

30

Half Yearly Financial Report
31st December 2010



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Appendix 4D

Name of Entity	3Q Holdings Limited
ABN	42 089 058 293
Period Ended	31 December 2010
Previous Corresponding Reporting Period	6 months to 31 December 2009

1 Results for announcement to the market

	Half-Year Result		Increase (Decrease)	
	2010	2009	%	\$
Revenue and other income from ordinary activities	11,881,099	11,624,625	2%	256,474
Profit from ordinary activities after tax attributable to members	1,233,452	768,352	61%	465,100
Net profit for the period attributable to members	1,233,452	768,352	61%	465,100

Brief explanation of results

This has been a satisfactory half year where 3Q achieved a number of milestones including:

- ▀ Significant customer wins
- ▀ Refinancing of our senior debt
- ▀ Investment and uptake of new product sets
- ▀ Stronger financial results

Customer wins during the half year included contracts with Harvey Norman and Jazz Basketball Investors.

The half year also saw the Company finalise its bank refinancing arrangements, and continue to develop a much healthier balance sheet as a result of the further reduction of its debt over the period.

New deals were signed with existing customers, such as Urban Outfitters and YM. It was also very satisfying to see a number of existing customers upgrading to the latest versions of our software (thus increasing functionality for those customers). There were also customers who contributed to the development of our newer technologies – demonstrating the value of the Company's continued R&D investment over the period. We continue to see a number of our major customers agreeing to become early adopters of our newer technologies.

Profit on those sales (including a growth in EBITDA of 28% over the period) was very satisfying, with higher gross margins due to the specific mix of sales achieved, and sales of more 3Q owned IP, rather than third party software. The overall sales effort drove higher revenues for the half year, despite negative exchange rate movements impacting the Australian dollar value of offshore sales.

No dividends were paid by 3Q Holdings Limited during the reporting period. The directors do not currently intend to declare a dividend in respect of this or the following financial year. The bulk of the free cash in the company is being utilised for debt reduction and investment in future product sets.

2 Net tangible asset backing per ordinary security

	Half - Year ended 31 December 2010	Half - Year ended 31 December 2009
Net tangible asset backing per ordinary security	(6.2229) cents	(7.964) cents

3 Joint ventures and associates

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

- 4 **3Q Holdings is not a foreign entity**
- 5 **The accounts of 3Q Holdings Limited have been reviewed and are not subject to dispute or qualification.**
- 6 **Earnings per share**

	Half - Year ended 31 December 2010	Half - Year ended 31 December 2009
Basic earnings per share (cents per share)	0.764	0.518
Diluted earnings per share (cents per share)	0.715	0.470

Directors' Report

Your directors submit their report for the half-year ended 31 December 2010.

Directors

The names of the company's directors in office during the half-year and until the date of this report are:

Shaun Rosen (Executive Chairman)
Clive Klugman (Executive Director)
Alan Treisman (Executive Director)
Mark McGeachen (Executive Director)
Stephe Wilks (Non-Executive Director)

Review and Results of Operation

I am pleased to present the Half Yearly Report for 3Q Holdings Limited for the half year ended 31 December 2010.

This has been a satisfactory half year where 3Q achieved a number of milestones including:

- ▀ Significant customer wins
- ▀ Refinancing of our senior debt
- ▀ Investment and uptake of new product sets
- ▀ Stronger financial results

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Profit on those sales (including a growth in EBITDA of 28% over the period) was very satisfying, with higher gross margins due to the specific mix of sales achieved, and sales of more 3Q owned IP, rather than third party software. The overall sales effort drove higher revenues for the half year, despite negative exchange rate movements impacting the Australian dollar value of offshore sales.

I am happy to report a solid operating profit for the period.

