The accounting for financial liabilities continues to be classified and measured in accordance with AASB 139, with one exception, being that the portion of a change of fair value relating to the entity's own credit risk is to be presented in other comprehensive income unless it would create an accounting mismatch. The consolidated entity will adopt this standard from 1 July 2013 but the impact of its adoption is yet to be assessed by the consolidated entity.

AASB 10 Consolidated Financial Statements

This standard is applicable to annual reporting periods beginning on or after 1 January 2013. The standard has a new definition of 'control'. Control exists when the reporting entity is exposed, or has the rights, to variable returns (e.g. dividends, remuneration, returns that are not available to other interest holders including losses) from its involvement with another entity and has the ability to affect those returns through its 'power' over that other entity. A reporting entity has power when it has rights (e.g. voting rights, potential voting rights, rights to appoint key management, decision making rights, kick out rights) that give it the current ability to direct the activities that significantly affect the investee's returns (e.g. operating policies, capital decisions, appointment of key management). The consolidated entity will not only have to consider its holdings and rights but also the holdings and rights of other shareholders in order to determine whether it has the necessary power for consolidation purposes. The consolidated entity will adopt this standard from 1 July 2013 but the impact of its adoption is yet to be assessed by the consolidated entity.

AASB 13 Fair Value Measurement and AASB 2011-8 Amendments to Australian Accounting Standards arising from AASB 13

This standard and its consequential amendments are applicable to annual reporting periods beginning on or after 1 January 2013. The standard provides a single robust measurement framework, with clear measurement objectives, for measuring fair value using the 'exit price' and it provides guidance on measuring fair value when a market becomes less active. The 'highest and best use' approach would be used to measure assets whereas liabilities would be based on transfer value. As the standard does not introduce any new requirements for the use of fair value, its impact on adoption by the consolidated entity from 1 July 2013 should be minimal, although there will be increased disclosures where fair value is used.

AASB 2011-4 Amendments to Australian Accounting Standards to Remove Individual Key Management Personnel Disclosure Requirement

These amendments are applicable to annual reporting periods beginning on or after 1 July 2013, with early adoption not permitted. They amend AASB 124 'Related Party Disclosures' by removing the disclosure requirements for individual key management personnel ('KMP'). The adoption of these amendments from 1 July 2013 will remove the duplication of information relating to individual KMP in the notes to the financial statements and the directors report. As the aggregate disclosures are still required by AASB 124 and during the transitional period the requirements may be included in the Corporations Act or other legislation, it is expected that the amendments will not have a material impact on the consolidated entity.

3 Revenue and Expenses

	Consolidated Group	
	2012 $	2011 $
(a) Revenue		
Sales of goods/hardware	1,053,440	1,575,377
Rendering of services	9,114,611	8,728,582
Maintenance fees	9,317,280	9,490,090
Licence fees	4,124,775	3,263,435
Other revenue	416,240	319,822
	24,026,346	**23,377,306**
(b) Other income		
Interest income	29,780	3,197
Other income	45,882	43,718
	75,662	**46,915**
(c) Operating expenses		
Accounting and audit fees	408,702	390,059
Bad and doubtful debts	225,689	196,987
Legal fees	194,290	139,939
Rental expense and operating lease	722,408	718,560
Superannuation	353,894	323,925
Other expenses	2,088,470	2,201,688
	3,993,453	**3,971,158**

4 Income Tax

	Consolidated Group	
	2012	2011
	$	**$**
(a) Income Tax Expense/(Benefit) Comprise:		
Current tax	538,088	593,753
Deferred tax	475,633	801,909
Recoupment/recognition of prior and current year tax losses	(118,329)	(94,487)
	895,392	**1,301,175**
(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% (2011: 30%)	1,002,125	1,282,572
Add:		
Tax effect of:		
non-deductible depreciation and amortisation	11,093	3,089
other non-allowable items	16,599	53,167
adjustment for differences in tax rates	186,698	201,525
shares and options expensed during year	8,193	30,871
under/(over) provision for income tax in prior year	(1,093)	(10,231)
other tax adjustments	(30,401)	(1,047)
	1,193,214	**1,559,946**
Less:		
Tax effect of:		
capitalisation costs in relation to capital raising	-	(14,691)
deduction for current year US state taxes	(32,902)	(32,550)
foreign currency exchange loss subject to income tax deduction	-	(46,070)
research and development additional allowance	(201,242)	(139,629)
current year losses not brought into account as a deferred tax asset(net of foreign exchange losses taken directly to equity)	-	21,945
recoupment of tax losses not previously recognised	(63,678)	(47,776)
Income tax attributable to entity	**895,392**	**1,301,175**
The applicable weighted average effective tax rates are as follows:	27%	30%

There are no tax effects on exchange differences relating to translating foreign controlled entities.

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 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 reporting 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	
	2012	2011
Net profit attributed to ordinary equity holders of the parent	2,445,025	2,974,065
Weighted average number of ordinary shares for basic earnings per share	165,826,542	161,824,487
Effect of dilution: share options and convertible notes	10,951,639	9,613,863
Weighted average number of ordinary shares adjusted for the effect of dilution	176,778,181	171,438,350

In August 2012, the Group completed a buyback of 17,484,326 shares held by Eastfall Pty Limited, a company associated with Clive Klugman, a Director of the Group, at 5c per share, for a total consideration of $874,216. This represents just over 10% of the Group's share capital.

Other than this, 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	
	2012 $	2011 $
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% (2011 - 30%)	1,798,647	1,549,941
- Franking credits that will arise from the payment of income tax payable as at the end of the financial year	255,386	174,238
The amount of franking credits available for future reporting periods	2,054,033	1,724,179

7 Cash and Cash Equivalents

(a) Cash Balance

	Consolidated Group 2012 $	Consolidated Group 2011 $
Cash at bank	3,653,456	2,456,811
	3,653,456	**2,456,811**

Cash at bank earns interest at floating rates based on daily bank deposit rates, as well as at fixed rates based on term deposit rates.

Cash at the end of the financial year shown in the Statement of Cash Flows is reconciled to items in the Statement of Financial Position as follows:

	Consolidated Group 2012 $	Consolidated Group 2011 $
Cash and cash equivalents	3,653,456	2,456,811
Overdraft	-	(163,729)
Cash per Statement of Cash Flows	**3,653,456**	**2,293,082**

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

	Consolidated Group 2012 $	Consolidated Group 2011 $
Profit after income tax	**2,445,025**	**2,974,065**
Non-cash flows in profit:		
Depreciation expenses	218,918	263,720
Amortisation expenses	1,686,364	1,597,888
Net profit on disposal of property, plant and equipment	116	3,089
Share option expenses	27,309	102,901
Net foreign exchange difference	2,829	(12,224)
Changes in assets and liabilities (net of settlement)		
(Increase)/decrease in inventories	7,289	2,052
(Increase)/decrease in trade and other receivables	(1,908,601)	(44,135)
(Increase)/decrease in prepayment	236,090	4,777
(Increase)/decrease in deferred tax assets	(151,632)	528,235
(Increase)/decrease in current tax assets	(82,366)	89,614
Increase/(decrease) in current/deferred tax liability	557,509	363,271
Increase/(decrease) in trade and other payables	628,994	(1,182,366)
Increase/(decrease) in provisions	98,269	159,732
Increase/(decrease) in maintenance in advance	(222,894)	268,980
Net Cash from Operating Activities	**3,543,219**	**5,119,599**

8 Trade and other receivables

	Consolidated Group 2012 $	Consolidated Group 2011 $
Current		
Trade receivables	5,437,054	3,782,023
Less: Provision for impairment (a)	(320,260)	(137,079)
	5,116,794	3,644,944
Unbilled receivables	605,778	226,675
Receivable from related party	70,481	82,481
	5,793,053	**3,954,100**
Non-Current		
Trade receivables	58,445	129,987
	58,445	**129,987**

(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.

