3Q HOLDINGS LIMITED

# 3Q Holdings Limited
## 2006 Annual Report

# Empowering RETAILERS Through Technology

ONE POINTE

ARS Register & ISP Applications

dolFIN/dPOSit

CRMS

Complete Retail & Management Systems

rags

PYRAMID®

# Financial Overview & Highlights of the Year

In the financial year ending 30 June 2006, 3Q Holdings Pty Ltd (3Q) followed its strategic direction and traded well, meeting its financial objectives. A solid foundation has been laid on which to build further profit growth in 2007.

3Q is in a strong position to take advantage of the fragmented nature of its industry and pursue its strategy of growth by acquisition.

## The key operating highlights of 2006

- The acquisition of the profitable business of QQQ Systems Pty Limited (trading as SVI Retail), giving 3Q a strategic position in the Australian retail Point-of-Service market.
- The re-listing of 3Q Holdings Limited on the Australian Stock Exchange (ASX Code: TQH).
- The acquisition of Applied Retail Solutions business, gaining a valuable presence in the USA.
- The completion of a software and hardware upgrade for a leading retail clothing brand chain.

## Financial Highlights

| | |
|---|---|
| Consolidated Revenue | $8,367,043 |
| EBITDA * | $2,537,822 |
| Operating Profit After Tax * | $1,998,324 |
| Earnings per Share (undiluted) | 3.2257c |
| Gearing | 3.41% |
| Number of Employees | 38 |

* includes excess of interest in net fair value of assets and liabilities acquired on acquisition of Applied Retail Solutions on 31 March 2006

### Preamble

This annual report covers both 3Q Holdings Limited (3Q) as an individual entity and the consolidated entity comprising 3Q Holdings Limited and its subsidiaries (The Group).

The Group's presentation currency is AUD ($).

# Contents

# Chairman's Report

I am delighted to present the 1st Annual Report for 3Q Holdings Limited since the Company re-listed on the Australian Stock Exchange in December 2005.

As our results show, our underlying business, operating as SVI Retail, performed well and made strategic progress during the year. We signed a number of new retailers and extended a contract with a major client. We continue to follow our business plan and I am pleased to report that we reached our budgetary goals and have exceeded the performance targets for the conversion of our performance shares.

As shareholders would be aware, the capital raising completed in December 2005 enabled us to re-list the public company under the new 3Q Holdings Limited structure. Much of the money raised was used to cover costs associated with the listing process and to date the Company has been able to generate its working capital requirements through its existing business.

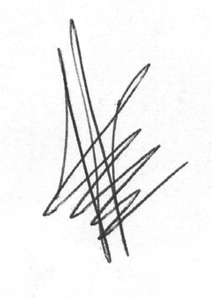
However, our strategic objective is to use the public structure to grow 3Q Holdings via acquisition. The Board has been extremely focused on trying to identify suitable targets since the listing process was completed. Our first successful acquisition was a US based retail solutions company, Applied Retail Solutions (ARS), headquartered in San Diego. This represents a good opportunity to establish a presence in the huge United States retail software and services market and has been earnings accretive in the 2005/2006 year.

The Board is committed to implementing the "growth via acquisition" strategy and continues to look at a range of opportunities in the Australian and New Zealand markets. We are also in the process of finalising lines of credit for acquisition finance from top Australian financial institutions.

We have received advice that tax losses are available in 3Q Holdings Limited for future recoupment subject to 3Q satisfying the loss recoupment provisions contained in the Income tax assessment Act, 1997. These losses exceed $16 million. Each year, provided the available fraction does not change, we should be able to offset just under 12% future Australian profits against the tax losses.

Ultimately 3Q Holdings Limited is about achieving scale through strategic acquisitions wherever synergies and economies of scale from the acquisitions are anticipated to increase profitability. Our focus is clear and we know that our underlying business is profitable and strong.

We look forward to your continued support as we work though what will be our 1st full year as a public company and I thank you, the shareholders, as well as our dedicated staff and alliance partners for helping us make the progress we have made over the past twelve months.



Shaun Rosen
Chairman

# Business Overview

3Q, trading as SVI Retail (SVI) in Australia and Applied Retail Solutions (ARS) in the USA, develops, sells, implements and integrates retail technology solutions for a wide range of retail clients, operating in the fashion, electronics, furniture, general merchandise and discount variety industries.

Generally, its revenue model consists of an upfront fee for the technology, hardware and related services, with an ongoing maintenance revenue trail on the software, for the life of its use. 3Q estimates that customers typically replace their Point-of-Sale (POS) technology every eight years.

The majority of sales are made to retailers establishing their inaugural operations or those actively seeking a new software solution.

3Q services household brands in the electronics, general merchandise and discount variety sectors, with approximately 150 customers and 2,500 POS lanes in Australia and New Zealand. ARS' clients operate approximately 5,000 POS lanes in the USA. Maintenance revenue is generally calculated on a per lane or per user basis and forms the basis for the recurring income stream.

One of the key factors in the success of 3Q's strategy is its commitment to the highest levels of customer service and managing relationships with customers.

3Q's key competitive advantages include the:

- proven quality of the products
- extensive features and functionality of the products
- experience of the 3Q management team in the Australian and USA markets
- stability of the current customer base
- expertise and track record of the 3Q management team in managing and integrating acquisitions.

## Summary of Products & Services

SVI delivers proven retail technology solutions that include software, hardware, services, consulting and maintenance. Its scalable suite of products satisfy the majority of a retailer's needs in traditional retail software applications and can operate independently or be fully integrated with solutions provided by other vendors.

SVI's key off the shelf products are:

**doIFIN** a fully integrated financial and retail management system, developed for multi-store retailers, wholesalers and manufacturers.

**dPOSit** SVI Retail's flagship point of sale product

**CRMS** a complete retail management system, based around the four essential stages of the retail merchandising cycle: purchasing, stocking, selling and replenishment. This retail solution has an emphasis on furniture and electrical retailers.

**RAGS** adding manufacturing functionality to the SVI range of products.

SVI also provides extensive support that includes consulting, project management and business process planning.

ARS' product range includes:

**OnePointe** in-store front and back office functions

**RCM** a retail chain manager with chain controller, CRM, voucher / gift card services, centralized and consolidated transactional database

**P2P** Peer to peer data communication subsystems between store and head office.

**IPMS** Island Pacific Merchandise System, including sales audit, merchandising fundamentals, store hierarchy setup, purchasing, distribution, warehousing, replenishment, ticketing, events, financials, and business intelligence for retail.

## Ongoing Strategies

The 3Q Business Plan is focused on a strategy of growth by acquisition. The stated objective is to become the market leader of the sector the company operates in.