Operating Report and Financial Highlights

	Dec-10	Dec-09	Percentage Increase/(Decrease)	
Revenue	\$11,881,099	\$11,624,625	↑	2%
Gross Profit Percentage	86%	82%	↑	4%
Underlying EBITDA*	\$2,754,928	\$2,149,401	↑	28%
Net Profit After Tax	\$1,233,452	\$768,352	↑	61%
Earnings per Share	0.76	0.52	↑	47%
Number of Employees	109	114	↓	-4%

*Underlying EBITDA excludes foreign exchange gains/losses on US\$ bank loan and intercompany trade accounts, and share based expenses.

Director's Report Continued

In the period, the Company's revenue increased slightly from the previous comparable period, from \$11.6m at 31 December 2009, to \$11.9m at 31 December 2010.

While revenue included new customer wins in the period, ongoing maintenance agreements continue to represent a substantial 41% of the Company's top line. As new customers are won, this base line maintenance revenue should continue to strengthen.

Underlying EBITDA of the business increased by 28% from \$2.1m at 31 December 2009 to \$2.8m at 31 December 2010. This increase is an excellent confirmation of the value in the investments the Company made in future growth over the prior year (including some specific and high intensity development work for client projects, and ongoing R&D to develop leading edge technologies desired by current and prospective customers).

We will continue to use an underlying EBITDA measure for comparison with previous periods, to provide shareholders and other users of these accounts with a more clear understanding of the effective earnings of the business over time. The adjustments from EBITDA to 'Underlying EBITDA' are to eliminate certain non-operating costs and incomes, which are also substantially non-cash items. These adjustments are primarily the exclusion of the following significant expense and income items:

- ▶ Swap interest valuation income of \$193,288.
- ▶ Foreign exchange gains arising from restating the balance of US\$ bank debt in the Company's books and from exchange rate fluctuations from intercompany trade accounts of \$809,453.
- ▶ Share based payments of \$73,191.

During the year, and despite the relatively subdued ongoing recovery from a very challenging global financial environment, 3Q was able to leverage its excellent operating performance and refinance all outstanding bank debt, on terms beneficial to the Company. In addition, we were able to reduce the outstanding quantum of that bank debt over the period, resulting in a much healthier balance for the future.

Key Customer Highlights

During the period, we began the implementation of a major project with Harvey Norman (Australia's largest furniture and electrical group) and Jazz Basketball Investors (US), and continued to deliver on some important earlier wins such as Primark (Great Britain's largest clothing retailer by volume).

In summary, the half-year to 31 December 2010 saw the benefits of the Company's ongoing focus on its strategic model:

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

I look forward to 3Q continuing to deliver quality software and services to our existing and future customers, and to deliver ongoing growth in the profitability of the Company, to the benefit of all shareholders.

Auditor's Independence Declaration

The lead auditor's independence declaration under sections 307C of the Corporations Act 2001 is set out on page 7 for the half-year ended 31 December 2010.

Signed in accordance with a resolution of the directors



Shaun Rosen, Director
Sydney, 28 February 2011

Auditor's Independence Declaration



Chartered Accountants
& Business Advisers

AUDITOR'S INDEPENDENCE DECLARATION

As lead auditor for the review of 3Q Holdings Limited for the half year ended 31 December 2010, I declare that to the best of my knowledge and belief there have been:

- (a) no contraventions of the auditor independence requirements of the *Corporations Act 2001* in relation to the audit; and
- (b) no contraventions of any applicable code of professional conduct in relation to the audit.

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

PKF

Paul Bull
Partner

Sydney, 28 February 2011

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Consolidated Statement of Comprehensive Income For the half-year ended 31 December 2010