The ageing analysis of trade receivables is as follows:

	Consolidated Group 2012 $	Consolidated Group 2011 $
0-30 days	2,329,193	2,193,984
0-30 days/CI*	220,500	-
31-60 days/PDNI*	2,045,653	1,012,144
31-60 days/CI*	-	-
61-90 days/PDNI*	176,490	133,414
61-90 days/CI*	-	-
+ 91 days/PDNI*	694,384	517,870
+ 91 days/CI*	99,760	137,079
	5,565,980	**3,994,491**

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

Receivables past due but not considered impaired are: Consolidated $2,916,527 (2011: $1,663,428). Payment terms on these amounts have in some cases been re-negotiated, however in certain circumstances credit has been stopped until payment is made. The carrying value of these re-negotiated amounts are $500,794 at 30 June 2012 (2011: $412,289). 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.

Movements in the provision for impairment of receivables are as follows:

	Consolidated Group 2012 $	Consolidated Group 2011 $
Movement in provision		
Balance of the beginning of the year	137,079	131,068
Additional provision	183,181	6,011
Balance at the end of year	**320,260**	**137,079**

(b) Related party receivables

For terms and conditions of related party receivables refer to Note 23.

(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.

(d) Foreign exchange and interest rate risk

Details regarding foreign exchange and interest rate risk exposure are disclosed in Note 21.

9 Other Assets

	Consolidated Group	
	2012 $	2011 $
Prepayments	386,403	635,002
	386,403	**635,002**

10 Inventories

	Consolidated Group	
	2012 $	2011 $
Finished goods at the lower of cost and net realisable value	186,321	193,521
	186,321	**193,521**

11 Property, Plant & Equipment

	Consolidated Group	
	2012 $	2011 $
(a) Property, plant, equipment, furniture and motor vehicles		
At cost	1,496,706	1,182,870
Accumulated depreciation	(990,772)	(818,611)
	505,934	**364,259**
Movement in carrying amount		
Balance at the beginning of the year	364,259	488,310
Additions	298,781	107,849
Disposal	-	-
Depreciation expense	(163,673)	(186,709)
Foreign currency exchange difference	6,567	(45,191)
Balance at the end of year	**505,934**	**364,259**
(b) Leasehold improvements		
At cost	239,247	235,790
Accumulated depreciation	(180,259)	(131,971)
	58,988	**103,819**

	Consolidated Group 2012 $	Consolidated Group 2011 $
Movement in carrying amount		
Balance at the beginning of the year	103,819	161,803
Additions	-	20,514
Disposal	-	(1,215)
Depreciation expense	(46,708)	(65,030)
Foreign currency exchange difference	1,877	(12,253)
Balance at the end of year	**58,988**	**103,819**

(c) Software

	2012 $	2011 $
At cost	58,735	43,727
Accumulated depreciation	(35,670)	(25,687)
	23,065	**18,040**
Movement in carrying amount		
Balance at the beginning of the year	18,040	28,681
Additions	13,094	5,075
Depreciation expense	(8,537)	(11,982)
Foreign currency exchange difference	468	(3,734)
Balance at the end of year	**23,065**	**18,040**

	2012 $	2011 $
Total Property, plant and equipment		
At cost	1,794,688	1,462,387
Accumulated depreciation	(1,206,701)	(976,269)
	587,987	**486,118**
Movement in carrying amount		
Balance at the beginning of the year	486,118	678,794
Additions	311,875	133,438
Disposal	-	(1,215)
Depreciation expense	(218,918)	(263,720)
Foreign currency exchange difference	8,912	(61,179)
Balance at the end of year	**587,987**	**486,118**

12 Intangible Assets

Consolidated Group	**Intellectual Property $**	**Customer relationship $**	**Tradename $**	**Goodwill $**	**Development costs $**	**Total $**
2011						
At cost	6,302,429	5,545,785	788,546	12,967,750	4,427,392	30,031,902
Accumulated Amortisation	(3,351,333)	(1,956,270)	(181,516)	-	(294,535)	(5,783,654)
Net carrying value	**2,951,096**	**3,589,515**	**607,030**	**12,967,750**	**4,132,857**	**24,248,248**
2012						
At cost	6,302,429	5,777,318	797,931	13,219,086	6,984,606	33,081,370
Accumulated Amortisation	(4,096,312)	(2,615,673)	(233,378)	-	(633,243)	(7,578,606)
Net carrying value	**2,206,117**	**3,161,645**	**564,553**	**13,219,086**	**6,351,363**	**25,502,764**

Consolidated Group	Intellectual Property $	Customer relationship $	Tradename $	Goodwill $	Development costs $	Total $
Balance at the beginning of the year 2011	3,696,075	5,108,234	658,892	14,294,422	3,087,620	26,845,243
Capitalised cost	-	-	-	-	1,736,161	1,736,161
Amortisation	(744,979)	(603,053)	(51,862)	-	(197,994)	(1,597,888)
Foreign currency exchange difference	-	(915,666)	-	(1,326,672)	(492,930)	(2,735,268)
Balance at the end of year	**2,951,096**	**3,589,515**	**607,030**	**12,967,750**	**4,132,857**	**24,248,248**
Balance at the beginning of the year 2012	2,951,096	3,589,515	607,030	12,967,750	4,132,857	24,248,248
Capitalised cost	-	-	9,385	-	2,390,625	2,400,010
Amortisation	(744,979)	(570,433)	(51,862)	-	(319,090)	(1,686,364)
Foreign currency exchange difference	-	142,563	-	251,336	146,971	540,870
Balance at the end of year	**2,206,117**	**3,161,645**	**564,553**	**13,219,086**	**6,351,363**	**25,502,764**

Intangible assets, other than goodwill, have finite useful lives. Goodwill is not amortised but is subject to annual impairment testing (see Note 13). No impairment loss was recognised in the 2012 financial year.

The current amortisation charge is included under the depreciation and amortisation expense in the Statement of Comprehensive Income. Refer Note 2 (viii) for the amortisation policies for the above intangible assets.

13 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 post-tax weighted average cost of capital at the beginning of the budget period of 11% (pre-tax rate of 13.59%).

Goodwill is allocated to cash-generating units as follows:

	Consolidated Group 2012 $	2011 $
3Q Holdings & Island Pacific Australia (excluding AdvanceRetail Division of 3Q Holdings)	3,119,666	3,119,666
Business of AdvanceRetail Technology (Subsidiary in New Zealand and division of 3Q Holdings in Australia)	4,636,688	4,606,960
Business of Island Pacific (Subsidiaries in US and UK)	5,462,732	5,241,124
	13,219,086	**12,967,750**

Key assumptions used

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

- 11% (2011: 11% post-tax discount rate);
- Between 2.5%-5% (2011: 2.5%-5%) per annum projected revenue growth rate; and
- Between 0%-5% (2011: 0%-5%) per annum increase in operating costs and overheads.

The discount rate of 11% post-tax reflects management's estimate of the time value of money and the consolidated entity's weighted average cost of capital adjusted for the computer industry, the risk free rate and the volatility of the share price relative to market movements.

Management believes the projected 2.5%-5% revenue growth rate is prudent and justified, based on the current market and new product sales resulting from the group's investment in research and development.

Goodwill, fixed assets and principal technology and other intangible assets are consolidated in order to assess whether the carrying amount exceeds the recoverable value of these assets. The reasons they are not separately assessed is because it is not possible to separately distinguish the cash flows for each category of asset. Instead, for the purposes of assessing whether an impairment has occurred, the assets are represented as one business unit.

Cash flows used in cash flow projections include the effects of intercompany transactions, but exclude the effects of financing. There were no other key assumptions.

