2013 Annual Report

Corporate Information

ABN 42 089 058 293

Directors
Shaun Rosen (Executive Chairman)
Clive Klugman
Alan Treisman
Mark McGeachen
Stephe Wilks
Gary Burg (Resigned 11 September 2013)

Company Secretary
Alan Treisman

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Solicitors
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MLC Centre Martin Place
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Bankers
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Bondi Junction, Sydney NSW
George Street, Sydney NSW

Auditors
BDO
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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 2013.

This year we focused on consolidation of the business following the delisting on 12 February 2013, and on ongoing research and development to update the Company's leading products. This focus was to maintain our market position as "the one that works", and to ensure that we were well placed to take the refreshed and updated product suite to a broader range of customers in coming years.

As a result of this investment in the future, earnings for the year have come in lower than last year (with underlying EBITDA of $4.47m, down 27% from FY2012). A drop in revenue and a material increase in staff costs were the primary contributors to the lower result for the year.

In addition to the investment in development and additional staff, a number of corporate actions during the year have helped to ensure that the Company is well placed to restore growth and earnings in the coming years. Our Indian development team continues to grow, offering additional cost effective resources to develop and maintain our software portfolio. We also completed the acquisition of Intelligent Retail, a UK based company specialising in mutli-channel online sales and services, in the second half of the year. This acquisition opens up a whole new market for us in multi-channel online sales in the lower end of the market – and offers expansion opportunities into New Zealand, Australia, Asia, South Africa and the US over the next two years or so.

We also paid down some $1.75m of debt over the year, although – with the acquisition of Intelligent Retail (and with foreign currency translation of our USD and GBP denominated debt) – total net debt now stands at around $7.41m. That debt was refinanced during the year, with $6m of interest only debt at very competitive rates, and an acquisition facility which we will amortise over the term of the facility. On 9 September 2013, the holders of the convertible note advised that they would not seek to convert that note, and it will therefore attract interest payments (already accrued in the accounts) in the coming financial year. Gary Burg (who had been appointed a Director at the time of issuing the convertible note to represent the holders of notes on the Board) resigned from the Board.

The Company's issued share capital was reduced by some 11% during the year, with the completion of the shareholder approved buy back.

With all this corporate activity, we continued to engage effectively with our customers, in what remains a challenging retail environment. The slowdown in the economy, in particular in Australia where the retail industry is in difficult times, has seen the demise of some of our long standing, high profile customers. This has, however, been offset with some new sales into existing customers – such as the ongoing implementation of Phase 2 of Island Pacific Merchandising Solutions (IPMS) into Primark. Other customer wins - some large, some small, but all strategically important – helped to increase our exposure into existing customers, and allowed us to gain new customers, new markets and new products (in particular, mobile). A small sample of those wins included:

- Fanzz, Silver Jeans,LS Retail (Newslink), Primark - Phase 2,
- Otago Settlers Museum, Urban Attitude, Kiehls NZ, Averroes Pharmaceuticals Malaysia, Star Mall China, and Shanghai K11 Art Mall.

Outlook

I believe that the 2014 Financial Year will see further consolidation of the Company's operations and products, as well as the consolidation and expansion of our newly acquired business, Intelligent Retail. We will continue to invest in the people and other resources required to ensure that the Company maintains a leading position in all of our markets, and can competitively enter new markets. Although this may have a limited 'drag' on earnings in the near future, it is the most effective way to build shareholder value over the longer term. As the Company's largest shareholder, I am very focused – along with the Board and Management – on creating long term shareholder value.

The company will continue to review its capital structure in the coming year - and, while we will primarily focus on consolidating the existing business and building up the company organically, should any strategic acquisitions arise, the Directors will naturally pursue those opportunities, as we have in the past.

On an administrative note, I understand that some shareholders may wish to either increase their existing shareholding, or sell down some of their shares, but since the delisting no longer have a ready mechanism to do so. If you are in such a position, please let Alan Treisman (CFO and Company Secretary) know, and we will endeavour to assist matching any interested buyers and sellers.

I look forward to sharing more news with you as the Company continues to develop and grow over the coming years.

Shaun Rosen, Chairman

Directors' Report

Directors & Company Secretary

The names and details of the Directors of 3Q Holdings Ltd 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.

Gary has subsequently resigned as a director effective 11 September 2013.

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 a 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 Company to grow its existing business organically – a major driver of the Company'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, AdvanceRetail Technology in New Zealand and Australia, and Intelligent Retail in the UK.

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

Refer to Chairman's letter for detail.

Operating Results for the Year

Financial Highlights

	2013	2012		Percentage Increase/(Decrease)
Revenue	$23,309,498	$24,026,346	↓	-3%
Gross Profit Percentage	89%	89%	↓	0%
Underlying EBITDA*	$4,469,117	$6,156,108	↓	-27%
Underlying NPBT*	$1,624,659	$3,689,394	↓	-56%
Underlying NPAT*	$848,641	$2,794,002	↓	-70%
Net Profit after tax	$131,751	$2,445,025	↓	-95%
Earnings per Share (cents)	0.09	1.47	↓	-94%
Employee benefit expenses	$12,217,839	$11,322,227	↑	8%
Number of Employees	193	133	↑	45%

**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 2013 Financial Year include:

- Underlying EBITDA, NPAT and revenues down on last year, mainly due to lower turnover and higher staff cost resulting from additional investment in staff.

  Net debt increased by $1mill from FY2012 due to 1) additional loan for the acquisition of Intelligent Retail ($2 mill), 2) the negative effect of exchange differences on the US$ and GBP loans resulting from the weaker AUD$ against these currencies at balance date, 3) the additional convertible note issued of $900k. There were also repayments of debt amounting to $1.75mill during the year.

- Gearing ratio increased from 25% to 27%.

Asset and Capital Structure

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

Consolidated	2013 $	2012 $
Interest Bearing Loans & Convertible Notes	11,959,654	10,003,744
Cash & Short Term Deposits	(4,547,348)	(3,653,456)
Net Debt	7,412,306	6,350,288
Total Equity	20,036,387	19,000,633
Total Capital Employed	27,448,693	25,350,921
Gearing (%)	27.00%	25.05%

Profile of Debts

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

	2013 $	2012 $
Bank Loans	8,316,512	7,486,080
Convertible Note	3,478,274	2,284,308
Other Finance Loans	164,868	233,356
TOTAL DEBT	**11,959,654**	**10,003,744**

Share issues during the year

1.5 million shares under the Employee Share Ownership Plan were issued during the year to staff and Senior Managers (2012: 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.
- 5,000,000 options expired during the year.
- No options were issued during the prior year.
- No 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 (2012: Nil).

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

On 12 February 2013, 3Q Holdings limited delisted from the ASX.

Other that the above, there are no significant changes in the state of affairs of the Group.

Significant Events After the Reporting Date

On 11 September 2013 the holders of the convertible notes in the Company (including Gary Burg, who was a Director of the Company) advised that they would not convert the notes into equity. Hence, interest (already accrued in the accounts) will be paid on the outstanding notes over the coming and future financial years, together with amortisation of the principal over the term of the notes. Gary Burg resigned as a Director of the Company effective 11 September 2013.