	Note	Half-year ended 31 Dec 2010 \$	Half-year ended 31 Dec 2009 \$
Revenue	2(a)	11,881,099	11,624,625
Cost of sales		(1,634,210)	(2,037,213)
Gross profit		10,246,889	9,587,412
Other income	2(b)	1,030,266	718,672
Operating expenses		(1,801,424)	(1,747,735)
Employee benefit expenses		(5,717,321)	(5,720,504)
Earnings before tax, finance costs, depreciation, amortization and share based payments		3,758,410	2,837,845
Depreciation		(97,124)	(111,907)
Amortisation of intangibles		(850,798)	(816,609)
Finance costs		(540,807)	(562,988)
Share based payments/expenses		(73,191)	(357,176)
Profit before income tax		2,196,490	989,165
Income tax expense		(963,038)	(220,813)
Profit for the year		1,233,452	768,352
Other comprehensive income:			
Exchange difference on translating foreign operations (net of tax)		(1,879,338)	(933,484)
Total Comprehensive Profit / (loss) for the Year		(645,886)	(165,132)
Profit attributable to:			
Owners of the parent		1,233,452	768,352
Total comprehensive Profit / (loss) attributable to:			
Owners of the parent		(645,886)	(165,132)
Earnings per share			
▪ Basic earnings per share (cents per share)		0.764	0.518
▪ Diluted earnings per share (cents per share)		0.715	0.470

The accompanying notes form part of these Consolidated Financial Statements.

Consolidated Statement of Financial Position

As at 31 December 2010

	Note	As at 31 Dec 10 \$	As at 30 June 10 \$
ASSETS			
Current Assets			
Cash and cash equivalents		1,112,876	1,380,369
Trade and other receivables		4,703,661	5,500,942
Other assets		660,593	728,297
Inventories		186,253	196,332
Total Current Assets		6,663,383	7,805,940
Non-current Assets			
Property, plant and equipment		546,891	678,794
Intangible assets		24,328,383	26,845,243
Deferred tax assets		2,446,691	3,358,625
Total Non-current Assets		27,321,965	30,882,662
TOTAL ASSETS		33,985,348	38,688,602
LIABILITIES			
Current Liabilities			
Trade and other payables	7	5,453,279	7,046,962
Financial liabilities		2,886,216	5,015,106
Provisions		820,290	874,994
Current tax liabilities		262,184	251,686
Total Current Liabilities		9,421,968	13,188,748
Non-current Liabilities			
Financial liabilities		7,969,119	7,831,372
Trade and other payables		43,252	72,561
Provisions		169,353	169,353
Deferred tax liabilities		2,123,570	2,596,842
Total Non-current Liabilities		10,305,294	10,670,128
TOTAL LIABILITIES		19,727,262	23,858,876
NET ASSETS		14,258,086	14,829,726
EQUITY			
Issued capital	4	7,346,837	7,335,437
Reserves		(2,108,627)	(292,136)
Retained Earnings		9,019,877	7,786,425
TOTAL EQUITY		14,258,086	14,829,726

The accompanying notes form part of these Consolidated Financial Statements.

Consolidated Statement of Cash Flows For the half-year ended 31 December 2010

Note	Half-year ended 31 Dec 2010 \$	Half-year ended 31 Dec 2009 \$
Cash flows from operating activities		
Receipts from customers	12,314,031	12,112,596
Payments to suppliers and employees	(10,123,803)	(11,211,518)
Interest received	745	870
Interest Paid	(577,834)	(427,834)
Taxation paid	(207,384)	(307,690)
Other income	35,074	46,746
Net cash inflows from operating activities	1,440,830	213,170
Cash flows from investing activities		
Purchase of property, plant and equipment	(50,277)	(202,135)
Loans from/(to) other entities	(43,661)	(38,590)
Payment of development costs	(644,775)	(777,906)
Payment for other non-current asset	-	(22,418)
Net cash outflows from investing activities	(738,714)	(1,041,049)
Cash flows from financing activities		
Proceeds from borrowings	-	968,147
Repayment of borrowings	(810,602)	-
Net cash inflows/(outflows) from financing activities	(810,602)	968,147
Net increase/(decrease) in cash and cash equivalents	(108,486)	140,268
Cash and cash equivalents at beginning of period	1,380,369	579,929
Exchange rate/translation adjustments	(159,007)	(84,213)
Cash and cash equivalents at end of period	1,112,876	635,984

The accompanying notes form part of these Consolidated Financial Statements.