The retail technology industry is highly fragmented. The previous experience of the 3Q Management Team has proven that consolidation within a fragmented sector can greatly increase profitability through the consolidation of overhead expenses, improved purchasing power, rationalization of sales forces, rationalization of products and cross selling of products.

The Board has established a formal process to be followed which will generally be used for each acquisition. Potential acquisition targets will need to meet the following broad criteria:

- operate in the software/services or related sectors
- have a history of profitability, positive cash flows and recurring revenue streams
- demonstrate operating margins in line with 3Q's existing business model
- own their technology
- possess a management team who will be prepared to continue their relationship with the business.

However, there are exceptions to these criteria where the motives for the acquisitions are to take into account strategic, geographic or technological advantages.

In addition,

- every acquisition should be accretive to existing 3Q's shareholders on its own merit
- consideration will generally be via a mixture of shares and cash, with appropriate escrow arrangements
- where deemed appropriate, purchase consideration will be linked to future profitability.

## Mission Statement

3Q Holdings strives to be at the forefront of retail technology development, providing retailers with a combination of premium technology products and services. 3Q Holdings will grow by acquisition and organically to become the Australian industry leader, with global expansion to follow.

# Board of Directors

The names and details of the company's directors in office during the financial year are as follows:

**Shaun Rosen**
Executive Chairman

Shaun Rosen joined the Board as the Executive Chairman on 22 December 2005, as part of the acquisition of QQQ Systems. 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 20 years experience in the information technology industry. In 1986 he immigrated to Australia and started Divergent Technologies in Sydney in 1987. In 1994, 20% of Divergent was sold to Tag Pacific and in 1996, 100% of Divergent was sold to SVI Holdings Inc, which was listed on the OTC Bulletin Board. Shaun retired in late 1999. In 2002, Shaun bought back SVI Retail with his business partner, Clive Klugman. Together they traded the company back into profitability.

**Clive Klugman**
Executive Director

Clive joined the Board as Executive Director on 22 December 2005, as part of the acquisition of QQQ Systems Pty Limited. Clive studied Computer Science at the University of Cape Town, graduating in 1979. He formed Divergent Technologies with Shaun Rosen and has worked with Shaun since that time. He has had more than 20 years experience in the information technology industry. He has the role of Chief Operating Officer of QQQ Systems Pty Limited.

**Alan Treisman**
Executive Director

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 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 9 years experience in the information technology industry. He now combines the role of Mergers and Acquisitions with that of Finance Director while also serving as the Company Secretary.

**Geoff Gander**
Non-Executive Director

Geoff was appointed as a Director on 4 December 2003 and moved from an Executive role to a Non-Executive role on completion of the acquisition of QQQ Systems Pty Limited. He has the role of managing Investor Relations for the Company. Geoff graduated from the University of Western Australia in 1984 where he completed a Bachelor of Commerce Degree and has had more than 20 years experience in the information technology industry, with much of that specifically related to the POS sector. Geoff also works as an industry consultant to a range of private and public companies. In addition to his Non Executive Director role at the Company, he also sits on the boards of publicly listed VPH Limited, EQiTX Limited, Australian Waterwise Solutions Limited and Jupiter Energy Limited as well as the privately held company, Highway 1 (Australia) Pty Limited.

**Tony Ammendola**
Non-Executive Director

Tony has a 25 year history in the Financial Planning industry, with roles at AGC Finance, Westpac, IOOF and ANZ Wealth Management. He was appointed a Director on 8 August 2005 and resigned on 22 December 2005.

**Bernard Crawford**
Non-Executive Director

Bernard is a chartered accountant with extensive experience in various senior roles with Nike, Merrill Lynch & Atlantic Richfield. He holds a Bachelor of Commerce Degree and a Masters of Business Administration from London Business School. Bernard was a Director from 1 July 2003 until he resigned on 10 November 2003 and was reappointed on 4 December 2003 and resigned finally on 22 December 2005.

**Tony Cunningham**
Non-Executive Director

Tony holds a Bachelor of Commerce Degree and worked as an investment manager at a major West Australian broking firm from 1995 to 2001. He is now the principal of Cunningham Securities, established in 2001 and the holder of an Australian Financial Services License. Tony was a Director of the company for the following periods: 23 April 2003 to 28 October 2003, 4 December 2003 to 24 January 2005, 12 April 2005 to 9 August 2005.

# The Directors' Report

Your directors submit their report for the year ended 30 June 2006.

## Directors' Interest in the ordinary shares in the Company

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

| Director | Ordinary Shares |
|---|---|
| Shaun Rosen | 25,000,000 |
| Clive Klugman | 25,000,000 |
| Geoff Gander | 82,500 |
| Alan Treisman | - |

## Dividends

3Q paid no dividends during the reporting period.

A dividend of $1,690,000 was paid by QQQ Systems Pty Limited during the reporting period to its shareholders prior to the acquisition by 3Q.

## Principal Activities

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

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, furniture, general merchandise and discount variety industries.

## Group Overview

3Q Holdings Limited (formerly known as Acuity Investment Management Limited and before this as Thin Technologies Limited) was established to develop and market an innovative integrated POS Retail Management System. The Company was registered in Western Australia on 23 August 1999 as a public company and was listed on Australian Stock Exchange (ASX) on 11 April 2000. The Company was suspended from the ASX from November 2003.

To date, the Retail Management System solution has attracted one major client, Hutchison 3G Australia Pty Ltd. Hutchison uses the technology in its "3" stores around the country and the offering has proved to be rich in functionality and very reliable. The Company has outsourced the entire operation, development and support of the Hutchison RMS solution to the London Stock Exchange (LSE) listed, global information technology company LogicaCMG.

During the year Acuity Investment Management Limited acquired QQQ Systems Pty Limited (trading as SVI Retail).

The purchase was completed on 22 December 2005 and the Company changed its name to 3Q Holdings Limited effective on the same date. On 28th December 2005 the Company was readmitted onto the ASX and began trading that day.

Australia's retail software sector is in a fragmented state and the acquisition of QQQ Systems Pty Limited presents a major opportunity for sector consolidation.

On 31 March 2006, the Group acquired the Applied Retail Solutions business (ARS) in the USA. ARS has been providing software and services to mid sized and large retailers in the United States since 1987.

The ARS product mix is synergistic with the existing product range available through 3Q in Australia and the acquisition offers 3Q an entry point into the large US retail market through a business with an established solution set, existing clients and an experienced management team.

## Dynamics of the Business

The Retail sector can be characterized 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 organizations 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 full working solution and ongoing maintenance and support since its formation in 1987.

There are a number of well run Point of Service providers in the market, some specializing in software, others in services and most with a loyal client base. These organizations 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 Company is currently well established in the "specialty retail" sector and boasts an impressive client list that includes many brand retailers.