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, but in limited cases to the performance of a subsidiary.

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

	2013	2012	2011	2010	2009
	$	$	$	$	$
Revenue	23,309,498	24,026,346	23,377,306	23,333,887	24,990,105
Net profit before tax	907,766	3,340,417	4,275,240	1,979,969	2,222,857
Net profit after tax	131,751	2,445,025	2,974,065	1,298,016	1,579,957
Share price at end of year (cents)	n/a	5.4	6	8	15
Basic earnings per share (cents)	n/a	1.47	1.84	0.84	1.07
Diluted earnings per share (cents)	n/a	1.38	1.73	0.77	0.98

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 2013, 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.

Voting comments made at the Company's 2012 Annual General Meeting (AGM)

At the last Annual General Meeting (in respect of financial year 2012), more than 25% of shares eligible to vote on the resolution were voted against the Company's Remuneration Report. The Company did not receive any specific feedback on the Remuneration Report, either at that meeting or subsequently. Nonetheless, the Board again considered the overall approach to remuneration in the current financial year, to ensure that it continues to be aligned with maximising shareholder value, and is satisfied that the current arrangements are 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 is the only Non-Executive Director as at the date of this report. Stephe was appointed on 14 February 2008.

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 and incentives are paid to certain key management personnel on achievement of certain targets.

A Remuneration Committee has been formed. The Company Secretary and the Independent Director 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	**2013**	315,613	-	10,800	-	326,413	-
Executive Chairman	**2012**	289,081	-	35,571	-	324,652	-
Clive Klugman	**2013**	317,275	-	19,831	-	337,106	-
Executive Director	**2012**	310,739	-	45,338	-	356,077	-
Alan Treisman	**2013**	275,894	-	20,651	-	296,545	-
Finance Director & Secretary	**2012**	337,801	-	17,722	-	355,523	-
Mark McGeachen	**2013**	200,248	-	-	-	200,248	-

	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 $	$	%
Executive Director	**2012**	194,861	-	-	-	194,861	-
Stephe Wilks	**2013**	84,000	-	-	-	84,000	-
Non-Executive	**2012**	78,000	-	-	-	78,000	-
Gary Burg	**2013**	60,000	-	-	-	60,000	-
Non-Executive	**2012**	-	-	-	-	-	-
Executives							
David Rosen	**2013**	407,271	-	10,066		417,337	-
Director Island Pacific Systems Inc.	**2012**	267,410	-	9,674		277,084	-
Andrew Bell	**2013**	192,238	-	-	-	192,238	-
Chief Technical Officer AdvanceRetail Technology	**2012**	187,070	-	-	-	187,070	-
Richard Gaetano	**2013**	203,374	-	10,066	2,925	216,364	-
Chief Operating Officer Island Pacific USA	**2012**	236,709	-	9,674	2,731	249,114	-
Mike Dotson	**2013**	227,670	-	4,121	2,731	234,522	-
Managing Director Island Pacific UK	**2012**	239,122	-	9,335	2,731	251,188	-
TOTAL	**2013**	**2,283,582**	**-**	**75,535**	**5,656**	**2,364,773**	**-**
	2012	**2,140,793**	**-**	**127,314**	**5,462**	**2,273,569**	**-**

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	6	6
Clive Klugman	6	5
Alan Treisman	6	6
Mark McGeachen	6	6
Stephe Wilks	6	6
Gary Burg	6	6

Auditor's Independence Declaration

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

Signed in accordance with a resolution of the Directors.

Shaun Rosen
Executive Chairman
Sydney, NSW
27 September, 2013

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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 2013, 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, 27 September 2013

Consolidated Statement of Profit or Loss and Other Comprehensive Income

For the year ended 30 June 2013

	Note	Consolidated Group 2013 $	Consolidated Group 2012 $
Revenue	3(a)	23,309,498	24,026,346
Cost of sales		(2,534,137)	(2,600,442)
Gross profit		20,775,361	21,425,904
Other income	3(b)	157,219	75,662
Operating expenses	3(c)	(3,991,816)	(3,993,453)
Employee benefit expenses		(12,217,839)	(11,322,227)
Earnings before tax, finance costs, depreciation, amortisation, foreign exchange gains/(losses) and share based payments		4,722,925	6,185,886
Depreciation		(256,282)	(218,918)
Amortisation		(1,929,817)	(1,686,364)
Finance costs		(717,156)	(591,210)
Foreign exchange gains/(losses)		(699,341)	(321,668)
Business combination costs – acquisition of Intelligent Retail		(195,010)	-
Share based payments/expenses		(17,551)	(27,309)
Profit before income tax		**907,766**	**3,340,417**
Income tax expense	4	(776,015)	(895,392)
Profit for the year		**131,751**	**2,445,025**
Other comprehensive income:			
Items that may be reclassified subsequently to profit or loss			
Exchange difference on translating foreign operations, net of tax		1,712,844	488,591
Other comprehensive income for the year, net of tax		**1,712,844**	**488,591**
Total comprehensive income for the year		1,844,595	2,933,616
Profit attributable to:			
Owners of the parent		131,751	2,445,025
Total comprehensive income attributable to:			
Owners of the parent		1,844,595	2,933,616
Earnings per share for profit attributable to the owners:			
· Basic earnings per share (cents per share)	5	0.09	1.47
· Diluted earnings per share (cents per share)	5	0.07	1.38

The accompanying notes form part of these Consolidated Financial Statements.

Consolidated Statement of Financial Position

As at 30 June 2013

	Note	Consolidated Group 2013 $	Consolidated Group 2012 $
ASSETS			
Current Assets			
Cash and cash equivalents	7	4,547,348	3,653,456
Trade and other receivables	8	5,646,240	5,793,053
Other assets	9	701,440	386,403
Inventories	10	243,581	186,321
Current tax assets	18	251,144	-
Total Current Assets		**11,389,753**	**10,019,233**
Non-current Assets			
Property, plant and equipment	11	664,294	587,987
Trade and other receivables	8	173,968	58,445
Intangible assets	12	30,302,894	25,502,764
Deferred tax assets	18	3,585,574	3,352,259
Total Non-current Assets		**34,726,730**	**29,501,455**
TOTAL ASSETS		**46,116,483**	**39,520,688**
LIABILITIES			
Current Liabilities			
Trade and other payables	15	7,820,987	5,415,057
Financial liabilities	16	1,181,239	1,862,719
Employee benefits	17	1,362,774	1,215,635
Current tax liabilities	18	255,693	362,899
Total Current Liabilities		**10,620,693**	**8,856,310**
Non-current Liabilities			
Financial liabilities	16	10,833,438	8,183,526
Employee benefits	17	53,689	31,394
Deferred tax liabilities	18	4,572,276	3,448,825
Total Non-current Liabilities		**15,459,403**	**11,663,745**
TOTAL LIABILITIES		**26,080,096**	**20,520,055**
NET ASSETS		**20,036,387**	**19,000,633**
EQUITY			
Issued capital	19	6,724,598	7,586,837
Reserves	20	(301,901)	(2,068,143)
Retained Earnings		13,613,690	13,481,939
TOTAL EQUITY		**20,036,387**	**19,000,633**

The accompanying notes form part of these Consolidated Financial Statements.