Consolidated Statement of Changes in Equity For the half-year ended 31 December 2010

Note	Issued Capital \$	Reserves \$	Retained Earnings \$	Total \$
Balance at 1 July 2009	6,985,237	268,072	6,331,209	13,584,518
Option expenses	-	153,451	-	153,451
Expiry of options	-	(157,200)	157,200	-
Shares issued	203,725	-	-	203,725
Total comprehensive income/(loss) for the half year	-	(933,484)	768,352	(165,132)
Balance at 31 December 2009	7,188,962	(669,161)	7,256,761	13,776,562
Balance at 1 July 2010	7,335,437	(292,136)	7,786,425	14,829,726
Option expenses	-	62,847	-	62,847
Expiry of options	-	-	-	-
Shares issued	11,400	-	-	11,400
Total comprehensive income/(loss) for the half year	-	(1,879,338)	1,233,452	(645,886)
Balance at 31 December 2010	7,346,837	(2,108,627)	9,019,877	14,258,087

The accompanying notes form part of these Consolidated Financial Statements.

Notes to the Consolidated Financial Statements

1 Significant Accounting Policies

Statement of Compliance

This general purpose financial report for the interim half-year reporting period Ended 31 December 2010 has been prepared in accordance with Accounting Standard AASB 134: *Interim Financial Reporting*, and the *Corporations Act 2001*. Compliance with AASB 134 ensures compliance with International Financial Reporting Standard IAS34.

Interim Financial Reporting

This interim financial report does not include all the notes of the type normally included in an annual financial report. Accordingly, this report is to be read in conjunction with the annual report of 3Q Holdings Limited for the year ended 30 June 2010, and any other public announcements made by the company during the interim reporting period in accordance with the continuous disclosure requirements of the *Corporations Act 2001*.

Other than as noted below, the accounting policies have been consistently applied by the accounting entities in the consolidated group and are consistent with those in the June 2010 financial report.

These accounting policies are consistent with the Australian Accounting standards and with International Financial Reporting Standards.

Basis of Preparation

This interim financial report has been prepared on the basis of historical cost. Cost is based on the fair values of the consideration given in exchange for assets. All amounts are presented in Australian dollars, unless otherwise stated.

Early adoption of Standards

The Group has adopted the following new and revised Australian Accounting Standards issued by the AASB which are mandatory to apply to the current interim period:

- ▶ AASB 2009-10 *Amendments to Australian Accounting Standards- Classified of Rights Issues (AASB 132)*
- ▶ AASB 2010-03 *Amendments to Australian Accounting Standards arising from the Annual report Improvement Project (AASB 3,7,121,128,131,132 & 139)*.

Adoption of these did not have any effect on the financial position or performance of 3Q Holdings Limited.

3Q Holdings Limited has not elected to early adopt any other new Standards or amendments that are issued but not yet effective.

Current assets and current liabilities

Whilst the current liabilities exceed the current assets by \$2,656,147, a major component of the current liabilities is prepaid maintenance, deferred revenue and staff leave entitlements of \$4,372,402 which is not expected to be paid in cash. Removing this amount would yield a positive net current asset position of \$1,716,255.

2 Revenues

	Half-year ended 31 Dec 2010 \$	Half-year ended 31 Dec 2009 \$
(a) Revenues		
Sales of goods/hardware	942,058	1,105,952
Rendering of services	4,107,842	3,434,420
Maintenance fees	4,908,613	5,260,205
Licence fees	1,752,127	1,622,070
Other revenue	170,458	201,978
	11,881,099	11,624,625
(b) Other income		
Interest income	741	860
Other income	26,783	30,226
Foreign exchange gain	809,453	465,520
Interest rate SWAP valuation	193,288	222,066
	1,030,266	718,672

3 Dividends Paid and Proposed

There are no dividends payable or receivable at reporting date.