Based on the above, no impairment has occurred as the carrying amount of goodwill (and other intangibles) exceed their recoverable value.

The calculation of value in use is most sensitive to the following key assumptions:

- Island Pacific Australia Segment
  Revenue growth would need to decrease by more than 12% than currently budgeted for before goodwill and other intangible assets would need to be impaired, with all other assumptions remaining constant.

- Island Pacific US/UK Segment
  Revenue growth would need to decrease by more than 13% than currently budgeted for before goodwill and other intangible assets would need to be impaired, with all other assumptions remaining constant.

- Island Pacific Store Segment
  Revenue growth would need to decrease by more than 10% than currently budgeted for before goodwill and other intangible assets would need to be impaired, with all other assumptions remaining constant.

- AdvanceRetail Segment
  Revenue growth would need to decrease by more than 4% than currently budgeted for before goodwill and other intangible assets would need to be impaired, with all other assumptions remaining constant.

Management consider that other reasonable changes in all other key assumptions to the cash flow projections would not have as a material effect on impairment, as does revenue growth rate.

14 Share-based payments

There were no options under the Employee Share Option Plan issued during the year.

There were no options under this plan cancelled during the year.

There were no shares under the Employee Share Ownership Plan issued during the year.

(a) Employee Share Ownership Plan

The Employee Share Ownership Plan was approved by the Annual General Meeting and established on 3 December 2009.

Under the terms of the Employee Share Ownership Plan, the company has granted each of the participating executives and employees a limited recourse loan equal to the purchase value of the shares which is repayable within 3 years. The financial assistance becomes immediately repayable in the event of dismissal, resignation, death or retirement of the executive or employee. The financial assistance is secured over the shares and the rights attached to the shares.

All shares issued pursuant to the plan are held by a trustee appointed by the company in trust for the employee until such time as the financial assistance is repaid. 60% of all dividends and distributions made in respect of the shares must be applied towards repayment of the financial assistance. Voting rights attached to the shares may only be exercised by the trustee holder in the best interest of the executive or employee.

For accounting purposes, the shares issued under the Employee Share Ownership Plan have been treated as an option grant and the value of the shares vested has been accounted for and included in the result of the period. Any repayment of the financial assistance will be treated as partial payment to be applied towards the payment of shares issued under the Employee Share Ownership Plan.

	Tranche 1	**Tranche 2**	**Tranche 3**
Number of Shares issued	7,250,000	6,750,000	750,000
Exercise Price	$0.13	$0.10	$0.07
Time to Maturity from issue date	3 years	3 years	3 years
Underlying Share Price	$0.13	$0.10	$0.07
Expected Share Price Volatility	36.84%	36.84%	36.84%
Risk-free Interest Rate	5.11%	5.11%	5.11%
Dividend Yield	5.00%	5.00%	5.00%

Details of options provided as remuneration and shares issued on the exercise of such options, together with terms and conditions of the options, can be found in the Remuneration Report.

(b) Employee Option Plan

The Employee Option Plan (EOP) was approved by the Annual General Meeting and established on 8 November 2006.

Each option issued under the plan will be issued free of charge. The exercise price for options granted under the EOP will be the price fixed by the Board prior to the grant of the options. The options granted under the EOP may be subject to such other restrictions on exercise as may be fixed by the directors prior to the grant of the options including, without limitation, length of services by the employee and threshold prices at which shares are traded on the Australian Securities Exchange (ASX). Any restrictions so imposed by the directors must be set out on the option certificate.

The options granted under the EOP do not give any right to participate in dividends or rights issues until shares are allotted pursuant to the exercise of the relevant option. The number of shares issued on the exercise of options will be adjusted for bonus issues made prior to the exercise of the options.

Under the EOP, the directors may invite employees to participate in the EOP and receive options. The plan is open to employees of the Group or its subsidiaries who the Board determine to be entitled to participate in the EOP.

If the Group, after having granted any option under the EOP, reduces its issued share capital or subdivides or consolidates its shares, the number of the shares issued to the option holder on exercise of an option will be reduced, subdivided or consolidated, as the case may be in accordance with the ASX Listing Rules.

Options granted under the EOP are not transferable.

The fair value of the option grant under the EOP is estimated at the date of grant using a Black-Scholes Options Pricing Model applying the following inputs:

	Tranche 1	Tranche 2	Tranche 3
Grant Date	20-Aug-08	15-Jan-09	19-Jan-10
Exercisable Date	1/3 on 20 Aug 09	1/3 on 15 Jan 10	1/3 on 19 Jan 11
	1/3 on 20 Aug 10	1/3 on 15 Jan 11	1/3 on 19 Jan 12
	1/3 on 20 Aug 11	1/3 on 15 Jan 12	1/3 on 19 Jan 13
Expiry Date	20-Aug-12	15-Jan-13	15-Jan-14
Number of Options on Issue	485,000	4,515,000	50,000
Exercise Price	$0.20	$0.15	$0.15
Time to Maturity	1 month	6 months	1.6 years
Underlying Share Price	$0.11	$0.11	$0.11
Expected Share Price Volatility	36.84%	35.00%	35.00%
Risk-free Interest Rate	5.80%	5.75%	5.75%
Dividend Yield	5.00%	0.00%	0.00%

The expected life of the options is based on historical data, which may not eventuate in the future. The expected share price volatility reflects the assumption that the historical volatility is indicative of future trends, which may not necessarily be the actual outcome.

Details of options provided as remuneration and shares issued on the exercise of such options, together with terms and conditions of the options, can be found in the Remuneration Report.

(c) Expenses Arising from Share-based Payment Transactions

Total expenses arising from share-based payment transactions recognised during the year as part of employee benefits expenses were as follows:

	Consolidated Group	
	2012 $	2011 $
Share based payments expense recognised	27,309	102,901
	27,309	**102,901**

15 Trade and Other Payables

	Consolidated Group	
	2012 $	2011 $
Current		
Trade payable	1,373,517	1,262,051
Deferred revenue	3,430,012	3,524,656
Other payable	357,206	382,106
Payable to related party	254,322	191,889
	5,415,057	**5,360,702**
Non-current		
Other payable	-	-
	-	**-**
	5,415,057	**5,360,702**

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

(a) **Fair value**

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

(b) **Related party payable**

For terms and conditions of related party payables refer to Note 23.

16 Financial Liabilities

	Consolidated Group	
	2012 $	2011 $
Current		
Secured:		
Bank loans	1,750,000	2,150,000
Bank Overdraft	-	163,729
Lease liability	70,218	24,891
Derivative financial liability	42,501	49,969
	1,862,719	**2,388,589**
Non-current		
Secured:		
Bank loans	5,736,080	7,249,770
Convertible notes	2,284,308	-
Lease liability	163,138	32,570
	8,183,526	**7,282,340**
Total financial liabilities	**10,046,245**	**9,670,929**

Financial guarantees

The Group has guaranteed the National Australia 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.

Bank loan

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

Part of the interest on this loan is charged at a variable rate of interest and the other part at a fixed rate of interest.

The bank loan facilities above include:

- Tranche A Facility with a limit of $2,488,860 which is a 2 year amortising non-revolving AUD Dollar market rate term facility. This facility bears interest at a variable rate with a margin of 2.5%, and interest fixed at a rate of 5.65% plus a margin of 2.5%. At 30 June 2012 $2,488,860 of this amount was drawn down. This facility will roll over on 31 January 2013.
- Tranche B Facility with a limit of $611,720 which is a 2 year amortising non-revolving Sterling market rate term facility. This facility bears interest at a variable rate with a margin of 2.5%, and interest fixed at a rate of 1.485% plus a margin of 2.5%. At 30 June 2012 $611,720 of this amount was drawn down. This facility will roll over on 31 January 2013.
- Tranche C Facility with a limit of $4,385,500 which is a 2 year amortising non-revolving US Dollar market rate term facility. This facility bears interest at a variable rate with a margin of 2.5%, and interest fixed at a rate of 0.84% plus a margin of 2.5%. At 30 June 2012 $4,385,500 of this amount was drawn down. This facility will roll over on 31 January 2013.
- At 30 June 2012, AUD$2,250,000, GBP300,000 and US$2,750,000 has been fixed (AUD$5,403,790) with the remaining balance variable.