Consolidated Statement of Changes in Equity

For the year ended 30 June 2013

	Note	Issued Capital	Reserves	Retained Earnings	Option Premium on Convertible Notes	Total
		$	$	$	$	$
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**
Balance at 1 July 2012		7,586,837	(2,258,281)	13,481,939	190,138	19,000,633
Profit for the year		-	-	131,751	-	131,751
Other comprehensive income for the year, net of tax		-	1,712,844	-	-	1,712,844
Total comprehensive income for the year		-	1,712,844	131,751	-	1,844,595
Transactions with owners in their capacity as owners:						
Share-based payments		17,551	-	-	-	17,551
Share buy back		(879,790)	-	-	-	(879,790)
Issue of convertible notes		-	-	-	53,398	53,398
Balance at 30 June 2013	19	**6,724,598**	**(545,437)**	**13,613,690**	**243,536**	**20,036,387**

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	
		2013	2012
		$	$
Cash flows from operating activities			
Receipts from customers		25,835,098	22,881,294
Payments to suppliers and employees		(20,527,138)	(18,395,703)
Interest received		56,954	30,040
Interest paid		(377,766)	(535,242)
Income taxes paid		(466,290)	(494,378)
Other income		103,680	57,208
Net cash inflows from operating activities	7	**4,624,538**	**3,543,219**
Cash flows from investing activities			
Payment for purchase of business, net of cash acquired	30	(1,332,926)	-
Purchase of property, plant and equipment		(244,614)	(130,718)
Purchase of other non-current assets		(7,079)	(8,295)
Loans to other entities		(47,674)	-
Payment of development costs		(2,482,712)	(2,365,129)
Net cash outflows from investing activities		**(4,115,005)**	**(2,504,142)**
Cash flows from financing activities			
Proceeds from borrowings		3,335,930	2,400,000
Repayment of borrowings		(2,250,000)	(2,150,000)
Repayment of finance lease liabilities		(55,343)	(43,361)
Share buybacks		(879,790)	-
Net cash inflows from financing activities		**150,797**	**206,639**
Net increase in cash and cash equivalents		660,330	1,245,716
Cash and cash equivalents at beginning of period	7	3,653,456	2,293,082
Exchange rate/translation adjustments		233,562	114,658
Cash and cash equivalents at end of period	7	**4,547,348**	**3,653,456**

The accompanying notes form part of these Consolidated Financial Statements.

Notes to the Financial Statements

For the year ended 30 June 2013

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 2013 was authorised for issue in accordance with a resolution of the Directors on 27 September 2013.

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 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 $6,024,612 (2012: $4,688,148) 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 29.

(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 Profit or Loss and other 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).

The functional currency of the foreign operation, Intelligent Retail Limited, is Great British Pounds (GBP).

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 Profit or Loss and Other 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 Profit or Loss and Other 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 Profit or Loss and Other 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 Profit or Loss and Other 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 Profit or Loss and Other 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 Profit or Loss and Other 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.

Business Combinations

As discussed in note 2(xxiv), business combinations are initially accounted for on a provisional basis. The fair value of assets acquired, liabilities and contingent liabilities assumed are initially estimated by the consolidated entity taking into consideration all available information at the reporting date. Fair value adjustments on the finalisation of the business combination accounting other than contingent consideration are retrospective, where applicable, to the period the combination occurred and may have an impact on the assets and liabilities, depreciation and amortisation reported.

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, a portion of 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 acquisition method of accounting is used to account for business combinations regardless of whether equity instruments or other assets are acquired. The consideration transferred is the sum of the acquisition-date fair values of the assets transferred, equity instruments issued or liabilities incurred by the acquirer to former owners of the acquiree and the amount of any non-controlling interest in the acquiree. For each business combination, the non-controlling interest in the acquiree is measured at either fair value or at the proportionate share of the acquiree's identifiable net assets. All acquisition costs are expensed as incurred to profit or loss.

On the acquisition of a business, the consolidated entity assesses the financial assets acquired and liabilities assumed for appropriate classification and designation in accordance with the contractual terms, economic conditions, the consolidated entity's operating or accounting policies and other pertinent conditions in existence at the acquisition-date.

Where the business combination is achieved in stages, the consolidated entity remeasures its previously held equity interest in the acquiree at the acquisition-date fair value and the difference between the fair value and the previous carrying amount is recognised in profit or loss.

Contingent consideration to be transferred by the acquirer is recognised at the acquisition-date fair value. Subsequent changes in the fair value of contingent consideration classified as an asset or liability is recognised in profit or loss. Contingent consideration classified as equity is not remeasured and its subsequent settlement is accounted for within equity.

The difference between the acquisition-date fair value of assets acquired, liabilities assumed and any non-controlling interest in the acquiree and the fair value of the consideration transferred and the fair value of any pre-existing investment in the acquiree is recognised as goodwill. If the consideration transferred and the pre-existing fair value is less than the fair value of the identifiable net assets acquired, being a bargain purchase to the acquirer, the difference is recognised as a gain directly in profit or loss by the acquirer on the acquisition-date, but only after a reassessment of the identification and measurement of the net assets acquired, the non-controlling interest in the acquiree, if any, the consideration transferred and the acquirer's previously held equity interest in the acquirer.

Business combinations are initially accounted for on a provisional basis. The acquirer retrospectively adjusts the provisional amounts recognised and also recognises additional assets or liabilities during the measurement period, based on new information obtained about the facts and circumstances that existed at the acquisition-date. The measurement period ends on either the earlier of (i) 12 months from the date of the acquisition or (ii) when the acquirer receives all the information possible to determine fair value.

(xxv) 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 2013. 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, 2010-7 Amendments to Australian Accounting Standards arising from AASB 9 and 2012-6 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 2015 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. 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.

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.

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.

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.

AASB 12 Disclosure of Interests in Other Entities

This standard is applicable to annual reporting periods beginning on or after 1 January 2013. It contains the entire disclosure requirement associated with other entities, being subsidiaries, associates and joint ventures. The disclosure requirements have been significantly enhanced when compared to the disclosures previously located in AASB 127 'Consolidated and Separate Financial Statements', AASB 128 'Investments in Associates', AASB 131 'Interests in Joint Ventures' and Interpretation 112 'Consolidation - Special Purpose Entities'. The adoption of this standard from 1 July 2013 will significantly increase the amount of disclosures required to be given by the consolidated entity such as significant judgements and assumptions made in determining whether it has a controlling or non-controlling interest in another entity and the type of non-controlling interest and the nature and risks involved.

AASB 119 Employee Benefits (September 2011) and AASB 2011-10 Amendments to Australian Accounting Standards arising from AASB 119 (September 2011)

This revised standard and its consequential amendments are applicable to annual reporting periods beginning on or after 1 January 2013. The amendments make changes to the accounting for defined benefit plans and the definition of short-term employee benefits, from 'due to' to 'expected to' be settled within 12 months. The later will require annual leave that is not expected to be wholly settled within 12 months to be discounted allowing for expected salary levels in the future period when the leave is expected to be taken.