4 Issued Capital

	As At 31 Dec 2010	As at 30 June 2010
Ordinary shares		
Issued and fully paid (\$)	7,346,837	7,335,437
	As At 31 Dec 2010 Number of shares	As At 31 Dec 2010 \$
(b) Movements in ordinary share on issue		
Balance at the beginning of the year	161,076,542	7,335,437
Shares issued to directors and senior managers	750,000	11,400
Balance at the end of the year	161,826,542	7,346,837

5 Contingent Assets and Liabilities

There are no contingent assets or liabilities at the balance sheet date.

6 Events after the Balance Sheet Date

There are no material events after the balance sheet date.

7 Trade and other payables

	As At 31 Dec 2010 \$	As At 30 June 2010 \$
Current		
Trade payables	1,760,414	2,600,480
Deferred revenue	3,382,760	3,959,401
Other payables	310,104	487,081
	5,453,279	7,046,962

8 Segment Information

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

Unless stated otherwise, all amounts reported to the Board of Directors as the chief decision maker with respect to operating segments are determined in accordance with accounting policies that are consistent to those adopted in the annual financial statements of the Group.

	IPAUS		IPSTORE (formerly ARS)		IP (UK&US)		AdvanceRetail		Total	
	Half-year ended 31 Dec 2010 \$	Half-year ended 31 Dec 2009 \$								
Revenue from external customers	2,575,589	2,580,160	673,114	675,785	5,960,291	5,737,287	2,672,106	2,631,393	11,881,099	11,624,625
Inter-segment revenue	20,321	42,169	-	-	384,035	436,537	465,292	301,272	869,648	779,978
Interest revenue	122	26	-	-	4	7	500	825	626	858
Total segment revenue	2,596,031	2,622,355	673,114	675,785	6,344,330	6,173,831	3,137,898	2,933,490	12,751,373	12,405,461
Adjusted EBITDA	382,136	505,843	140,769	80,185	1,236,008	673,833	578,879	667,685	2,337,792	1,927,546
Depreciation & amortisation	60,741	47,065	6,938	11,005	467,085	458,708	144,045	142,372	678,809	659,150
Income tax expenses	54,996	81,852	-	-	50,207	(208,881)	419,649	74,014	524,852	(53,015)
Interest expenses	2,654	461	-	144	38,661	175,957	17	-	41,332	176,562
Total segment assets	5,359,720	4,692,979	864,763	656,396	18,965,734	21,836,859	7,155,012	4,979,426	32,345,229	32,165,660
Segment non-current assets, other than financial assets & deferred tax	991,418	699,330	1,112	8,780	12,156,671	13,378,475	5,490,155	3,231,547	18,639,357	17,318,132

Notes to the Consolidated Financial Statements continued

Reconciliation of adjusted EBITDA to operating profit before income tax is provided as follows:

	Half-year ended 31 Dec 2010 \$	Half-year ended 31 Dec 2009 \$
Adjusted EBITDA	2,337,792	1,927,546
Depreciation and amortisation	(947,922)	(928,516)
Interest received, foreign exchange gains and swap valuations	1,003,482	688,446
Finance costs	(540,807)	(562,988)
Share based payments/expenses	(73,191)	(357,176)
3Q's operating expenses	(583,610)	(554,510)
Intersegment elimination	1,000,745	776,363
Profit before income tax	<u>2,196,490</u>	<u>989,165</u>

Reconciliation of Revenue from external customer to reported group revenue

	Half-year ended 31 Dec 2010 \$	Half-year ended 31 Dec 2009 \$
Revenue from external customers	11,881,099	11,624,625
3Q's revenue from external customers	-	-
Total group revenue	<u>11,881,099</u>	<u>11,624,625</u>

Reconciliation of segment assets to reported group assets

	As at 31 Dec 2010 \$	As at 31 Dec 2009 \$
Segment assets	32,345,229	32,165,660
3Q's assets	39,057,696	42,544,789
Intersegment elimination	(37,417,577)	(38,199,214)
Total group assets	<u>33,985,348</u>	<u>36,511,235</u>