## Summary of the Company Business Plan

Australia's retail software sector is in a fragmented state and the acquisition of QQQ Systems Pty Limited presents a major opportunity for sector consolidation.

The Company's Business Plan will drive the future strategy of the Company. The Directors believe that the key focus will be to obtain a major stronghold in the retail software sector both in Australia and at a later stage, overseas. This will be achieved through acquisitions of similar companies, wherever synergies and economies of scale from the acquisitions are anticipated to increase profitability.

Prior acquisitions by the QQQ System's Pty Limited management team illustrate its success in implementing a strategy of growth by acquisition and the Board and Management of the Company are committed to building 3Q as quickly as possible, taking into account the key requirement of only acquiring organizations that offer immediate upside to the profitability of the Company.

## Operating Results for the Year

The successful completion of the acquisitions of QQQ Systems Pty Limited (trading as SVI Retail) and Applied Retail Solutions Inc (USA) have laid a strong foundation for the future growth of the Group.

The Group's net profit for the year after income tax is $1,998,324 (2005: $1,027,884) representing an increase of 94% (2005: 336%) from the previous year. The acquisition of QQQ Systems Pty Limited (trading as SVI Retail) has been the major factor in accounting for the growth of the Group.

A summary of the Group's operating results for the financial year ending June 30, 2006, is as follows:

| **Business Segments** | **Revenues $** | **Net Profit After Tax $** |
|---|---|---|
| Australian Operations | 7,207,133 | 1,557,503 |
| USA Operations | 1,060,175 | 353,122 |
| NZ Operations | 99,735 | * 87,699 |
| **TOTAL** | 8,367,043 | 1,998,324 |

* The profit from New Zealand operations does not take into account tax which is payable in Australia.

## Liquidity and Capital Resources

The consolidated cash flow statement illustrates that there was an increase in cash and cash equivalents in the year ended 30 June 2006 of $78,710 (2005: $422,507).

Operating activities generated approximately $1,377,190 (2005: $734,829) of net cash in-flows.

There was a net increase in the cash flows from investing activities of $1,976,215 (2005: ($56,887), which was mainly attributable to cash acquired on the purchase of subsidiaries of approximately $1,990,000.

There was a net increase in cash out-flows from financing activities of approximately $3,263,705 (2005: $255,435) due primarily to a dividend paid of $1,690,000 and payments relating to costs of re-listing, recapitalisation and the public offering of approximately $1,387,000.

## Asset and Capital Structure

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

| **Consolidated** | **2006 $** | **2005 $** |
|---|---|---|
| Interest Bearing Loans & Borrowings | 139,068 | 346,040 |
| Cash & Short Term Deposits | (684,101) | (605,391) |
| Net Debt | (545,033) | (259,351) |
| | | |
| Total Equity | 4,072,329 | 682,883 |
| Total Capital Employed | 3,527,296 | 423,532 |
| | | |
| Gearing (%) | 3.41% | 50.67% |

## Profile of Debts

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

| | **2006 $** | **2005 $** |
|---|---|---|
| Obligations under hire purchase agreements | 17,921 | 17,921 |
| Bank Loans | 121,147 | - |
| Other Loans | - | 328,119 |
| **TOTAL DEBT** | 139,068 | 346,040 |

The Group anticipates that its debts will increase over the coming year once more acquisitions are made. The Group is in the process of negotiating acquisition finance amounting to at least 10 million dollars.

## Share issues during the year

The acquisition of QQQ Systems Pty Limited was funded by the issue of 50 million ordinary shares at a price of 20 cents per share, plus the issue of 65 million performance shares which are convertible into ordinary shares upon achievement of certain specified targets in the periods ending 30 June 2006 or 2007.

It is the intention of the holders to convert the 65 million performance shares to ordinary shares in 2006 as the specified targets in the period 2006 were achieved. Conversion of the performance shares into ordinary shares will take place within 20 business days of the release by the company to the ASX of its audited financial statements for the financial year ending 30 June 2006.

The effect of converting these performance shares into ordinary shares has been included in the calculation of the diluted earnings per share.

7,500,000 fully paid ordinary shares at 20c each were also issued pursuant to a prospectus. Accordingly, the only cash cost of the acquisition related to direct legal and professional expenses.

## Options issued during the year

During the year 1,250,000 unlisted options over ordinary shares in 3Q Holdings Limited were issued with an exercise price of 20c per option. 900,000 out of the 1,250,000 options were issued to Investec Bank (Australia) Limited and the balance of 300,000 options were issued to Capital Investment Partners Pty Ltd. The options expire on 30 June 2010.

## Risk Management

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

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

## Significant Changes in the State of Affairs

The acquisition of QQQ Systems Pty Limited has allowed the Group to gain control of a significant provider of retail solutions in Australia. This ensures the potential opportunity for strong sales and profitability, for the Group.

The acquisition of Applied Retail Solutions in the USA on 31 March 2006 created additional opportunities for further sales and profit growth, as well as an entry into the lucrative USA market.

## Significant Events After the Balance Date

Other than what has been reported in note 23 to the accounts, there were no significant events after the balance date.

## Environmental Regulation and Performance

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

## Indemnification and Insurance of Directors and Officers

The insurance premium for the period ending 30 June 2007 in respect of Directors and Officers' liability and legal expenses' insurance contracts, for past, present or future Directors or Officers' of the 3Q Holdings Group, including any Company Secretary and any Employee who is concerned in, or takes part in, the management of the Company , was $32,413.

The insurance premium relates to:

- costs and expenses incurred by the Directors and Officers in defending proceedings, whether civil or criminal made against them alleging a wrongful act.
- damages awarded or judgments entered against the relevant Directors and Officers.

# Remuneration Report

## Remuneration philosophy

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

During 2006, director's and executive's remuneration was not linked to performance of the Company.
The Company intends to embody the following principles in its remuneration framework:

- Provide competitive rewards to attract high caliber executives
- Link executive rewards to shareholder value, the company's performance and the Director's ability to control the relevant segments' performance

For the year ended 30 June 2006, the director's and executive's salary packages were considered very modest in relation to the performance of the Company and to market rates.

## Remuneration structure

The Company's Constitution provides that the remuneration of the Directors will be not 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.

## Director Remuneration

Shaun Rosen, Clive Klugman and Alan Treisman are the only Executive Directors of the Company as at the date of this report. They were all appointed on the 22 December 2005.

Geoff Gander was an Executive Director up to 22 December 2005. He resigned as an executive Director on this date and then became a Non-Executive Director of which he still is at the date of this report.

All Directors of the Company receive base Directors fees of $60,000 per annum.