The potential effect of the initial application of these Accounting Standards and Interpretations has been considered by the Directors and they do not believe that they will have a material impact on the financial statements.

3 Revenue and Expenses

	Consolidated Group	
	2013	2012
	$	**$**
(a) Revenue		
Sales of goods/hardware	986,906	1,053,440
Rendering of services	9,537,950	9,114,611
Maintenance fees	9,997,572	9,317,280
Licence fees	2,390,501	4,124,775
Other revenue	396,569	416,240
	23,309,498	**24,026,346**
(b) Other income		
Interest income	56,975	29,780
Other income	100,244	45,882
	157,219	**75,662**
(c) Operating expenses		
Accounting and audit fees	415,503	408,702
Bad and doubtful debts	31,592	225,689
Legal fees	127,787	194,290
Rental expense and operating lease	793,932	722,408
Superannuation	251,977	353,894
Other expenses	2,371,025	2,088,470
	3,991,816	**3,993,453**
(d) Finance Costs		
Interest paid on bank loans	357,270	524,231
Loss(gain) on SWAP	12,522	(7,467)
Other finance costs on convertible notes	347,364	74,446
	717,156	**591,210**

4 Income Tax

	Consolidated Group 2013 $	2012 $
(a) Income Tax Expense/(Benefit) Comprise:		
Current tax	271,252	538,088
Deferred tax	(93,062)	475,633
Recoupment/recognition of prior and current year tax losses	597,825	(118,329)
	776,015	**895,392**
(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% (2012: 30%)	272,330	1,002,125
Add:		
Tax effect of:		
non-deductible depreciation and amortisation	32,890	11,093
other non-allowable items	175,963	16,599
adjustment for differences in tax rates	111,240	186,698
shares and options expensed during year	13,458	8,193
foreign subsidiary income subject to additional tax in US	-	
under/(over) provision for income tax in prior year	-	(1,093)
other tax adjustments	38,287	(30,401)
	644,168	**1,193,214**
Less:		
Tax effect of:		
deduction for current year US state taxes	-	(32,902)
foreign currency exchange loss subject to income tax deduction	(3,034)	-
research and development additional allowance	(261,081)	(201,242)
reversal/(recoupment) of tax losses not previously recognised	395,962	(63,678)
Income tax attributable to entity	**776,015**	**895,392**
The applicable weighted average effective tax rates are as follows:	85%	27%

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	
	2013	2012
Net profit attributed to ordinary equity holders of the parent	131,751	2,445,025
Weighted average number of ordinary shares for basic earnings per share	149,778,893	165,826,542
Effect of dilution: share options and convertible notes	31,817,614	10,951,639
Weighted average number of ordinary shares adjusted for the effect of dilution	181,596,507	176,778,181

On 11 September 2013 the holders of the convertible notes advised that they would not convert the notes into equity.

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	
	2013 $	2012 $
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% (2012 - 30%)	2,173,678	1,798,647
- Franking credits that will arise from the payment of income tax payable as at the end of the financial year	158,527	255,386
The amount of franking credits available for future reporting periods	2,332,205	2,054,033

7 Cash and Cash Equivalents

(a) Cash Balance

	Consolidated Group 2013 $	Consolidated Group 2012 $
Cash at bank	4,547,348	3,653,456
	4,547,348	**3,653,456**

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 2013 $	Consolidated Group 201 $
Cash and cash equivalents	4,547,348	3,653,456
Overdraft	-	-
Cash per Statement of Cash Flows	**4,547,348**	**3,653,456**

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

	Consolidated Group 2013 $	Consolidated Group 2012 $
Profit after income tax	**131,751**	**2,445,025**
Non-cash flows in profit:		
Depreciation expenses	256,282	218,918
Amortisation expenses	1,929,817	1,686,364
Net profit on disposal of property, plant and equipment	25,286	116
Share option expenses	17,551	27,309
Net foreign exchange difference	10,122	2,829
Changes in assets and liabilities (net of settlement)		
(Increase)/decrease in inventories	3,803	7,289
(Increase)/decrease in trade and other receivables	543,291	(1,908,601)
(Increase)/decrease in prepayments	(160,659)	236,090
(Increase)/decrease in deferred tax assets	(39,953)	(151,632)
(Increase)/decrease in current tax assets	62,211	(82,366)
Increase/(decrease) in current/deferred tax liabilities	101,229	557,509
Increase/(decrease) in trade and other payables	944,462	628,994
Increase/(decrease) in provisions	81,238	98,269
Increase/(decrease) in maintenance in advance	718,107	(222,894)
Net Cash from Operating Activities	**4,624,538**	**3,543,219**

8 Trade and other receivables

	Consolidated Group 2013 $	Consolidated Group 2012 $
Current		
Trade receivables	5,509,442	5,437,054
Less: Provision for impairment (a)	(349,214)	(320,260)
	5,160,228	5,116,794
Unbilled receivables	427,531	605,778
Receivable from related party	58,481	70,481
	5,646,240	**5,793,053**
Non-Current		
Trade receivables	173,968	58,445
	173,968	**58,445**

(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 2013 $	Consolidated Group 2012 $
0-30 days	4,158,701	2,329,193
0-30 days/CI*	343	220,500
31-60 days/PDNI*	409,394	2,045,653
31-60 days/CI*	-	-
61-90 days/PDNI*	263,956	176,490
61-90 days/CI*	17,659	-
+ 91 days/PDNI*	560,625	694,384
+ 91 days/CI*	331,213	99,760
	5,741,891	**5,565,980**

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

Receivables past due but not considered impaired are: Consolidated $1,233,975 (2012: $2,916,527). 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 $296,701 at 30 June 2013 (2012: $500,794). 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 2013 $	Consolidated Group 2012 $
Movement in provision		
Balance of the beginning of the year	320,260	137,079
Additional provision	28,954	183,181
Balance at the end of year	**349,214**	**320,260**

(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	
	2013 $	2012 $
Prepayments	701,440	386,403
	701,440	**386,403**

10 Inventories

	Consolidated Group	
	2013 $	2012 $
Finished goods at the lower of cost and net realisable value	243,581	186,321
	243,581	**186,321**

11 Property, Plant & Equipment

	Consolidated Group	
	2013 $	2012 $
(a) **Property, plant, equipment, furniture and motor vehicles**		
At cost	1,827,413	1,496,706
Accumulated depreciation	(1,238,253)	(990,772)
	589,160	**505,934**
Movement in carrying amount		
Balance at the beginning of the year	505,934	364,259
Additions	239,261	298,781
Additions through business combinations (note 30)	58,878	-
Disposal	(10,336)	-
Depreciation expense	(211,815)	(163,673)
Foreign currency exchange difference	7,238	6,567
Balance at the end of year	**589,160**	**505,934**
(b) **Leasehold improvements**		
At cost	254,723	239,247
Accumulated depreciation	(222,335)	(180,259)
	32,388	**58,988**