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

Prior to the reporting date the bank loan facilities were renegotiated with the following key revisions to apply effective from 31 January 2013:

- A total non-amortising facility for Tranche A,B,C of AUD$6,000,000.
- An overdraft facility of $500,000 which expires 30 June 2013.
- The facility is a 3-year facility and expires on 31 January 2016.
- A final amortisation of $1,000,000 must be paid on 31 January 2013 before the facility becomes non-amortising.
- A margin of 2.75% will be payable on the daily balance outstanding and will be payable in arrears at the end of each quarterly interest period.
- An unused commitment fee of 50% of the margin will be payable quarterly in arrears on the undrawn portion of the commitment.
- The leverage ratio requirement is to be less than or equal to 1.25 times.
- The interest cover ratio is to be greater than or equal to 5.5 times.

Convertible notes

On 23 March 2012, the consolidated entity secured an agreement to draw-down $3,300,000 from a syndicate of individuals (Noteholders) consisting of Investec Bank (Australia) Limited and Wintol Pty Ltd through the issue of convertible notes. The initial draw-down makes available to the consolidated entity a first tranche of $2,400,000 (tranche 1) with a second tranche of $900,000 (tranche 2) to be drawn-down at the option of the consolidated entity.

In April 2012, 2,400,000 convertible notes with a face value of $1 (tranche 1) were issued pursuant to the above agreement. The convertible notes entitle the Noteholders to convert to 3Q shares at any time before the conversion date in April 2014 at a conversion price of 10 cents per share. Interest of 8.15% per annum is payable on the total face value of the convertible notes from the issue date up to the April 2017 maturity date in the event that the Noteholders do not convert to 3Q shares by the conversion date. In such an event, the convertible notes are repayable in equal instalments on each interest payment date.

The convertible notes are secured by a second charge over the assets of the Group, held by a syndicate of Noteholders comprising Investec Bank (Australia) Limited and Wintol Pty Ltd.

The issue was classified as a compound financial instrument and accounted for in accordance with the accounting policy at 2(ix) as follows:

	Consolidated Group	
	2012 $	2011 $
Convertible notes		
Proceeds of issue	2,400,000	-
Equity component	(190,138)	-
Finance costs	74,446	-
Balance at end of year	**2,284,308**	-

The equity component of $190,138 has been credited to equity (option premium on convertible notes – see Note 20).

Financing facilities available

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

	Consolidated Group	
	2012 $	2011 $
Total facilities - bank loan	7,986,080	9,899,770
Facilities used at reporting date - bank loans	7,486,080	9,563,499
Facilities unused at reporting date - bank loans	500,000	336,271
Facilities used at reporting date - convertible notes	2,400,000	-
Facilities unused at reporting date - convertible notes	900,000	-

Details of the financing facilities are set out above. The bank 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) Assets pledged as security

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

	Note	Consolidated Group	
		2012 $	2011 $
Current			
Cash and cash equivalents	7	3,653,456	2,456,811
Trade and other receivables	8	5,793,053	3,954,100
Other assets	9	386,403	635,002
Inventories	10	186,321	193,521
		10,019,233	**7,239,434**
Non-current			
Deferred income tax asset	18	3,352,259	2,937,361
Trade and other receivables	8	58,445	129,987
Property, plant and equipment	11	587,987	486,118
Intangible assets	12	25,502,764	24,248,248
		29,501,455	**27,801,714**
Total assets pledged as security		**39,520,688**	**35,041,148**

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

A syndicate comprising Investec Bank (Australia) Limited and Wintol Pty Ltd have a second charge over all the assets of 3Q Holdings Limited.

(c) Defaults and breaches

At the reporting date there were no breaches or defaults with National Australia Bank or the syndicate comprising Investec Bank (Australia)Limited and Wintol Pty Ltd.

17 Provisions

	Consolidated Group 2012 $	Consolidated Group 2011 $
Current - Provision for annual leave and long service leave	1,215,635	1,072,249
Non-current - Provision of long service leave	31,394	51,811
	1,247,029	**1,124,060**
Movement in provision		
Balance at the beginning of the year	1,124,060	1,044,347
Amounts provided	771,494	772,921
Leave taken	(675,638)	(583,152)
Translation differences	27,113	(110,056)
Balance at the end of year	**1,247,029**	**1,124,060**

A provision has been recognised for employee entitlements relating to long service leave. In calculating the present value of future cash flows in respect of long service leave, the probability of long service being taken is based on historical data. The measurement and recognition criteria relating to employee benefits has been included in Note 2 (xx) to this report.

18 Tax

NON-CURRENT	Opening Balance $	Charged to Income $	Charged Directly to Equity $	Changes in Tax Rate $	Exchange Differences $	Closing Balance $
Deferred Tax Liability						
Property Plant and Equipment tax allowance	1,350,249	(47,957)	-	-	(273,046)	1,029,246
Capitalised development costs	1,244,306	586,889	-	-	(255,228)	1,575,967
Other	2,288	-	-	-	-	2,288
Balance at June 2011	**2,596,843**	**538,932**	**-**	**-**	**(528,274)**	**2,607,501**
Property Plant and Equipment tax allowance	1,029,246	(16,208)	-	-	51,565	1,064,603
Capitalised development costs	1,575,967	734,563	-	-	73,692	2,384,222
Other	2,288	(4,714)	-	-	2,426	-
Balance at June 2012	**2,607,501**	**713,641**	**-**	**-**	**127,683**	**3,448,825**
Deferred Tax Assets						
Provisions	498,313	24,568	-	-	(50,174)	472,707
Transaction costs on equity issue	12,046	(3,809)	-	-	-	8,237
Unrealised foreign exchange loss/ (gain)	35,231	(326,352)	-	-	(23,481)	(314,602)
Property, Plant and Equipment, Intangibles tax allowance tax allowance	535,743	164,415			575	700,733
Recognition/recoupment of tax losses	2,013,773	50,581	-	-	(118,286)	1,946,068
Other	263,519	(77,893)	-	-	(61,408)	124,218
Balance at 30 June 2011	**3,358,625**	**(168,490)**	**-**	**-**	**(252,774)**	**2,937,361**

NON-CURRENT

	Opening Balance	Charged to Income	Charged Directly to Equity	Changes in Tax Rate	Exchange Differences	Closing Balance
	$	$	$	$	$	$
Provisions	472,707	30,660	-	-	8,741	512,108
Transaction costs on equity issue	8,237	10,808	-	-	-	19,045
Unrealised foreign exchange loss/ (gain)	(314,602)	127,870	-	-	9,965	(176,767)
Property, Plant and Equipment, Intangibles tax allowance	700,733	157,368	-	-	(360)	857,741
Recognition/recoupment of tax losses	1,946,068	74,450	-	(61,625)	18,152	1,977,045
Other	124,218	16,805	-	-	22,064	163,087
Balance at 30 June 2012	**2,937,361**	**417,961**	**-**	**(61,625)**	**58,562**	**3,352,259**

Deferred tax assets from tax losses which have not been brought into account, the benefits of which will only be realised if the conditions for deductibility as set out in Note 2(xvi) are met, amount to $11,021,931 (tax effected $3,306,579) (2011: $11,238,906, tax effected $3,371,672) .