Reconciliation of segment non-current assets to reported group non-current assets

	As at 31 Dec 2010 \$	As at 31 Dec 2009 \$
Segment non-current assets, other than financial assets & deferred tax	18,639,357	17,318,132
3Q's non-current assets	3,116,256	6,300,224
Intersegment elimination	3,119,661	3,119,660
Unallocated:		
- Deferred tax assets	2,446,691	3,039,797
Total group non-current assets	<u>27,321,965</u>	<u>29,777,813</u>

9 Company Details

Registered Office

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

Directors' Declaration

In the directors' opinion:

- ▶ the attached financial statements and notes thereto comply with the *Corporations Act 2001*, Australian Accounting Standard AASB 134 '*Interim Financial Reporting*', the *Corporate Regulations 2001* and other mandatory professional reporting requirements;
- ▶ the attached financial statements and notes thereto give a true and fair view of the consolidated entity's financial position as at 31 December 2010 and of its performance for the financial half-year ended on that date; and
- ▶ there are reasonable grounds to believe that the company will be able to pay its debts as and when they become due and payable.

Signed in accordance with a resolution of directors made pursuant to section 303(5) of the *Corporations Act 2001*.

On behalf of the directors



Shaun Rosen
Director

Sydney, 28 February 2011

Auditor's Independent Review Report



Chartered Accountants
& Business Advisers

INDEPENDENT AUDITOR'S REVIEW REPORT

To the members of 3Q Holdings Limited and its controlled entities

Report on the Half-Year Financial Report

We have reviewed the accompanying consolidated half-year financial report of 3Q Holdings Limited which comprises the statement of financial position as at 31 December 2010, the statement of comprehensive income, statement of changes in equity and statement of cash flows for the half-year ended on that date, notes comprising a summary of significant accounting policies and other explanatory information, and the directors' declaration of the consolidated entity. The consolidated entity comprises 3Q Holdings Limited (the company) and the entities it controlled at 31 December 2010 or from time to time during the half-year ended on that date.

Directors' Responsibility for the Half-Year Financial Report

The directors of the company are responsible for the preparation and fair presentation of the half-year financial report in accordance with Australian Accounting Standards and the *Corporations Act 2001*. This responsibility includes establishing and maintaining internal control relevant to the preparation and fair presentation of the half-year financial report that is free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Auditor's Responsibility

Our responsibility is to express a conclusion on the half-year financial report based on our review. We conducted our review in accordance with Auditing Standard on Review Engagements ASRE 2410 *Review of an Interim Financial Report Performed by the Independent Auditor of the Entity*, in order to state whether, on the basis of the procedures described, we have become aware of any matter that makes us believe that the financial report is not in accordance with the *Corporations Act 2001* including: giving a true and fair view of the consolidated entity's financial position as at 31 December 2010 and its performance for the half-year ended on that date; and complying with Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*. As the auditor of 3Q Holdings Limited, ASRE 2410 requires that we comply with the ethical requirements relevant to the audit of the annual financial report.

A review of a half-year financial report consists of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Australian Auditing Standards and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

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Chartered Accountants
& Business Advisers

Independence

In conducting our review, 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.

Conclusion

Based on our review, which is not an audit, we have not become aware of any matter that makes us believe that the half-year financial report of the consolidated entity is not in accordance with the *Corporations Act 2001* including:

- a) giving a true and fair view of the consolidated entity's financial position as at 31 December 2010 and of its performance for the half-year ended on that date; and
- b) complying with Accounting Standard AASB 134 *Interim Financial Reporting and Corporations Regulations 2001*.

A handwritten version of the PKF logo in blue ink.

PKF

A handwritten signature in black ink, appearing to read 'Paul Bull'.

Paul Bull
Partner
Sydney, 28 February 2011