	Consolidated Group 2013 $	2012 $
Movement in carrying amount		
Balance at the beginning of the year	58,988	103,819
Additions	7,079	-
Additions through business combinations (note 30)	-	-
Disposal	(0)	-
Depreciation expense	(35,419)	(46,708)
Foreign currency exchange difference	1,740	1,877
Balance at the end of year	**32,388**	**58,988**

(c) Software

	2013 $	2012 $
At cost	94,844	58,735
Accumulated depreciation	(52,098)	(35,670)
	42,746	**23,065**
Movement in carrying amount		
Balance at the beginning of the year	23,065	18,040
Additions	25,253	13,094
Additions through business combinations (note 30)	2,509	-
Depreciation expense	(9,047)	(8,537)
Foreign currency exchange difference	965	468
Balance at the end of year	**42,746**	**23,065**

	2013 $	2012 $
Total Property, plant and equipment		
At cost	2,176,980	1,794,688
Accumulated depreciation	(1,512,686)	(1,206,701)
	664,294	**587,987**
Movement in carrying amount		
Balance at the beginning of the year	587,987	486,118
Additions	271,593	311,875
Additions through business combinations (note 30)	61,387	-
Disposal	(10,336)	-
Depreciation expense	(256,282)	(218,918)
Foreign currency exchange difference	9,944	8,912
Balance at the end of year	**664,294**	**587,987**

12 Intangible Assets

Consolidated Group	Intellectual Property $	Customer relationship $	Tradename $	Goodwill $	Development costs $	Website Services $	Total $
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**
2013							
At cost	7,814,206	7,306,097	871,726	13,968,815	10,302,939	83,180	40,346,963
Accumulated Amortisation	(4,859,832)	(3,563,165)	(286,164)	-	(1,332,928)	(1,980)	(10,044,069)
Net carrying value	**2,954,374**	**3,742,932**	**585,562**	**13,968,815**	**8,970,011**	**81,200**	**30,302,894**
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
Additions through business combinations (note 30)	-	-	-	-	-	-	-
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**
Balance at the beginning of the year 2013	2,206,117	3,161,645	564,553	13,219,086	6,351,363	-	25,502,764
Capitalised cost	-	-	-	-	2,645,140	-	2,645,140
Additions through business combinations (note 30)	1,366,239	827,611	75,650	-	-	75,650	2,345,150
Amortisation	(759,564)	(601,635)	(52,712)	-	(514,083)	(1,823)	(1,929,817)
Foreign currency exchange difference	141,582	355,311	(1,929)	749,729	487,591	7,373	1,739,657
Balance at the end of year	**2,954,374**	**3,742,932**	**585,562**	**13,968,815**	**8,970,011**	**81,200**	**30,302,894**

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 2013 financial year.

The current amortisation charge is included under the depreciation and amortisation expense in the Statement of Profit or Loss and Other 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	
	2013 $	2012 $
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)	4,798,287	4,636,688
Business of Island Pacific (Subsidiaries in US and UK)	6,050,862	5,462,732
	13,968,815	**13,219,086**

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% (2012: 11% post-tax discount rate);
- Between 2.5%-5% (2012: 2.5%-5%) per annum projected revenue growth rate; and
- Between 0%-5% (2012: 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 9% 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 6% 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 1% 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 1% 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 (2012: Nil).

5,000,000 options expired during the year (2012: Nil).

1,500,000 shares under the Employee Share Ownership Plan were issued during the year to staff and Senior Managers (2012: Nil).

(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 10 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	Tranche 4
Number of Shares issued	7,250,000	6,750,000	750,000	1,500,000
Exercise Price	$0.13	$0.10	$0.07	$0.05
Time to Maturity from issue date	3 years	3 years	3 years	3 years
Underlying Share Price	$0.13	$0.10	$0.07	$0.05
Expected Share Price Volatility	36.84%	36.84%	36.84%	36.84%
Risk-free Interest Rate	5.11%	5.11%	5.11%	5.11%
Dividend Yield	5.00%	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. 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 Company, 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.

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	19-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.

During the year all options under Tranche1 and 2 expired.

(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	
	2013 $	2012 $
Share based payments expense recognised	17,551	27,309
	17,551	**27,309**

15 Trade and Other Payables

	Consolidated Group	
	2013 $	2012 $
Current		
Trade payable	1,521,250	1,373,517
Deferred revenue	4,606,815	3,430,012
Other payable	383,295	357,206
Payable to vendor	1,105,949	-
Payable to related party	203,678	254,322
	7,820,987	**5,415,057**

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	
	2013 $	2012 $
Current		
Secured:		
Bank loans	500,000	1,750,000
Convertible Notes	590,850	-
Lease liability	35,366	70,218
Derivative financial liability	55,023	42,501
	1,181,239	**1,862,719**
Non-current		
Secured:		
Bank loans	7,816,512	5,736,080
Convertible notes	2,887,424	2,284,308
Lease liability	129,502	163,138
	10,833,438	**8,183,526**
Total financial liabilities	**12,014,677**	**10,046,245**

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 facilities include the following key terms and balances:

- The loan is secured by a first 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.
- A total non-amortising facility for Tranche A,B,C with a limit of AUD$6,000,000 and an amortising facility for Tranche D with a limit of GBP2,040,000.
- A margin of 2.75% will be payable on the daily balance outstanding and will be payable in arrears at the end of each quarterly interest period.
- An unused commitment fee of 50% of the margin will be payable quarterly in arrears on the undrawn portion of the commitment.
- The Tranche A,B and C Facility is made up of an AUD$ loan with a balance of $1,428,860 at 30 June 2013 (Tranche A), and a US$ loan with a balance of US$3,467,882 at 30 June 2013 (Tranche C), and a GBP loan with a balance of GBP500,000 at 30 June 2013 (Tranche B). These facilities are non-amortising and bear interest at a variable rate with a margin of 2.75%, and interest fixed at a rate of 3.46 % for the AUD$ loan, 0.88% for US$ loan, and 1.28% for the GBP loan plus a margin of 2.75%. As at 30 June 2013, all these amounts have been fixed.

- The Tranche D Facility is a GBP loan with a balance drawn down of GBP1,360,000 at 30 June 2013. It is an amortising facility with GBP500,000 repayable before 31 March 2014 and GBP500,000 repayable before 31 March 2015. The loan bears interest at a variable rate with a margin of 2.75%.

- The Tranche A,B and C bank loan facilities were primarily for the purpose of funding the acquisition of AdvanceRetail Technology and Island Pacific, and the Tranche D facility was for the purpose of funding the acquisition of Intelligent Retail.

- An overdraft facility of $500,000 which expires 30 June 2014.