3Q Holdings Limited had income tax losses of $15,129,364 at 30 June 2012 ($15,346,339 as at 30 June 2011), of which $4,107,433 of these losses have been recognised as a deferred tax asset in accordance with Note 2 (xvi).

Island Pacific (UK) Limited had income tax losses of $2,265,857 at 30 June 2012 ($2,673,215 as at 30 June 2011), of which all of these losses have been recognised as a deferred tax asset in accordance with Note 2 (xvi).

AdvanceRetail Technology Limited had income tax losses of $573,262 at 30 June 2012 ($570,264 as at 30 June 2011), all of which have been recognised as a deferred tax asset in accordance with Note 2 (xvi).

	Consolidated Group	
	2012	2011
	$	$
CURRENT		
Income Tax Payable	362,899	428,386

19 Issued Capital

	Consolidated Group	
	Number	$
2012		
(a) Ordinary shares		
Fully paid	165,826,542	7,586,837
Partially paid	-	-
	165,826,542	**7,586,837**
(i) Movements in ordinary share on issue		
Balance at the beginning of the year	165,826,542	7,586,837
Shares issued as part of a share purchase plan	-	-
Shares issued to senior managers	-	-
Balance at the end of the year	**165,826,542**	**7,586,837**
2011		
(b) Ordinary shares		
Fully paid	165,826,542	7,586,837
Partially paid	-	-
	165,826,542	**7,586,837**

	Consolidated Group	
	Number	$
(i) Movements in ordinary share on issue		
Balance at the beginning of the year	161,076,542	7,335,437
Shares issued as part of a share purchase plan	4,000,000	240,001
Shares issued to senior managers	750,000	11,399
Balance at the end of the year	**165,826,542**	**7,586,837**

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.

Options

For information relating to the 3Q employee option plan, including details of options issued, exercised and lapsed during the financial year and the options outstanding at year-end, refer to Note 14.

For information relating to share options issued to key management personnel during the financial year, refer to Note 14.

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.

One method that Management monitors capital, is through the gearing ratio (net debt / total capital). The gearing ratio at reporting date has been reduced from the prior year due to amounts repaid to NAB during the current year. Management intend to continually reduce this ratio by repaying part of its debt using internally generated funds.

The Group’s debt is governed by the following borrowing covenants:

- Interest cover ratio
- Leverage ratio
- 15% variance from budget

The Group did not breach these covenants in the current year.

The gearing ratios based on operations at 30 June 2012 and 2011 were as follows:

	Consolidated Group	
	2012 $	2011 $
Interest bearing loans & borrowings	10,003,744	9,620,960
Cash & equivalent	(3,653,456)	(2,456,811)
Net debt	**6,350,288**	**7,164,149**
Total equity	19,000,633	15,849,570
Total capital employed	**25,350,921**	**23,013,719**
Gearing (%)	**25.05%**	**31.13%**

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20 Reserves

	Consolidated Group 2012 $	2011 $
(a) Foreign currency translation reserve		
Balance at the beginning of the year	(3,196,325)	(899,203)
Gain/(loss) on translation of overseas controlled entities	488,591	(2,297,122)
Balance at the end of the year	**(2,707,734)**	**(3,196,325)**
(b) Employee equity benefits reserve		
Balance at the beginning of the year	422,144	607,066
Cancellation of options during the year	-	(276,424)
Options expensed during the year	27,309	102,901
Movement in equity for ESOP shares issued	-	(11,399)
Balance at the end of the year	**449,453**	**422,144**
(c) Option premium on convertible notes		
Balance at the beginning of the year	-	-
Recognition of option premium on issue of convertible notes (net of tax)	190,138	-
Balance at the end of the year	190,138	-
Total reserves	**(2,068,143)**	**(2,774,181)**

Foreign Currency Translation Reserve

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

Options Reserve

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

Option premium on convertible notes

The option premium on convertible notes represents the equity component (conversion rights) of the convertible notes issued during the year (see Note 16).

21 Financial Risk Management Objectives and Policies

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

	Consolidated Group	
	2012 $	2011 $
Financial assets		
Cash and equivalents	3,653,456	2,456,811
Financial assets at amortised costs		
- Loans and receivables	5,851,498	4,084,087
Total financial assets	**9,504,954**	**6,540,898**
Financial liabilities		
Financial liabilities at amortised costs		
- Trade and other payables	5,415,057	5,360,702
- Borrowings	10,003,744	9,620,960
- Financial liabilities at FV through profit or loss	42,501	49,969
Total financial liabilities	**15,461,302**	**15,031,631**

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 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.

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 16.

At reporting 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 as cash flow hedges:

	Consolidated Group	
	2012 $	2011 $
Financial assets		
Cash and equivalents	3,653,456	2,456,811
	3,653,456	**2,456,811**
Financial liabilities		
Bank overdrafts	-	163,729
Interest rate swaps	42,501	49,969
Bank loans and financial lease liabilities	2,082,290	1,860,841
	2,124,791	2,074,539
Net exposure	**(1,528,665)**	**(382,272)**

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 2012, after taking into account the effect of interest rate swaps, approximately 72% of the Group's bank borrowings are at a fixed rate of interest (2011: 80%).

The Group has no exposure to interest rate risk on the Convertible notes as the interest rate is fixed should interest become payable.

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 reporting date (the rates used are based on average movements between 2011 and 2012):

	Consolidated Group	
Judgments of reasonably possible movements	2012 $	2011 $
Post tax profit		
+ 1% (100 basis points)	11,189	3,059
- 0.5% (50 basis points)	(5,595)	(1,529)
Equity		
+ 1% (100 basis points)	11,189	3,059
- 0.5% (50 basis points)	(5,595)	(1,529)

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. The sensitivity is lower in 2011 than in 2012 because the level of net cash has increased in 2012.

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 Statement of Financial Position can be affected significantly by movements in the US$/A$, GBP/A$ and to a lesser extent NZ$/A$ exchange rates. The Group has mitigated the effect of its foreign currency exposure by increasing its borrowing in US Dollars and GBP. The reason only US Dollar and GBP debt has been increased and not other currencies is because the Board believe the US Dollar and GBP are the most volatile of currencies to the AUD Dollar, in comparison to the NZ Dollar, and also the US$ and GBP earnings are larger than the other overseas earnings. These borrowings in foreign currencies then act as a hedge against the earnings from these currencies.

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 in place at 30 June 2012 (2011: Nil).

Between 2011 and 2012, exchange rates moved by almost 5% (2011: 21%) for the AUD$:US$, by 2.4% (2011: 15%) for the AUD$:GBP, and 1.5% (2011: 5%) for the AUD$:NZ$. Assuming the average movement was 3% (2011: 15%), and using a lower-end movement of 1.5%, 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	
	2012 $	2011 $
Net Profit after tax	3,604,686	3,842,510
Net Profit after tax subject to exposure	**3,604,686**	**3,842,510**
Equity		
Assets	27,650,363	24,219,917
	27,650,363	24,219,917
Liability		
Bank loans	4,997,220	2,892,950
Others	23,269,820	20,959,786
	28,267,040	23,852,736
Equity to exposure	**(616,677)**	**367,181**
Judgments of reasonably possible movements		
Post tax profit		
-1.5% (2011: -5%) movement in AUD$	30,294	84,675
-3% (2011: -15%) movement in AUD$	60,588	254,025
+3% (2011: +15%) movement in AUD$	(60,588)	(254,025)
+1.5% (2011: +5%) movement in AUD$	(30,294)	(84,675)
Equity		
-1.5% (2011: -5%) movement in AUD$	(9,250)	(15,791)
-3% (2011: -15%) movement in AUD$	(18,500)	(47,374)
+3% (2011: +15%) movement in AUD$	18,500	47,374
+1.5% (2011: +5%) movement in AUD$	9,250	15,791

The Group has a US$ borrowing facility of $4,475,000 (2011: $2,300,000) that is used as a hedge of the net investment in the US operation.