Shaun Rosen's annual salary was set at $60,000 excluding superannuation for the year ended 30 June 2006.

Clive Klugman's annual salary was set at $90,000 excluding superannuation for the year ended 30 June 2006.

Alan Treisman was entitled to a bonus of $30,000 net upon the successful re-quotation of the shares on ASX.

Alan Treisman and Geoff Gander were employed by the Company on an Hourly or project basis for the year ended 30 June 2006.

It is the intention of the Directors to issue 1,000,000 Options to each Director as part of the remuneration policy. The issue of these Options will be conditional upon Shareholder approvals at the forthcoming general meeting.

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

# Key Management Personnel (also referred to as Specified Directors & Executives)

### (a) The remuneration of executive & non-executive specified directors for the period ending 30 June 2006 is as follows:

| Specified Directors | Years | Primary Benefits | | | Post Employment | | Equity Options | Incentives | TOTAL |
|---|---|---|---|---|---|---|---|---|---|
| | | Salaries & fees | Non monetary | Cash bonuses | Superannuation | Retirement Benefits | | | |
| | | $ | $ | $ | $ | $ | $ | $ | $ |
| Shaun Rosen * Executive Chairman | 2006<br>2005 | 74,942<br>- | -<br>- | -<br>- | 40,560<br>- | -<br>- | -<br>- | -<br>- | 115,502<br>- |
| Clive Klugman * Executive Director | 2006<br>2005 | 85,359<br>- | -<br>- | -<br>- | 35,560<br>- | -<br>- | -<br>- | -<br>- | 120,919<br>- |
| Alan Treisman * Finance Director & Secretary | 2006<br>2005 | 87,878<br>- | -<br>- | 4,000<br>- | 3,058<br>- | -<br>- | -<br>- | -<br>- | 94,936<br>- |
| Geoff Gander ** Non-Executive | 2006<br>2005 | 73,750<br>51,500 | -<br>- | -<br>- | -<br>- | -<br>- | -<br>- | -<br>- | 73,750<br>51,500 |
| Bernard Crawford *** Non-Executive | 2006<br>2005 | 7,742<br>30,000 | -<br>- | -<br>- | -<br>- | -<br>- | -<br>- | -<br>- | 7,742<br>30,000 |
| Tony Ammendola *** Non-Executive | 2006<br>2005 | 11,775<br>- | -<br>- | -<br>- | -<br>- | -<br>- | -<br>- | -<br>- | 11,775<br>- |
| Tony Cunningham **** Non-Executive | 2006<br>2005 | -<br>21,550 | -<br>- | -<br>- | -<br>- | -<br>- | -<br>- | -<br>- | -<br>21,550 |
| Graham Morrow ***** Non-Executive | 2006<br>2005 | -<br>- | -<br>- | -<br>- | -<br>- | -<br>- | -<br>- | -<br>- | -<br>- |
| **TOTAL REMUNERATION SPECIFIED DIRECTORS** | 2006<br>2005 | 341,446<br>103,050 | -<br>- | 4000<br>- | 79,178<br>- | -<br>- | -<br>- | -<br>- | 424,624<br>103,050 |

* Appointed as Executive Directors on 22 December 2005.
** Resigned as Executive Director on 22 December 2005. Appointed as Non-Executive Director on 22 December 2005.
*** Tony Ammendola was appointed as Non-Executive Director on 9 August 2005.
Bernard Crawford and Tony Ammendola resigned as Non-Executive Directors on 22 December 2005.
**** Tony Cunningham resigned on 9 August 2005.
***** Graham Morrow was appointed on 24 January 2005 and resigned on 12 April 2005.

In addition to the Directors, the only other specified executive is David Rosen.

The remuneration of the specified executive for the period ending 30 June 2006 is as follows:

| Specified Executives | Years | Primary Benefits | | | Post Employment | | Equity Options | Incentives | TOTAL |
|---|---|---|---|---|---|---|---|---|---|
| | | Salaries & fees | Non monetary | Cash bonuses | Superannuation | Retirement Benefits | | | |
| | | $ | $ | $ | $ | $ | $ | $ | $ |
| David Rosen * Director Applied Retail Solutions Inc. | 2006<br>2005 | 41,625<br>- | -<br>- | -<br>- | -<br>- | -<br>- | -<br>- | -<br>- | 41,625<br>- |
| **TOTAL REMUNERATION SPECIFIED EXECUTIVES** | 2006<br>2005 | 41,625<br>- | -<br>- | -<br>- | -<br>- | -<br>- | -<br>- | -<br>- | 41,625<br>- |

* David Rosen was employed by the Group effective from the date the business of Applied Retail Solutions was acquired on 31 March 2006. He is employed as at the date of this report.

### (b) Compensation Options

During the financial year there were no options over ordinary shares in the Company granted as equity compensation benefits to Directors or Executives. The Board of Directors is in the process of approving the issue of 4 million Options over Ordinary shares in the Company to Directors. These options if approved will then be required to be approved by Shareholders in the Annual General Meeting to be held in November 2006. Thereafter it is expected that the options will be issued.

### (c) Open Holdings of Directors & Executives

At the reporting period there were no options over ordinary shares in the Company held by Directors or Executives. There was no movement during the financial year in options over ordinary shares in the Company to Directors or Executives.

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

| | Held at 1 July 2004 | Consolidation (1:5) | Transferred | Lapsed | Held at 30 June 2005 |
|---|---|---|---|---|---|
| AR Cunningham */** | 17,500,000 | (14,000,000) | (1,000,000) | (2,500,000) | - |
| GA Gander */** | 17,500,000 | (14,000,000) | (1,000,000) | (2,500,000) | - |

### (d) Employment contracts

Shaun Rosen and Clive Klugman are the only two director's employed by the Company under a contract.

**Contract Duration**

Shaun Rosen – Shaun is employed by the Company for a one year period ending 21 December 2006.
Clive Klugman – Clive is employed by the Company for a three year period ending 21 December 2008.

**Notice periods required to terminate contracts**

Both Director's may terminate their employment by giving between 30 days and 6 months written notice, depending on the circumstance giving right to the termination. The Company may terminate the director's employment by giving immediate or 6 months written notice, depending on the circumstance giving right to the termination.

**Termination payments**

The termination benefits payable to both directors will vary between no payment being made, to an amount equal to the director's annual remuneration package immediately prior to the termination of the employment.