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. A further 900,000 convertible notes with a face value of $1 (tranche 2) were issued in February 2013 taking the total amount drawn down from the Noteholders to $3,300,000.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	
	2013 $	2012 $
Convertible notes		
Carrying forward balance	2,284,308	-
Proceeds of issue	900,000	2,400,000
Equity component	(53,398)	(190,138)
Finance costs	347,364	74,446
Balance at end of year	**3,478,274**	**2,284,308**

The equity component of $53,398 (2012: $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	
	2013 $	2012 $
Total facilities - bank loan	9,947,227	7,986,080
Facilities used at reporting date - bank loans	8,316,512	7,486,080
Facilities unused at reporting date - bank loans	1,630,715	500,000
Facilities used at reporting date - convertible notes	3,300,000	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	
		2013 $	2012 $
Current			
Cash and cash equivalents	7	4,547,348	3,653,456
Trade and other receivables	8	5,646,240	5,793,053
Other assets	9	701,440	386,403
Inventories	10	243,581	186,321
Tax asset	18	251,144	
		11,389,753	**10,019,233**
Non-current			
Deferred tax assets	18	3,585,574	3,352,259
Trade and other receivables	8	173,968	58,445
Property, plant and equipment	11	664,294	587,987
Intangible assets	12	30,302,894	25,502,764
		34,726,730	**29,501,455**
Total assets pledged as security		**46,116,483**	**39,520,688**

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 Employee Benefits

	Consolidated Group 2013 $	Consolidated Group 2012 $
Current - Provision for annual leave and long service leave	1,362,774	1,215,635
Non-current - Provision of long service leave	53,689	31,394
	1,416,463	**1,247,029**
Movement in provision		
Balance at the beginning of the year	1,247,029	1,124,060
Amounts provided	930,958	771,494
Leave taken	(842,705)	(675,638)
Translation differences	81,181	27,113
Balance at the end of year	**1,416,463**	**1,247,029**

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.

Amounts not expected to be settled within the next 12 months

The current provision for employee benefits includes accrued annual leave and long service leave. For long service leave it covers all unconditional entitlements where employees have completed the required period of service and also those where employees are entitled to pro-rata payments in certain circumstances. The entire amount of the provision is presented as current, since the group does not have an unconditional right to defer settlement for any of these obligations. However, based on past experience, the group does not expect all employees to take the full amount of accrued leave or require payment within the next 12 months. The following amounts reflect leave that is not to be expected to be taken or paid within the next 12 months.

	Consolidated Group 2013 $	Consolidated Group 2012 $
Leave obligations expected to be settled after 12 months	274,293	212,827
	274,293	**212,827**

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	1,029,246	(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**
Property Plant and Equipment tax allowance	1,064,603	(18,524)	-	-	119,659	1,165,738
Capitalised development costs	2,384,222	741,115	-	-	281,074	3,406,412
Other	-	-	-	-	126	126
Balance at June 2013	**3,448,825**	**722,592**	**-**	**-**	**400,859**	**4,572,276**

NON-CURRENT	Opening Balance $	Charged to Income $	Charged Directly to Equity $	Changes in Tax Rate $	Exchange Differences $	Closing Balance $
Deferred Tax Assets						
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**
Provisions	512,108	5,035	-	-	29,324	546,467
Transaction costs on equity issue	19,045	(324)	-	-	-	18,721
Unrealised foreign exchange loss/ (gain)	(176,767)	422,870	-	-	(112,800)	133,303
Property, Plant and Equipment, Intangibles tax allowance	857,741	161,471	-	-	(5,504)	1,013,708
Recognition/recoupment of tax losses	1,977,045	(308,299)	-	(67,674)	87,469	1,688,541
Other	163,087	4,527	-	-	17,220	184,834
Balance at 30 June 2013	**3,352,259**	**285,280**	**-**	**(67,674)**	**15,709**	**3,585,574**

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 $12,203,927 (tax effected $3,661,178) (2012: $11,021,931, tax effected $3,306,579) .

3Q Holdings Limited had income tax losses of $14,644,694 at 30 June 2013 ($15,129,364 as at 30 June 2012), of which $2,440,767 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 $2,231,016 at 30 June 2013 ($2,265,857 as at 30 June 2012), 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 $410,579 at 30 June 2013 ($573,262 as at 30 June 2012), all of these losses which have been recognised as a deferred tax asset in accordance with Note 2 (xvi).

	Consolidated Group 2013 $	Consolidated Group 2012 $
CURRENT		
Income Tax Asset	251,144	-
Income Tax Payable	255,693	362,899
Net Current Tax Liability	**4,549**	**362,899**

19 Issued Capital

	Consolidated Group	
	Number	$
2013		
(a) Ordinary shares		
Fully paid	149,778,893	6,724,598
Partially paid	-	-
	149,778,893	**6,724,598**
(i) Movements in ordinary share on issue		
Balance at the beginning of the year	165,826,542	7,586,837
Shares buy-back	(17,484,326)	(874,216)
Shares issued to senior managers	1,500,000	17,551
On market buy-back	(63,323)	(5,574)
Balance at the end of the year	**149,778,893**	**6,724,598**
2012		
(b) 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**

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 increased from the prior year due to additional amounts borrowed from the NAB during the current year to assist in funding the Intelligent Retail acquisition. 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 2013 and 2012 were as follows:

	Consolidated Group	
	2013 $	2012 $
Interest bearing loans & borrowings	11,959,654	10,003,744
Cash & equivalent	(4,547,348)	(3,653,456)
Net debt	**7,412,306**	**6,350,288**
Total equity	20,036,387	19,000,633
Total capital employed	**27,448,693**	**25,350,921**
Gearing (%)	**27.00%**	**25.05%**

20 Reserves

	Consolidated Group	
	2013 $	2012 $
(a) Foreign currency translation reserve		
Balance at the beginning of the year	(2,707,734)	(3,196,325)
Gain/(loss) on translation of overseas controlled entities	1,712,844	488,591
Balance at the end of the year	**(994,890)**	**(2,707,734)**
(b) Employee equity benefits reserve		
Balance at the beginning of the year	449,453	422,144
Cancellation of options during the year	-	-
Options expensed during the year	-	27,309
Movement in equity for ESOP shares issued	-	-
Balance at the end of the year	**449,453**	**449,453**
(c) Option premium on convertible notes		
Balance at the beginning of the year	190,138	-
Recognition of option premium on issue of convertible notes (net of tax)	53,398	190,138
Balance at the end of the year	243,536	190,138
Total reserves	**(301,901)**	**(2,068,143)**

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 2013 $	2012 $
Financial assets		
Cash and equivalents	4,547,348	3,653,456
Financial assets at amortised costs		
- Loans and receivables	5,820,208	5,851,498
Total financial assets	**10,367,556**	**9,504,954**
Financial liabilities		
Financial liabilities at amortised costs		
- Trade and other payables	7,820,987	5,415,057
- Borrowings	11,959,654	10,003,744
- Financial liabilities at FV through profit or loss	55,024	42,501
Total financial liabilities	**19,835,665**	**15,461,302**

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 2013 $	2012 $
Financial assets		
Cash and equivalents	4,547,348	3,653,456
	4,547,348	**3,653,456**
Financial liabilities		
Interest rate swaps	55,024	42,501
Bank loans and financial lease liabilities	2,203,029	2,082,290
	2,258,053	2,124,791
Net exposure	**(2,289,295)**	**(1,528,665)**

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 2013, after taking into account the effect of interest rate swaps, approximately 73% of the Group's bank borrowings are at a fixed rate of interest (2012: 72%).

