3Q HOLDINGS LIMITED
ABN 42 089 058 293

ASX Release

Foreign Exchange translation impacts on 3Q Accounts

- Recent substantial movements in Australian vs. US dollar exchange rates
  - highlighted the importance of 3Q's announced natural hedging arrangements
  - but may have a substantial (although non-cash) impact on 3Q reported profit for this financial year (depending on exchange rates at the time of preparing financial statements)
- 3Q has substantial earnings in US dollars, as well as a tranche of US dollar bank debt
- Timing and accounting differences may lead to a non-cash impact on the accounts:
  - the nominal value of changes in the total debt owing (an unrealised change in value as a result of converting US dollar bank debt into Australian dollars) being taken to the profit and loss statement as a non-cash item
  - the real, cash benefit of increased Australian dollar value of US dollar earnings will be recorded incrementally over time, as earnings are received and converted
- The Company continues to believe that its current arrangements are appropriate, as the USD loan will ultimately be effectively repaid with USD earnings.

Tuesday, 11 November 2008: The Board of 3Q Holdings Limited (ASX: TQH) today advised that recent substantial fluctuations in the relative values of the Australian and United States dollar would be likely to have a substantial, albeit non-cash, impact on the reported profit of the Company at the half year and full year.

Background

Given the success of the Island Pacific acquisition, the Company has a substantial proportion of its current earnings denominated in US dollars, and the Australian dollar value of those earnings varies according to the exchange rate at the time of receipt and conversion to Australian dollars.

Earlier this financial year, the local value of those earnings was decreasing, as the Australian dollar strengthened against the US$. Subsequently, the A$ has substantially weakened and the local value of the earnings has increased as a consequence. To deal with these fluctuations, as announced with the full year 2008 results, the Company has instituted a 'natural hedge' arrangement - increasing the proportion of its existing bank debt held in US dollars, rather than Australian dollars (that converted debt stood at some US$6.8m immediately following the end of the financial year).

Potential accounting consequences

From an accounting perspective, the entire outstanding US$ loan amount is converted to its nominal A$ equivalent at each reporting period (monthly in terms of the Company's management accounts, and to be reported at the half year and full year results). This nominal conversion does not represent a cash impact on the accounts, simply the nominal current value of the outstanding loan balance.

As it is taken across the entire balance of the loan at the time of conversion, the fluctuations may have substantial value depending on the then current rate at each reporting point.

The impact of having a portion of the A$ loan converted into US$ at approximately 0.95c exchange rate, and now using a rate of 0.68c, is that the total exchange rate loss at this stage is approximately $2.4 million.

Of course, while the US$ balance remains outstanding, any subsequent increase in the exchange rate will similarly mean the non-cash 'loss' will be recovered in the nominal conversion of the then outstanding balance.

On the other hand, as US$ earnings are earned, received and converted to A$, there is a real, cash benefit to the Company in the current exchange rate climate. This impact takes longer to flow through to the accounts, as it only applies to the US$ revenue received and converted each month; rather than the entire 'outstanding balance' at any one time (as with the loan account).

Ultimately, while the US$ loan remains outstanding, the Company has a great deal of flexibility available to it to choose the appropriate time to convert US$ earnings, and to pay back the US$ loan. For example, in a low exchange rate environment (as at present), the Company is able to take relatively valuable US$ and use them to pay down the existing A$ debt at an accelerated rate. Should the position change to a high exchange rate environment, the Company would then apply US$ (and, indeed A$) to the US$ debt.

Arrangements to be monitored

While the Board will continue to closely monitor the position, it is comfortable that the current approach is appropriate for the present circumstances.

The Board looks forward to updating shareholders on the actual accounting impact once the relevant financial statements are prepared.

For more information please contact:

Alan Treisman
Chief Financial Officer
+61 2 9389 3555
alan@threeq.com.au
http://www.threeq.com.au

Stephe Wilks
Non-Executive Director
+61 2 9226 9839
stephe.wilks@threeq.com.au
http://www.threeq.com.au

About 3Q Holdings

3Q Holdings Limited (ASX: TQH) has been listed on the ASX in its current form since 28 December 2005. It originally acquired 100% of QQQ Systems, a software company that provides software applications to the retail industry in Australia and New Zealand – with both point of sale (POS) and head office solutions into a wide range of retail clients operating in the fashion, electronics, furniture, general merchandise and discount variety industries.

In March 2006 the company acquired the San Diego based Applied Retail Solutions business (ARS). ARS has been providing software and services to mid-sized and large retailers in the United States since 1987. Its core product "OnePointe" provides a Post to Host solution in market segments such as apparel, footwear, entertainment, discount and variety, giving TQH an excellent entry into the US retail software and services market.

New Zealand based AdvanceRetail Technology was acquired by TQH in March 2007, and is a leading retail solutions provider with offices in Auckland, Sydney and Brisbane and representation in Malaysia, China and Singapore – giving it a high quality customer base in Australia, New Zealand and Asia. The company has a range of strategic alliances through which the Company takes its products and services to market, including industry leaders that include SAP, Microsoft and IBM.

In December 2007 the company acquired Island Pacific, which provides access to market leading retail merchandising, store operations, CRM, and multi-channel software solutions internationally. With offices in the United States and the United Kingdom, TQH not only has better access to those markets, but has the advantage of a springboard into the broader European markets. Island Pacific was founded in 1978 and has developed a reputation for delivering high-quality, high-reliability software to the retail industry. The company is headquartered in Irvine, California.