## Equity Holdings and Transactions with Specified Directors and Executives

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

| | Held at 1 July 2005 | Issues/ Purchases | Consolidation (1:2) | Sales | Held at 30 June 2006 |
|---|---|---|---|---|---|
| Shaun Rosen ***/**** | - | 25,000,000 | - | - | 25,000,000 |
| Clive Klugman ***/**** | - | 25,000,000 | - | - | 25,000,000 |
| GA Gander */**/*** | 6,670,000 | 82,500 | (3,335,000) | (2,535,000) | 882,500 |
| AR Cunningham */** | 6,670,000 | - | (3,335,000) | (2,535,000) | 800,000 |

| | Held at 1 July 2004 | Issues/ Purchases | Consolidation (1:5) | Sales | Held at 30 June 2005 |
|---|---|---|---|---|---|
| AR Cunningham */** | 33,350,000 | - | (26,680,000) | - | 6,670,000 |
| GA Gander */**/*** | 33,350,000 | - | (26,680,000) | - | 6,670,000 |

* AR Cunningham and GA Gander are Directors of Buyshop Limited which has an interest of 800,000 ordinary shares at 30 June 2006. (6,670,000 ordinary shares at 30 June 2005.)
** Directors at 30 June 2005
*** Directors at 30 June 2006
**** The consideration for the 100% equity in QQQ comprised the issue of 50,000,000 ordinary shares at 20c per share (25,000,000 to Eastfall Pty Limited , a related party of Clive Klugman, and 25,000,000 to Elabrook Pty Limited , a related party of Shaun Rosen) and 65,000,000 (32,500,000 to Eastfall Pty Limited , a related party of Clive Klugman, and 32,500,000 to Elabrook Pty Limited , a related party of Shaun Rosen) performance shares which are convertible into up to 65,000,000 ordinary shares upon achievement of certain specified targets in the periods ending 30 June 2006 or 2007.

It is the intention of the Vendors of QQQ Systems Pty Limited to convert the 65 million performance shares to ordinary shares in 2006 as the specified targets in the period 2006 will be achieved. The effect of converting the performance shares into ordinary shares has been included in the calculation of the diluted earnings per share.

Conversion of the performance shares into ordinary shares will take place within 20 business days of the release by the company to the ASX of its audited financial statements for the financial year ending 30 June 2006.

## Loans and other transactions with Specified Directors and Executives

### Loans

Details of aggregates of loans from Specified Directors and Executives including their personally-related entities are as follows:

| | Balance at Beginning of period $ | Advanced $ | Interest Charged $ | Repaid $ | Balance at end of period $ |
|---|---|---|---|---|---|
| **2006** | | | | | |
| Shaun Rosen | - | 120,000 | 917 | 120,917 | - |
| Clive Klugman | - | 30,000 | 230 | 30,230 | - |
| **2005** | - | - | - | - | - |

### Terms and conditions of loans

Loans from directors accrue interest at market rates. The loans were repaid in full during the year.

### Sales financed by related parties of Specified Directors

Sales to certain customers of QQQ Systems Pty Limited are financed by Isalux Pty Limited, a related party of the Group. Isalux Pty ltd is 100% owned by Shaun Rosen, Clive Klugman and David Rosen (through their personally-related entities), who are also directors of Isalux. Isalux repays QQQ on a monthly basis. For additional information refer to note 22.

### Rent paid to related parties of Specified Directors

The Sydney offices are rented from Isalux Pty Limited, a related party of the Group. The rental paid to Isalux is at normal market prices and on normal commercial terms. For additional information refer to note 22.

### Security for Bank Loan Facility

Two related parties of Specified Directors, Eastfall Pty Limited and Elabrook Pty Limited, provide security for the QQQ System Pty Limited bank facility referred to in note 16.

### Other Transactions

During the previous year, Cunningham Securities Pty Ltd (an associate of former Director, Mr. AR Cunningham), received placement fees in respect of share placement in May 2005 of $6,875.

During the previous year, Sigma Alpha Group Limited (an associate of former Director Mt GV Morrow) paid monies in respect of funding of the costs associated with the prospectus dated 25 January 2005.

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

# Directors' Meetings

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

| Directors | Meetings Held | Attended |
|---|---|---|
| Shaun Rosen | 4 | 4 |
| Clive Klugman | 4 | 3 |
| Alan Treisman | 4 | 4 |
| Geoff Gander | 5 | 5 |
| Tony Cunningham | 1 | 1 |
| Bernard Crawford | 1 | 1 |
| Graham Morrow | 0 | 0 |
| Tony Ammendola | 0 | 0 |

# Non-Audit Services

The following non-audit services were provided by the Company's auditor, PKF. The directors are satisfied that the provision of non-audit services is compatible with the general standard of independence for auditors imposed by the Corporations Act. The nature and scope of the non-audit service provided means that auditor independence was not compromised.

PKF received or are due to receive the following amounts for the provision of non-audit services:

Accounting advice and due diligence services - $2,505

## Auditor's Independence Declaration

A copy of the Auditor's Independence Declaration, as required under Section 307C of the Corporations Act 2001, which forms part of this Director's Report, is set out on page 22.

Signed in accordance with a resolution of the directors.

Shaun Rosen
Executive Chairman
Sydney, NSW
22 September, 2006

# Corporate Governance Statement

External events have changed the way in which corporate governance responsibilities are viewed and in March 2003 the ASX Corporate Governance Council released its 'Principles of Good Corporate Governance and Best Practice Recommendations'. The principles of corporate governance have been developed, supported by best practice and implementation recommendations. The Council has recognised that these principals and recommendations do not contain a "one size fits all" solution and that it will be necessary for companies to adopt a "fit for purpose" solution in the adoption of these practices.

The ASX Listing Rules require listed entities to disclose the extent to which they have followed the best practice recommendations set by the ASX Corporate Governance Council during the reporting period. This corporate governance statement summarizes the corporate governance practices that have been formally reviewed and adopted by the Board with a view to ensuring continued investor confidence in the operations of the Company and is endorsing the corporate governance principles relevant to a Company of 3Q's nature and size. A table has been included at the end of this statement detailing the Company's compliance with the best practice recommendations.

The Company's website at www.threeq.com.au contains a corporate governance section that includes copies of the Company's corporate governance policies.

## Board of Directors

### Role of the Board

In general, the Board is responsible for, and has the authority to determine, all matters relating to the policies, practices, management and operations of the Company. It is required to do all things that may be necessary to be done in order to carry out the objectives of the Company.

Without intending to limit this general role of the Board, the principal functions and responsibilities of the Board include the following:

- Set the strategic direction for the Company and monitor progress of those strategies;
- Establish policies appropriate for the Company;
- Monitor the performance of the Company, the Board and management;
- Approve the business plan and work programmers and budgets;
- Authorize and monitor investment and strategic commitments;
- Review and ratify systems for health, safety and environmental management; risk and internal control; codes of conduct and regulatory compliance;
- Report to shareholders, including but not limited to, the Financial Statements of the Company; and
- Take responsibility for corporate governance.