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 2012 and 2013):

	Consolidated Group	
Judgments of reasonably possible movements	2013 $	2012 $
Post tax profit		
+ 1% (100 basis points)	16,025	11,189
- 0.5% (50 basis points)	(8,013)	(5,595)
Equity		
+ 1% (100 basis points)	16,025	11,189
- 0.5% (50 basis points)	(8,013)	(5,595)

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 slightly higher in 2012 than in 2013 because the level of net cash was more in 2012 than in 2013.

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, AdvanceRetail in March 2007, and Intelligent Retail in May 2013, 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 2013 (2012: Nil).

Between 2012 and 2013, exchange rates moved by almost 12% (2012: 5%) for the AUD$:US$, by 8.8% (2012: 2.4%) for the AUD$:GBP, and 8.1% (2012: 1.5%) for the AUD$:NZ$. Assuming the average movement was 10% (2012: 3%), and using a lower-end movement of 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	
	2013 $	2012 $
Net Profit after tax	2,348,551	3,604,686
Net Profit after tax subject to exposure	**2,348,551**	**3,604,686**
Equity		
Assets	37,275,220	27,650,363
	37,275,220	27,650,363
Liability		
Bank loans	6,887,651	4,997,220
Others	29,869,416	23,269,820
	36,757,066	28,267,040
Equity to exposure	**518,154**	**(616,677)**
Judgments of reasonably possible movements		
Post tax profit		
-5% (2012: -1.5%) movement in AUD$	58,634	30,294
-10% (2012: -3%) movement in AUD$	117,269	60,588
+10% (2012: +3%) movement in AUD$	(58,634)	(60,588)
+5% (2012: +1.5%) movement in AUD$	(117,269)	(30,294)
Equity		
-5% (2012: -1.5%) movement in AUD$	81,232	(9,250)
-10% (2012: -3%) movement in AUD$	162,463	(18,500)
+10% (2012: +3%) movement in AUD$	(81,232)	18,500
+5% (2012: +1.5%) movement in AUD$	(162,463)	9,250

The Group has a US$ borrowing facility of $3,467,882 (2012: $4,475,000) that is used as a hedge of the net investment in the US operation.

The Group has a UK£ borrowing facility of £1,860,000 (2012: £400,000) that is used as a hedge of the net investment in the UK operation.

At 30 June 2013, the Group hedged none of its foreign currency purchases that are firm commitments (2012: 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 2013. Cash flows for liabilities without fixed amount or timing are based on the conditions existing at 30 June 2013.

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

	Consolidated Group	
	2013 $	2012 $
6 months or less	7,841,132	6,198,722
6-12 months	1,106,071	1,036,553
1-5 years	10,833,438	8,183,526
Over 5 years	-	-
	19,780,641	**15,418,801**

Included in the maturities of 6 months or less is an amount of $4,606,815 (2012: $3,430,012) 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 $3,234,317 (2012: $2,768,710) instead of the stated amount of $7,841,132 (2012: $6,198,722).

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	
	2013 $	2012 $
Trade & other payable		
< 6 months	7,820,987	5,415,057
6 - 12 months	-	-
1-5 years	-	-
Over 5 years	-	-
	7,820,987	**5,415,057**
Interest rate swaps		
> 6 months	-	-
6 - 12 months	55,024	42,501
	55,024	**42,501**
Interest bearing loans & borrowings		
< 6 months	20,145	783,665
6 - 12 months	1,106,071	1,036,553
1-5 years	10,833,438	8,183,526
	11,959,654	**10,003,744**
	19,835,665	**15,461,302**

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 2013. Comparatives included below.

	Consolidated Group			
At 30 June 2013	Level 1 $	Level 2 $	Level 3 $	Total $
Assets	-	-	-	-
Liabilities				
Financial liabilities at FV through profit or loss	-	55,024	-	55,024
	-	**55,024**	**-**	**55,024**

	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	
	2013 $	2012 $
Movement		
Balance at the beginning of the year	42,501	49,969
Additional provision	12,523	(7,468)
Balance at the end of the year	**55,024**	**42,501**

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	551,407	455,659
After one year, but not more than five year	647,859	335,671
	1,199,266	**791,330**

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 2013 $	Consolidated Group 2012 $
Lease commitments - finance		
Committed at the reporting date and recognised as liabilities, payable:		
Within one year	46,059	73,975
One to five years	145,914	186,486
Total commitment	191,973	260,461
Less: Future finance charges	(27,105)	(27,105)
Net commitment recognised as liabilities	164,868	233,356
Representing:		
Lease liability - current (note 16)	35,366	70,218
Lease liability - non-current (note 16)	129,502	163,138
	164,868	**233,356**

Finance lease commitments includes contracted amounts for motor vehicles and furniture and equipment with a written down value of $171,379 (2012: $221,112) 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

As disclosed in Note 30, effective 30 April 2013, the consolidated entity acquired 100% of the ordinary shares of Intelligent Retail Limited. Under the terms of the agreement, an earnout is payable to the vendors of Intelligent Retail Limited for the financial periods ended 30 April 2014 and 30 April 2015 contingent on the performance of Intelligent Retail Limited for the periods then ended. The potential earn-out ranges from £Nil to £2,000,000 (AUD$3,327,200) depending on the final EBITDA of Intelligent Retail Limited during these periods.

Other than the above, there are no material contingent liabilities at the reporting date (2012: 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		**2013 $**	**2012 $**
Rent paid to Related Parties excluding GST	Note 2	120,000	120,000
Compensation of David Rosen	Note 4	417,337	277,084
Transactions with Distributor	Note 3	475,877	474,676
Amounts owed by Related Parties for financed sales	Note 1	58,481	70,481
Amounts owed to Related Parties – Distributor	Note 3	203,678	261,888
Amounts owed by (to) Related Parties for rent	Note 2	7,566	7,566
Compensation of McGeachen Bell Associates Ltd(Mark McGeachen)	Note 5	200,248	194,861
Compensation of McGeachen Bell Associates Ltd (Andrew Bell)	Note 6	192,238	187,070
Compensation of High Expectations Pty Ltd (Stephe Wilks)	Note 7	84,000	78,000
Convertible note issued to Wintol Pty Ltd (Gary Burg)	Note 8	1,100,000	800,000
Loan to Director (Shaun Rosen)	Note 9	47,674	-

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.

Note 9 – Loan to director (Shaun Rosen)

Shaun Rosen, a Director of 3Q Holdings Limited is a related party. Amounts have been loaned to Shaun during the year, interest has been charged on such amounts loaned at an arm's length rate of 6%.

24 Significant events after the reporting date

On 11 September 2013 the holders of the convertible notes in the Company (including Gary Burg, who was a Director of the Company) advised that they would not convert the notes into equity. Hence, interest (already accrued in the accounts) will be paid on the outstanding notes over the coming and future financial years, together with amortisation of the principal over the term of the notes. Gary Burg resigned as a Director of the Company effective 11 September 2013.

There are no other material events after balance sheet date.

25 Auditors' Remuneration

The auditor of 3Q Holdings Limited is BDO.