At 30 June 2012, the Group hedged none of its foreign currency purchases that are firm commitments (2011: Nil).

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, 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 reporting 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.

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 2012. Cash flows for liabilities without fixed amount or timing are based on the conditions existing at 30 June 2012.

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

	Consolidated Group	
	2012 $	2011 $
6 months or less	6,198,722	6,436,876
6-12 months	1,036,553	1,262,446
1-5 years	8,183,526	7,282,340
Over 5 years	-	-
	15,418,801	**14,981,662**

Included in the maturities of 6 months or less is an amount of $3,430,012 (2011: $3,524,656) representing maintenance and other amounts paid by customers in advance. Even though these are contractual liabilities, it is very unlikely that these amounts will result in a cash outflow in the period, or in any period thereafter.

Based on the above, the actual estimated cash outflows in the 6 months or less is $2,768,710 (2011: $2,912,220) instead of the stated amount of $6,198,722 (2011: $6,436,876).

The above table excludes derivatives.

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	
	2012 $	2011 $
Trade & other payable		
< 6 months	5,415,057	5,360,702
6 - 12 months	-	-
1-5 years	-	-
Over 5 years	-	-
	5,415,057	**5,360,702**
Interest rate swaps		
> 6 months	-	-
6 - 12 months	42,501	49,969
	42,501	**49,969**
Interest bearing loans & borrowings		
< 6 months	783,665	1,076,175
6 - 12 months	1,036,553	1,262,445
1-5 years	8,183,526	7,282,340
	10,003,744	**9,620,960**
	15,461,302	**15,031,631**

Fair value

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

Fair value measurement

The financial instruments recognised at fair value in the Statement of Financial Position have been analysed and classified using a fair value hierarchy reflecting the significance of the inputs used in making the measurements. The fair value measurement hierarchy consists of the following levels:

(a) quoted prices (unadjusted) and active markets for identical assets or liabilities (level 1) .

(b) inputs other than quoted price included with level 1 that are observable for the assets or liability, either directly (as prices) or indirectly (derived from prices) (level 2), and

(c) inputs for the assets or liability that are not based on observable market data (unobservable inputs) (level 3).

The following table presents the group's assets and liabilities measured and recognised at fair value at 30 June 2012. Comparatives included below.

	Consolidated Group			
At 30 June 2012	Level 1 $	Level 2 $	Level 3 $	Total $
Assets	-	-	-	-
Liabilities				
Financial liabilities at FV through profit or loss	-	42,501	-	42,501
	-	**42,501**	**-**	**42,501**

	Consolidated Group			
At 30 June 2011	Level 1 $	Level 2 $	Level 3 $	Total $
Assets	-	-	-	-
Liabilities				
Financial liabilities at FV through profit or loss	-	49,969	-	49,969
	-	**49,969**	**-**	**49,969**

	Consolidated Group	
	2012 $	2011 $
Movement		
Balance at the beginning of the year	49,969	216,481
Additional provision	(7,468)	(166,512)
Balance at the end of the year	**42,501**	**49,969**

22 Commitments and Contingencies

Commitments

Operating Leases

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 2012 $	Consolidated Group 2011 $
Within one year	455,659	510,866
After one year, but not more than five year	335,671	794,369
	791,330	**1,305,235**

Operating lease commitments includes contracted amounts for various office locations, property plant and equipment including photocopies and motor vehicles under non-cancellable operating leases expiring within one to five years with, in some cases, options to extend. The leases have various escalation clauses. On renewal, the terms of the leases are renegotiated.

Finance Leases

	Consolidated Group 2012 $	Consolidated Group 2011 $
Lease commitments - finance		
Committed at the reporting date and recognised as liabilities, payable:		
Within one year	73,975	24,891
One to five years	186,486	32,570
Total commitment	260,461	57,461
Less: Future finance charges	(27,105)	-
Net commitment recognised as liabilities	233,356	57,461
Representing:		
Lease liability - current (note 16)	70,218	24,891
Lease liability - non-current (note 16)	163,138	32,570
	233,356	**57,461**

Finance lease commitments includes contracted amounts for motor vehicles and furniture and equipment with a written down value of $221,112 (2011: $79,411) secured under finance leases expiring within one to five years. Under the terms of the leases, the consolidated entity has the option to acquire the leased assets for predetermined residual values on the expiry of the leases.

Contingencies

There are no material contingent liabilities at reporting date (2011: Nil).

23 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, Note 15 and Note 16):

Consolidated		2012 $	2011 $
Rent paid to Related Parties excluding GST	Note 2	120,000	120,000
Compensation of David Rosen	Note 4	277,084	277,985
Transactions with Distributor	Note 3	474,676	417,598
Amounts owed by Related Parties for financed sales	Note 1	70,481	82,481
Amounts owed to Related Parties – Distributor	Note 3	261,888	199,455
Amounts owed by (to) Related Parties for rent	Note 2	7,566	7,566
Compensation of McGeachen Bell Associates Ltd(Mark McGeachen)	Note 5	194,861	197,847
Compensation of McGeachen Bell Associates Ltd (Andrew Bell)	Note 6	187,070	189,936
Compensation of High Expectations Pty Ltd (Stephe Wilks)	Note 7	78,000	60,000
Convertible note issued to Wintol Pty Ltd (Gary Burg)	Note 8	800,000	-

Note 1 - Sales financed by related parties

Sales to certain customers of Island Pacific Australia 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 Island Pacific Australia Pty Limited on a monthly basis. There were no sales in the current or prior year.

Note 2 - Rent paid to related parties

The Sydney offices are rented from Isalux Pty Limited, a related party.

Note 3 - Distributor

Under an agreement with Pyramid Merchandising Software (Pty) Limited (PMS), Island Pacific Australia Pty Limited was appointed the worldwide master distributor in all territories outside Africa of PMS's merchandising software product known as "IP Planning". David Rosen, who has a 50% interest in Elabrook Pty Limited, one of the vendors of Island Pacific Australia 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 Island Pacific Australia 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.

Note 7 – 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 8 – Company controlled by Director – Wintol Pty Ltd

Gary Burg, a Director of 3Q Holdings Limited, has a 100% interest in Wintol Pty Ltd.

Gary, being a Director of 3Q Holdings Limited is a related party. By virtue of his controlling interest in Wintol Pty Ltd, this makes Wintol Pty Ltd a related party as well.

24 Events after the reporting date

In August 2012, the Group completed a buyback of 17,484,326 shares held by Eastfall Pty Limited, a company associated with Clive Klugman, a Director of the Company, at 5c per share, for a total consideration of $874,216. This represents just over 10% of the Company's share capital.

25 Auditors' Remuneration

The auditor of 3Q Holdings Limited is BDO.

	Consolidated Group	
	2012 $	2011 $
Amounts received, or due and receivable by BDO for:		
- Audit or review of financial reports of the entity	167,562	141,719
- Other non-auditor services in relation to the entity		
R&D tax allowance preparation	8,222	8,150
Transfer pricing	14,410	10,000
Remuneration of other auditors of subsidiaries for:		
- Audit or review of financial reports of the entities	81,553	117,616
- Other non-auditor services in relation to the entities		
Tax services	29,916	13,866
Statutory account preparation	-	812
Other services charge	23,119	971
	324,782	**293,134**

26 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. 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.