### Composition of the Board

To add value to the Company the Board has been formed so that it has effective composition, size and commitment to adequately discharge its responsibilities and duties given its current size and scale of operations.

The names of Directors of the Company in office at the date of this statement are set out in the Directors' Report. Information regarding Directors' experience and responsibilities will be included in the Directors' Report section of the Annual Report (2.5).

The number of Directors is specified in the Constitution of the Company as a minimum of three up to a maximum of ten.

The preferred skills and experiences for a Director of the Company include Information Technology, Corporate Finance, Business Development and Public Company administration.

### Chairman of the Board

The Chairman of the Board should preferably be a Non-Executive Director and elected by the Directors. The Board considers that the Chairman, Mr. Shaun Rosen is not independent (2.2/2.3).

## Independent Directors

The Board considers that a Director is independent if that Director complies with the following criteria:

- Apart from Director's fees and shareholding, independent Directors should not have any business dealings which could materially affect their independent judgment;
- Must not have been in an Executive capacity in the Company in the last 3 years;
- Must not have been in an advisory capacity to the Company in the last 3 years;
- Must not be a significant customer or supplier for the Company;
- Must not be appointed through a special relationship with a board member;
- Must not owe allegiance to a particular group of shareholders which gives rise to a potential conflict of interest;
- Must not hold conflicting cross Directorships; and
- Must not be a substantial shareholder or a nominee of a substantial shareholder (as defined under section 9 of the Corporations Act).

Using the ASX Best Practice Recommendations on the assessment of the independence of Directors, The Board considers that of a total of four Directors none are considered to be independent.

Mr. Geoff Gander is a Non-Executive Director of the Company and is not considered to be independent. However, his experience and knowledge of the Company makes his contribution to the Board such that it is appropriate for him to remain on the Board.

## Retirement and Rotation of Directors

Retirement and rotation of Directors are governed by the Corporations Act 2001 and the Constitution of the Company. Each year one third Directors must retire and offer themselves for re-election. Any casual vacancy filled will be subject to shareholder vote at the next Annual General Meeting of the Company.

## Independent Professional Advice

Each Director has the right to seek independent professional advice at the Company's expense after consultation with the Chairman. Once received the advice is to be made immediately available to all board members.

## Access to Employees

Directors have the right of access to any employee. Any employee shall report any breach of corporate governance principles or Company policies to the Executive Director and/or Company Secretary/Financial Controller who shall remedy the breach. If the breach is not rectified to the satisfaction of the employee, they shall have the right to report any breach to an independent Director without further reference to senior managers of the Company.

## Share Ownership

Directors are encouraged to own Company shares.

## Board Meetings

The following points identify the frequency of Board Meetings and the extent of reporting from management at the meetings:

- A minimum of four meetings are to be held per year;
- Other meetings will be held as required, meetings can be held by telephone link; and
- Information provided to the Board includes all material information on: operations, budgets, cash flows, funding requirements, shareholder movements, broker activity in the Company's securities, assets and liabilities, disposals, financial accounts, external audits, internal controls, risk assessment, new venture proposals, and health, safety and environmental reports.

The number of Directors' meetings and the number of meetings attended by each of the Directors of the Company during the financial year are set out in the Directors' Report.

## Board Performance Review

It is the policy of the Board to conduct an evaluation of its performance. The objective of this evaluation will be to provide best practice governance of the Company.

## Other Areas for Board Review

Reporting to shareholders and the market to ensure trade in the Company's securities takes place in an efficient, competitive and informed market; and Insurance, both corporate and joint venture related insurances.

## Board Committees

Audit Committee (4.2) - The Board considers that the Company is not currently of a size, nor are its affairs of such complexity to justify the establishment of a formal audit committee at this time. The Board as a whole is able to address the governance aspects of the full scope of the Company's activities and to ensure that it adheres to appropriate ethical standards in order to safeguard the integrity of the Company's financial reporting.

The CEO and the Finance Director declare in writing to the Board that the Company's financial statements for the year ended 30 June 2006 present a true and fair view, in all material aspects, of the Company's financial condition and operational results and are in accordance with relevant accounting standards. This representation is made by the Director's prior to the Director's approval of the release of the annual and six monthly accounts. This representation is made after enquiry of, and representation by, appropriate levels of management (4.1).

Nomination Committee (2.4) and Remuneration Committee (8.1) (9.2) (9.5). The following key issues will continue to be addressed in detail by the full Board of the Company rather than by subcommittees:

- remuneration of the Directors; and
- nomination of Directors.

The Board has determined having regard to its size and the role and functions of the Directors, that it is more appropriate for the full Board of the Company to consider and address these issues. At a minimum, the Board considers nomination and remuneration issues on an annual basis. It is intended that the Board will regularly monitor this structure and will establish separate committees if it is determined it would be more efficient and effective to do so.

The Company's policy for determining the nature and amount of emoluments of Board members is as follows:

- Remuneration of Executive and Non-Executive Directors is reviewed annually by the Board.
- Remuneration packages are set at levels intended to attract and retain Directors and Executives capable of managing the Company's operations and adding value to the Company.

For details of remuneration paid to Directors and officers for the financial year please refer to the Directors' Report and note 26 to the Financial Statements.

# Risk Management

The risks involved in an information technology Company and the specific uncertainties for the Company continue to be regularly monitored and the full Board of the Company meets on an annual basis to formally review such risks. All proposals reviewed by the Board include a consideration of the issues and risks of the proposal.

The potential exposures associated with running the Company have been managed by the Directors and Company Secretary/Financial Controller who have significant broad-ranging industry experience, work together as a team and regularly share information on current activities.

Additionally, it is the responsibility of the Board to assess the adequacy of the Company's internal control systems and that its financial affairs comply with applicable laws and regulations and professional practices. A Director and the Company Secretary/Financial Controller declare in writing to the Board that the financial reporting risk management and associated compliance controls have been assessed and found to be operating efficiently and effectively. This representation is made by a Director and Company Secretary/Financial Controller prior to the Director's approval of the release of the annual and six monthly accounts. This representation is made after enquiry of, and representation by, appropriate levels of management (4.1) (7.2).

## Promotion of ethical and responsible decision-making

Code of Conduct (10.1) - The goal of establishing the Company as a significant Australian-based information technology Company is underpinned by its core values of honesty, integrity, common sense and respect for people. The Company desires to remain a good corporate citizen and appropriately balance, protect and preserve all stakeholders' interests.

The Board has adopted a Code of Conduct for Directors and employees of the Company. The Company's goal of achieving above average wealth creation for our shareholders should be enhanced by complying with this code of conduct which provides principles to which Directors and employees should be familiar and to which they are expected to adhere and advocate (3.1).