	Consolidated Group	
	2013 $	2012 $
Amounts received, or due and receivable by BDO for:		
- Audit or review of financial reports of the entity	135,260	167,562
- Other non-auditor services in relation to the entity		
R&D tax allowance preparation and other tax services	18,710	8,222
Transfer pricing	-	14,410
Remuneration of other auditors of subsidiaries for:		
- Audit or review of financial reports of the entities	100,038	81,553
- Other non-auditor services in relation to the entities		
Tax services	23,009	29,916
Statutory account preparation	280	-
Other services charge	10,341	23,119
	287,138	**324,782**

26 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 2013 %	Equity Holding 2012 %
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	100
Intelligent Retail (UK) Limited	UK	Ordinary	100	-

27 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 2013 (2012: Nil).

(ii) Interest rate swaps - cash flow hedges

The Groups Interest bearing loans at reporting date bear an average fixed interest rate (including margin) of 6.21% (2012: 8.28%) on Australian loans, 3.63% (2012: 3.47%) on US loans, and 4.03% (2012: 4.11%) 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 2013 cover approximately 73% (2012: 72%) 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 2013 was 3.46% on Australian loans (excluding margin), 0.88% on US loans (excluding margin), and 1.28% on the Sterling Loans (excluding margin).

(b) Interest rate risk

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

28 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	
	2013 $	2012 $
Short-term employee benefits	2,283,582	2,140,793
Post employment benefits	75,535	127,314
Share-based payment	5,656	5,462
	2,364,773	**2,273,569**

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	2012	-	-	-	-	-
	2013	-	-	-	-	-
Clive Klugman	2012	-	-	-	-	-
	2013	-	-	-	-	-
Alan Treisman	2012	-	-	-	-	-
	2013	-	-	-	-	-
Stephe Wilks	2012	-	-	-	-	-
	2013	-	-	-	-	-
Mark McGeachen	2012	-	-	-	-	-
	2013	-	-	-	-	-
Andrew Bell	2012	-	-	-	-	-
	2013	-	-	-	-	-
David Rosen	2012	-	-	-	-	-
	2013	-	-	-	-	-
Richard Gaetano	2012	500,000	-	-	-	500,000
	2013	500,000	-	-	(500,000)	-
Mike Dotson	2012	500,000	-	-	-	500,000
	2013	500,000	-	-	(500,000)	-
Gary Burg	2012	-	-	-	-	-
	2013	-	-	-	-	-

(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 2012	Received as compensation	Options exercised	Net change others*	Held at 30 June 2013
Shaun Rosen	61,765,900	-	-	-	61,765,900
Clive Klugman	50,500,000	-	-	(17,484,326)	33,015,674
Alan Treisman	5,850,000	-	-	-	5,850,000
Stephe Wilks	2,376,452	-	-		2,376,452
Gary Burg**	2,000,000	-	-		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	-	-	-	250,000	250,000
Mike Dotson	250,000	-	-	-	250,000
	187,559,202	**-**	**-**	**(17,234,326)**	**170,324,876**

	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.
** Resigned 11th September 2013.

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

29 Parent Entity Information

Information relating to 3Q Holdings Limited.

	Parent Entity 2013 $	Parent Entity 2012 $
Current assets	2,495,895	3,995,605
Total assets	45,112,268	44,480,811
Current liabilities	2,482,939	3,138,753
Total liabilities	15,766,982	14,147,173
Equity		
- Issued Capital	45,208,300	46,070,539
- Reserves	746,756	693,358
- Accumulated losses	(16,609,770)	(16,430,259)
Shareholder's equity	29,345,286	30,333,638
(Loss)/Profit for the year	(179,511)	600,763
Total comprehensive (loss)/income for the year	(179,511)	600,763

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 (2012: Nil).

Contingent liabilities

There is a material contingent liability at reporting date (2012: Nil). This contingent liability relates to the potential earn-outs on the acquisition of Intelligent Retail, which even though the liability is that of Island Pacific UK Limited, it ultimately sits with 3Q Holdings Limited. The maximum of these earn-outs is GBP2,000,000 (AUD $3,327,200) contingent on the business growing by at least 15% in the first year of trading and 30% in the second year, both as a percentage growth on 2011 profits.

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

There are no commitments in the current year (2012: Nil).

30 Business Combinations

Effective 30 April 2013, Island Pacific (UK) Limited, a subsidiary of 3Q Holdings Limited, acquired 100% of the ordinary shares of Intelligent Retail Limited for the total consideration transferred of AUD$2,647,750 (£1,750,000). A further earnout is payable to the vendors of Intelligent Retail Limited for the financial periods ended 30 April 2014 and 30 April 2015 contingent on the performance of Intelligent Retail Limited for the periods then ended. The potential earnout ranges from £Nil to £2,000,000 (AUD$3,327,200) depending on the final EBITDA of Intelligent Retail Limited during these periods.

Intelligent Retail is a software and service provider to the retail industry in the UK. It was acquired to diversify the customer base within the UK market, and to expand into other international markets such as the US, New Zealand, Australia and Asia. The acquired business contributed revenues of £340,642 (AUD$540,448) and a breakeven result to the consolidated entity for the period from 30 April 2013 to 30 June 2013. As a result of changes to the operations of Intelligent Retail Limited since acquisition it is not practical to calculate the impact of the acquisition had it occurred on 1 July 2012.

Details of the acquisition are as follows:

	Acquiree's Carrying Amount $	**Fair value $**
Cash and cash equivalents	1,314,824	1,314,824
Trade and other receivables	308,234	308,235
Inventories	52,955	52,955
Plant and equipment	51,463	51,463
Intangible assets	4,367	2,345,150
Trade and other payables	(418,968)	(418,968)
Employee benefits and accruals	(50,846)	(50,846)
Vendor loan	(945,746)	(945,746)
Deferred tax liabilities	(9,317)	(9,317)
Net assets acquired	306,967	2,647,750
Acquisition-date fair value of the total consideration transferred	-	2,647,750
Representing:		
Cash paid or payable to vendor	-	2,647,750
Acquisition costs expensed to profit or loss	-	195,010

	Parent Entity	
	2013 $	2012 $
Cash used to acquire business	2,647,750	-
Less: cash and cash equivalents acquired	(1,314,824)	-
Net cash used	1,332,926	-

On the completion, the business received extra net asset of £625,080 (AUD$945,746), which will be returned to vendor within the next 12 months.

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 2013 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, 27 September 2013.

....
Director

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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 2013, the consolidated statement of profit or loss and other comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, notes comprising a summary of significant accounting policies and other explanatory information, and the directors' declaration of the consolidated entity comprising the company and the entities it controlled at the year's end or from time to time during the financial year.

Directors' Responsibility for the Financial Report

The directors of the company are responsible for the preparation of the financial report that gives a true and fair view in accordance with Australian Accounting Standards and the *Corporations Act 2001* and for such internal control as the directors determine is necessary to enable the preparation of the financial report that 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 Stat*ements, 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 disclosing entity's preparation of the financial report that gives a true and fair view in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the disclosing entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the financial report.

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 2013 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 2013. 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 2013 complies with section 300A of the *Corporations Act 2001*.

BDO East Coast Partnership

BDO

Paul Bull
Partner

Sydney, 27 September 2013