	IPAUS		IP Store		IP (UK, US & India)		AdvanceRetail		Total	
	2012 $	2011 $	2012 $	2011 $	2012 $	2011 $	2012 $	2011 $	2012 $	2011 $
Revenue from external customers	4,363,288	4,672,567	1,464,310	1,318,020	13,944,994	12,271,259	4,253,754	5,115,460	24,026,346	23,377,306
Inter-segment revenue	144,051	52,112	-	-	1,523,055	600,410	749,805	950,324	2,416,911	1,602,846
Interest revenue	586	292	-	-	99	32	1,421	845	2,106	1,169
Total segment revenue	4,507,925	4,724,971	1,464,310	1,318,020	15,468,148	12,871,701	5,004,980	6,066,629	26,445,363	24,981,321
Adjusted EBITDA	1,202,318	755,025	602,296	315,548	2,723,273	3,063,240	666,918	1,124,920	5,194,805	5,258,733
Depreciation & amortisation	158,048	109,982	2,084	1,826	915,565	922,688	291,283	288,980	1,366,980	1,323,476
Income tax expenses	494,164	165,581	-	-	601,061	490,177	155,156	433,192	1,250,378	1,088,950
Interest expenses	9,929	4,196	-	10	448,025	344,654	177,311	1,138	635,265	349,998
Total segment assets	6,525,878	5,525,329	1,731,078	1,091,018	24,323,890	22,657,013	7,084,259	6,989,120	39,665,106	36,262,480
Total segment liabilities	1,589,655	1,114,722	223,465	236,193	18,746,981	17,649,851	5,295,867	4,556,610	25,855,968	23,557,376
Segment non-current assets other than financial assets & deferred tax	2,063,760	1,394,394	5,664	5,728	15,530,930	14,817,806	5,429,181	5,526,764	23,029,535	21,744,692

(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	
	2012 $	2011 $
Adjusted EBITDA	5,194,805	5,258,733
3Q's operating expenses	(1,707,654)	(1,331,470)
Intersegment elimination	2,668,957	2,098,037
Underlying EBITDA	**6,156,108**	**6,025,300**

(b) Reconciliation of adjusted EBITDA to operating profit before income tax

	Consolidation 2012 $	Consolidation 2011 $
Adjusted EBITDA	5,194,805	5,258,733
Depreciation and amortisation	(1,905,283)	(1,861,609)
Interest received	29,780	3,197
Foreign exchange losses	(321,668)	910,874
Finance costs	(591,210)	(699,621)
Share based payments/expenses	(27,309)	(102,901)
3Q's other sundry income	-	-
3Q's operation expenses	(1,707,654)	(1,331,470)
Intersegment elimination	2,668,957	2,098,037
Profit before income tax	**3,340,417**	**4,275,240**

(c) 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 Statement of Comprehensive Income.

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

	Consolidation 2012 $	Consolidation 2011 $
Revenue from external customers	24,026,346	23,377,306
3Q's revenue from external customers	-	-
Intersegment revenue	-	-
Total group revenue	**24,026,346**	**23,377,306**

(d) Reconciliation of segment assets to reported group assets

The amounts provided to 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 2012 $	Consolidation 2011 $
Segment assets	39,665,106	36,262,480
3Q's assets	38,840,440	36,412,676
Intersegment elimination	(38,984,858)	(37,634,008)
Total group assets	**39,520,688**	**35,041,148**

(e) Reconciliation of segment liabilities to reported group liabilities

	Consolidation 2012 $	Consolidation 2011 $
Segment liabilities	25,855,968	23,557,376
3Q's liabilities	13,153,361	12,680,547
Intersegment elimination	(18,489,274)	(17,046,345)
Total group liabilities	**20,520,055**	**19,191,578**

(f) Reconciliation of segment non current assets to reported group non current assets

	Consolidation 2012 $	Consolidation 2011 $
Segment non-current assets, other than financial assets & deferred tax	23,029,535	21,744,692
3Q's non-current assets	-	-
Intersegment elimination	3,119,661	3,119,661
Unallocated:		
- Deferred tax assets	3,352,259	2,937,361
Total group non current assets	**29,501,455**	**27,801,714**

(g) Geographical Information

The Group operates in six principal geographical areas - Australia (country of domicile), USA, UK, New Zealand, India and Malaysia.

The Groups revenue from continuing operations from external customers and information about its non-current assets* by geographical location are detailed below:

	Revenue from external customers		Non-current assets*	
	2012 $	2011 $	2012 $	2011 $
Australia	6,306,929	7,704,768	43,492,743	43,808,524
USA	9,580,514	9,633,506	11,731,627	10,155,244
UK	5,828,789	3,955,773	2,631,496	2,750,674
New Zealand	2,223,334	1,984,751	2,323,676	2,159,450
Malaysia	86,780	98,508	1,713	2,251
India	-	-	30,789	-
	24,026,346	**23,377,306**	**60,212,044**	**58,876,143**

*Non-current assets exclude financial instruments and deferred tax.

27 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.

Name of Entity	Country of Incorporation	Class of Shares	Equity Holding 2012 %	Equity Holding 2011 %
Island Pacific Australia 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 Limited	New Zealand	Ordinary	100	100
Island Pacific (UK) Limited	United Kingdom	Ordinary	100	100
AdvanceRetail Technology Asia Sdn Bhd	Malaysia	Ordinary	100	100
Island Pacific Retail Systems Private Limited	India	Ordinary	100	-

28 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 no forward currency contracts in place at 30 June 2012 (2011: Nil).

(ii) Interest rate swaps - cash flow hedges

The Groups Interest bearing loans at reporting date bear an average fixed interest rate of 8.28% (2011: 8.4%) on Australian loans, 3.47% (2011: 3.59%) on US loans, and 4.11% (2011: 4.14%) on Sterling 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 2012 cover approximately 72% (2011: 80%) 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 2011 and 30 June 2012 was 5.65% on Australian loans (excluding margin), 0.84% on US loans (excluding margin), and 1.485% on the Sterling Loans (excluding margin).

(b) Interest rate risk

Information regarding interest rate risk exposure is set out in note 21.

29 Key Management Personnel Disclosures

(a) Names and positions held of consolidated 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 Island Pacific Australia Pty Limited - Executive
Mark McGeachen	Director 3Q and CEO AdvanceRetail - Executive
Stephe Wilks	Director 3Q – Non-Executive
Gary Burg	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 Systems Inc
Mike Dotson	Managing Director of Island Pacific (UK) Limited

	Consolidated Group	
	2012 $	2011 $
Short-term employee benefits	2,140,793	1,838,296
Post employment benefits	127,314	121,875
Share-based payment	5,462	18,298
	2,273,569	**1,978,469**

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

(b) Option holdings of directors & executives

The movement during the current financial year in the number of options over ordinary shares in the Group 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	2011	-	-	-	-	-
	2012	-	-	-	-	-
Clive Klugman	2011	-	-	-	-	-
	2012	-	-	-	-	-
Alan Treisman	2011	-	-	-	-	-
	2012	-	-	-	-	-
Stephe Wilks	2011	-	-	-	-	-
	2012	-	-	-	-	-
Mark McGeachen	2011	-	-	-	-	-
	2012	-	-	-	-	-
Andrew Bell	2011	-	-	-	-	-
	2012	-	-	-	-	-
David Rosen	2011	-	-	-	-	-
	2012	-	-	-	-	-
Richard Gaetano	2011	500,000	-	-	-	500,000
	2012	500,000	-	-	-	500,000
Mike Dotson	2011	500,000	-	-	-	500,000
	2012	500,000	-	-	-	500,000
Gary Burg	2011	-	-	-	-	-
	2012	-	-	-	-	-

(c) Share holdings

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

	Held at 30 June 2011	Received as compensation	Options exercised	Net change others*	Held at 30 June 2012
Shaun Rosen	61,750,000	-	-	15,900	61,765,900
Clive Klugman	54,000,000	-	-	(3,500,000)	50,500,000
Alan Treisman	3,350,000	-	-	2,500,000	5,850,000
Stephe Wilks	2,376,452	-	-	-	2,376,452
Gary Burg**	-	-	-	-	2,000,000
Mark McGeachen	3,127,900	-	-	-	3,127,900
Andrew Bell	2,188,950	-	-	-	2,188,950
David Rosen	59,500,000	-	-	-	59,500,000
Richard Gaetano	-	-	-	-	-
Mike Dotson	250,000	-	-	-	250,000
	186,543,302	**-**	**-**	**(984,100)**	**187,559,202**

* Net change others refers to shares purchased or sold during the financial year.
** Appointed 29 March 2012.