It is the responsibility of the Board to ensure the Company's performance under this Code and for its regular review.

Trading in Company Securities by Directors, officers and employees - Trading of shares is covered by, amongst other things, the Corporations Act and the ASX Listing Rules. The Board has established a Securities Trading Policy that establishes strict guidelines as to when a Director, officer or an employee can deal in Company shares. The policy prohibits trading in the Company's securities whilst the Directors, officer or employee is in the possession of price sensitive information.

For details of shares held by Directors and officers please refer to the Directors' Report and note 26 to the Financial Statements (3.2).

## Shareholder communication

The Board aims to ensure that shareholders and investors have equal access to the Company's information.
The Company has policies and procedures that are designed to ensure compliance with ASX Listing Rule disclosure requirements and to ensure accountability at a senior management level for that compliance. This disclosure policy includes processes for the identification of matters that may have a material effect on the price of the Company's securities, notifying them to the ASX and posting them on the Company's website (5.1).

The Company also has a strategy to promote effective communication with shareholders (6.1) and encourage effective participation at general meetings through a policy of open disclosure to shareholders, regulatory authorities and the broader community of all material information with respect to the Company's affairs including, but not limited to:

- Conflicts of interest and related party transactions;
- Executive remuneration;
- The grant of options and details of Share Option Plans;
- The process for performance evaluation of the Board, its committees, individual Directors and key managers;
- The link between remuneration paid to Directors and Executives and corporate performance; and
- Shorter, more comprehensible notices of meetings.

The following information is communicated to shareholders:

- The Annual Report and notices of meetings of shareholders;
- Quarterly cash flow reports
- All documents that are released to the ASX are made available on the Company's website; and
- All other information on the Company's website is updated on an ongoing basis.

## ASX best practice recommendations

The table on the following pages identifies the ASX Best Practice Recommendations and whether or not the Company has complied with the recommendations during the reporting period:

| # | **ASX Recommendation** | **Complied** | **Note** |
|---|---|---|---|
| 1.1 | Formalise and disclose the functions reserved to the Board and those delegated to management. | X | |
| 2.1 | A majority of the Board should be independent Directors. | | 1 |
| 2.2 | The Chairperson should be an independent Director. | | 2 |
| 2.3 | The roles of Chairperson and Chief Executive Officer should not be exercised by the same individual. | | 2 |
| 2.4 | The Board should establish a Nomination Committee. | | 3 |
| 2.5 | Provide the information indicated in Guide to Reporting on Principle 2. | X | |
| 3.1 | Establish a code of conduct to guide the Directors, the Chief Executive Officer (or equivalent), the Chief Financial Officer (or equivalent) and any other key Executives as to:<br><br>3.1.1 the practices necessary to maintain confidence in the Company's integrity.<br><br>3.2.1 the responsibility of and accountability of individuals for reporting and investigating of unethical practices. | X | |
| 3.2 | Disclose the policy concerning trading in Company securities by Directors, officers and employees. | X | |
| 3.3 | Provide information indicated in Guide to reporting on Principle 3. | X | |
| 4.1 | Require the Chief Executive Officer (or equivalent) and the Chief Financial Officer (or equivalent) to state in writing to the board that Company's financial reports present a true and fair view, in all material respects, of the Company's financial condition and operational results and are in accordance with relevant accounting standards. | X | |
| 4.2 | The Board should establish an Audit Committee. | | 4 |
| 4.3 | Structure the Audit Committee so that it consists of:<br>Only Non-Executive Directors;<br>A majority of independent Directors;<br>An independent Chairperson, who is not Chairperson of the Board; and<br>At least three members. | | 4 |
| 4.4 | The Audit Committee should have a formal charter. | | 4 |
| 4.5 | Provide the information indicated in Guide to reporting on Principle 4. | X | |
| 5.1 | Establish written policies and procedures designed to ensure compliance with ASX Listing Rule disclosure requirements and to ensure accountability at a senior management level for the compliance. | X | |
| 5.2 | Provide the information indicated in Guide to reporting on Principle 5. | X | |
| 6.1 | Design and disclose a communication strategy to promote effective communication with shareholders and encourage effective participation at general meetings. | X | |
| 6.2 | Request the external auditor to attend the Annual General Meeting and be available to answer shareholder questions about the conduct of the audit and the preparation and content of the Auditors' Report. | X | |
| 7.1 | The Board or appropriate Board Committee should establish policies on risk oversight and management. | X | |

| # | ASX Recommendation | Complied | Note |
|---|---|---|---|
| 7.2 | The Chief Executive Officer (or equivalent) and the Chief Financial Officer (or equivalent) should state to the Board in writing that:<br><br>7.2.1 the statement given in accordance with the best practice recommendation 4.1 (the integrity of financial statements) is founded on a system of risk management and internal compliance and control which implements the policies adopted by the board.<br><br>7.2.2 the Company's risk management and internal compliance and control system is operating efficiently in all material respects. | X | |
| 7.3 | Provide the information indicated in Guide to reporting on Principle 7. | X | |
| 8.1 | Disclose the process for performance evaluation of the board, its committees and individual Directors, and key Executives and corporate performance. | | 5 |
| 9.1 | Provide disclosure in relation to the Company's remuneration policies to enable investors to understand<br>(i) The costs and benefits of these policies; and<br>(ii) The link between remuneration paid to Directors and key Executives and corporate performance. | X | |
| 9.2 | The Board should establish a Remuneration Committee. | | 6 |
| 9.3 | Clearly distinguish the structure of Non-Executive Directors' remuneration from that of Executives. | | 8 |
| 9.4 | Ensure that payment of equity-based Executive remuneration is made in accordance with thresholds set in plans approved by shareholders. | | 7 |
| 9.5 | Provide the information indicated in Guide to reporting on Principle 9. | X | |
| 10.1 | Establish and disclose a code of conduct to guide compliance with legal and other obligations to legitimate stakeholders. | X | |

**Note 1**: All of the Directors are not considered to be independent. However, the skills, experience and knowledge of these three Directors makes their contribution to the Company and the Board such that it is appropriate for them to remain on the Board.

**Note 2**: The Companies Chief Executive Officer and Chairman is the same person. Whilst not independent, Mr. Shaun Rosen is the Chairman of the Board. Given his skills, experience and knowledge of the Company, the Board considers that it is appropriate for him to be Chairman.

**Note 3**: The Board of Directors of the Company does not have a Nomination Committee. The Board is of the opinion that due to the nature and size of the Company, the functions performed by a Nomination Committee can be adequately handled by the full Board.

**Note 4**: The Company does not have an Audit Committee. The Board is of the opinion that due to the nature and size of the Company, the functions performed by an Audit Committee can be adequately handled by the full Board.