	Held at 30 June 2010	Received as compensation	Options exercised	Net change others*	Held at 30 June 2011
Shaun Rosen	59,500,000	-	-	2,250,000	61,750,000
Clive Klugman	59,500,000	-	-	(5,500,000)	54,000,000
Alan Treisman	2,100,000	-	-	1,250,000	3,350,000
Stephe Wilks	365,000	-	-	2,011,452	2,376,452
Mark McGeachen	2,877,900	-	-	250,000	3,127,900
Andrew Bell	1,938,950	-	-	250,000	2,188,950
David Rosen	59,500,000	-	-	-	59,500,000
Richard Gaetano	-	-	-	-	-
Mike Dotson	250,000	-	-	-	250,000
	186,031,850	**-**	**-**	**511,452**	**186,543,302**

Transactions with key management personnel have been disclosed under Note 23.

30 Parent Entity Information

Information relating to 3Q Holdings Limited.

	Parent Entity 2012 $	Parent Entity 2011 $
Current assets	3,995,605	1,442,960
Total assets	44,480,811	42,929,909
Current liabilities	3,138,753	3,352,845
Total liabilities	14,147,173	13,414,481
Equity		
- Issued Capital	46,070,539	46,070,539
- Reserves	693,358	475,911
- Accumulated losses	(16,430,259)	(17,031,022)
Shareholder's equity	30,333,638	29,515,428
Profit for the year	600,763	1,296,108
Total comprehensive income for the year	600,763	1,296,108

Guarantees entered into by 3Q in relation to the debts of its subsidiaries

There are no guarantees entered into by 3Q in relation to the debts of its subsidiaries (2011: Nil).

Contingent liabilities

There are no contingent liabilities (2011: Nil).

Contractual commitments by 3Q for the acquisition of property, plant or equipment

There are no commitments in the current year (2011: Nil).

Directors' Declaration

In the directors' opinion:

- the attached financial statements and notes thereto comply with the Corporations Act 2001, the Accounting Standards, the Corporations Regulations 2001 and other mandatory professional reporting requirements;
- the attached financial statements and notes thereto comply with International Financial Reporting Standards as issued by the International Accounting Standards Board as described in Note 1 and Note 2 to the financial statements;
- the attached financial statements and notes thereto give a true and fair view of the consolidated entity's financial position as at 30 June 2012 and of its performance for the financial year ended on that date; and
- there are reasonable grounds to believe that the consolidated entity will be able to pay its debts as and when they become due and payable.

The directors have been given the declarations required by section 295A of the Corporations Act 2001.

Signed in accordance with a resolution of directors made pursuant to section 295(5) of the Corporations Act 2001.

On behalf of the directors,

Dated at Sydney, 30 August 2012.

....
Director

BDO

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Fax: 61 2 9240 9821
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Level 10, 1 Margaret St
Sydney NSW 2000
Australia

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, which comprises the consolidated statement of financial position as at 30 June 2012, the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, notes comprising a summary of significant accounting policies and other explanatory information, and the directors' declaration of the consolidated entity comprising 3Q Holdings Limited ("the company") and the entities it controlled at the year's end or from time to time during the financial year.

Directors' Responsibility for the Financial Report

The directors of the company are responsible for the preparation of the financial report that gives a true and fair view in accordance with Australian Accounting Standards and the *Corporations Act 2001* and for such internal control as the directors determine is necessary to enable the preparation of the financial report that gives a true and fair view and is free from material misstatement, whether due to fraud or error. In Note 2, the directors also state, in accordance with Accounting Standard AASB 101 Presentation of Financial Statements, that the financial statements comply with International Financial Reporting Standards.

Auditor's Responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial report. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial report, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the company's preparation of the financial report that gives a true and fair view in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the company'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.

BDO

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*. We confirm that the independence declaration required by the *Corporations Act 2001*, which has been given to the directors of 3Q Holdings Limited, would be in the same terms if given to the directors as at the time of this auditor's report.

Opinion

In our opinion:

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

   (i) giving a true and fair view of the consolidated entity's financial position as at 30 June 2012 and of its performance for the year ended on that date; and

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

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

Report on the Remuneration Report

We have audited the Remuneration Report included in the directors report for the year ended 30 June 2012. The directors of the company are responsible for the preparation and presentation of the Remuneration Report in accordance with section 300A of the *Corporations Act 2001*. Our responsibility is to express an opinion on the Remuneration Report, based on our audit conducted in accordance with Australian Auditing Standards.

Opinion

In our opinion, the Remuneration Report of 3Q Holdings Limited for the year ended 30 June 2012 complies with section 300A of the *Corporations Act 2001*.

BDO East Coast Partnership

BDO

Paul Bull
Partner

Sydney, 30 August 2012

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 13 August 2012

Substantial Shareholders

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

	Ordinary Shares	%
Eastfall Pty Limited	50,500,000	30%
Elabrook Pty Limited	61,765,900	37%

Voting Rights

Each ordinary shareholder is entitled to receive notice of and attend and vote at general meetings of the Group. 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 1 August 2012

Category	Ordinary Shareholders	Options Holders
1 – 1,000	102	-
1,001 – 5,000	48	-
5,001 – 10,000	40	5
10,001 – 100,000	80	42
100,001 and over	74	6
TOTAL	**344**	**53**

The number of ordinary shareholders holding less than a marketable parcel of ordinary shares is 158.

Number of holders of each class of equity securities

Equity Security	Number of Holders
Ordinary Shares	344
Options over ordinary shares	53

On-Market buy back

There is no current on-market buy back.

Equity Securities on issue

Equity Security	Number
Ordinary shares	165,826,542
Options over ordinary shares	5,050,000

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Twenty largest shareholders of quoted ordinary shares

As at 13 August 2012

Name	Ordinary Shares	%
Elabrook Pty Limited	57,500,000	35%
Eastfall Pty Limited	48,500,000	29%
Data Group Limited	6,822,650	4%
Alan Treisman	5,850,000	4%
Ron-Ton Fashions Pty Ltd (Retirement fund A/C)	4,285,733	3%
Towns Corporation Pty Ltd PAE Family A/C	2,265,000	1%
Shaun Rosen	2,250,000	1%
Mark James McGeachen + Robyn McGeachen + Andrew Bell	2,127,900	1%
Old Trafford Super Pty Ltd	2,015,900	1%
Jay Fisher	2,000,000	1%
Clive Klugman	2,000,000	1%
David Rosen	2,000,000	1%
Wintol Pty Ltd	2,000,000	1%
High Expectations Pty Ltd	1,876,452	1%
Towns Corporation Pty Ltd	1,509,885	1%
UBS Wealth Management Australia Nominees Pty Ltd	1,314,414	1%
Hillridge Pty Ltd	1,243,233	1%
Mark James McGeachen + Andrew Bell	1,188,950	1%
Andy Bell	1,000,000	1%
Mark McGeachen	1,000,000	1%
TOTAL	**148,750,117**	**90%**

Quotation of Securities on other Stock Exchanges

The equity securities of the Group 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 other than the securities held as part of the Employee Share Plan.

Unquoted Securities

Unquoted Equity Security	Number of Holders	Securities on issue
Options over ordinary shares	53	5,050,000

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 2010 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.