**Note 5**: It is the policy of the Board to evaluate its performance. The evaluation process was introduced via the Board Charter and will be implemented for the year ended 30 June 2005. The objective of this evaluation will be to provide best practice governance to the Company.

**Note 6**: The Company does not have a Remuneration Committee. The Board is of the opinion that due to the nature and size of the Company, the functions performed by a Remuneration Committee can be adequately handled by the full Board.

**Note 7**: The Company does not have any equity-based payments to Executives.

**Note 8:** All directors receive the same director's fees. In addition, executive directors are rewarded separately for executive duties performed over and above this.

# Independence Declaration by Auditors

**PKF**

Chartered Accountants
& Business Advisers

**AUDITOR'S INDEPENDENCE DECLARATION**
**UNDER SECTION 307C OF THE CORPORATIONS ACT 2001**

**TO THE DIRECTORS OF 3Q HOLDINGS LIMITED:**

I declare that, to the best of my knowledge and belief, during the year ended 30 June 2006 there have been:

(i) no contraventions of the auditor independence requirements as set out in the Corporations Act 2001 in relation to the audit; and

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

PKF

PKF

**ARTHUR MILNER**
**Partner**

**Sydney, 22 September 2006**

Tel: 61 2 9251 4100 | Fax: 61 2 9240 9821 | www.pkf.com.au
New South Wales Partnership | ABN 83 236 985 726
Level 10, 1 Margaret Street | Sydney | New South Wales 2000 | Australia
DX 10173 | Sydney Stock Exchange | New South Wales

# The Income Statement

For the year ending 30 June 2006

| | Note | CONSOLIDATED 2006 $ | CONSOLIDATED 2005 $ | PARENT 2006 $ | PARENT 2005 $ |
|---|---|---|---|---|---|
| Revenue | 3(a) | 7,939,449 | 6,392,089 | 583,961 | 626,310 |
| Other income | 3(b) | 427,594 | 10,631 | 11,022 | - |
| Cost of sales | | 2,014,269 | 1,720,732 | 576,056 | 593,535 |
| Depreciation and amortization expense | 3(e) | 170,545 | 149,952 | - | - |
| Employee benefits expense | 3(f) | 2,701,539 | 2,130,148 | 57,941 | 124,747 |
| Other expenses | 3(c) | 1,113,412 | 826,019 | 575,538 | 283,661 |
| Finance costs | 3(d) | 89,956 | 35,126 | 2,629 | - |
| **PROFIT (LOSS) BEFORE INCOME TAX** | | 2,277,322 | 1,540,743 | (617,181) | (375,633) |
| Income tax expense/(income) | 4 | 278,998 | 512,859 | (291,497) | - |
| **PROFIT (LOSS) AFTER TAX** | | 1,998,324 | 1,027,884 | (325,684) | (375,633) |
| Earnings per share (cents per share) | 5 | | | | |
| - basic for profit for the year attributable to ordinary equity holders of the parent | | 3.2257 | 2.0558 | - | - |
| - diluted for profit for the year attributable to ordinary equity holders of the parent | | 1.5661 | 0.8938 | - | - |

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

# The Balance Sheet

As at 30 June 2006

| | NOTE | CONSOLIDATED | | PARENT | |
|---|---|---|---|---|---|
| | | 2006 | 2005 | 2006 | 2005 |
| | | $ | $ | $ | $ |
| **ASSETS** | | | | | |
| Current Assets | | | | | |
| Cash and cash equivalents | 7 | 684,101 | 605,391 | 9,036 | 144,700 |
| Trade and other receivables | 8 | 1,350,205 | 998,686 | 148,040 | 110,007 |
| Inventories | 9 | 83,331 | 149,817 | - | - |
| Prepayments | | 62,366 | 20,918 | 29,570 | - |
| **TOTAL CURRENT ASSETS** | | 2,180,003 | 1,774,812 | 186,646 | 254,707 |
| Non-current Assets | | | | | |
| Available–for-sale financial assets | 10 | 10,862 | - | 10,862 | - |
| Plant and equipment | 11 | 160,934 | 148,702 | 1,730 | - |
| Intangible assets | 12 | 3,036,609 | 201,672 | - | - |
| Financial Assets | 26 & 27 | - | - | 23,000,000 | - |
| Deferred tax assets | 4 | 576,462 | 132,799 | 313,955 | - |
| **TOTAL NON-CURRENT ASSETS** | | 3,784,867 | 483,173 | 23,326,547 | - |
| **TOTAL ASSETS** | | 5,964,870 | 2,257,985 | 23,513,193 | 254,707 |
| **LIABILITIES** | | | | | |
| Current Liabilities | | | | | |
| Trade and other payables | 15 | 1,018,264 | 575,138 | 250,881 | 182,986 |
| Short Term borrowings | 16 | 139,068 | 328,119 | - | - |
| Current tax liability | 4 | 517,138 | 489,926 | 22,458 | - |
| Provisions | 17 | 178,459 | 163,998 | - | - |
| **TOTAL CURRENT LIABILITIES** | | 1,852,929 | 1,557,181 | 273,339 | 182,986 |
| Non-current Liabilities | | | | | |
| Long term borrowings | 16 | - | 17,921 | - | - |
| Provisions | 17 | 39,612 | - | - | - |
| **TOTAL NON-CURRENT LIABILITIES** | | 39,612 | 17,921 | - | - |
| **TOTAL LIABILITIES** | | 1,892,541 | 1,575,102 | 273,339 | 182,986 |
| **NET ASSETS** | | 4,072,329 | 682,883 | 23,239,854 | 71,721 |
| **EQUITY** | | | | | |
| Share Capital | 18 | 3,089,200 | 200 | 41,572,902 | 18,132,853 |
| Reserves | 18 | (7,878) | - | 53,768 | - |
| Retained earnings/(Accumulated losses) | 18 | 991,007 | 682,683 | (18,386,816) | (18,061,132) |
| **TOTAL EQUITY** | | 4,072,329 | 682,883 | 23,239,854 | 71,721 |

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

# Statement of Changes in Equity

For the year ending 30 June 2006

| CONSOLIDATED | Issued Capital $ | Retained Earnings $ | Option /Forex Reserve $ | Total $ |
|---|---|---|---|---|
| At 1 July 2004 | 200 | 170,666 | - | 170,866 |
| Profit for the period | - | 1,027,884 | - | 1,027,884 |
| Dividend paid | - | (515,867) | - | (515,867) |
| **AS AT 30 JUNE 2005** | 200 | 682,683 | - | 682,883 |
| Cost of acquisition | 3,089,000 | - | - | 3,089,000 |
| Profit for the period | - | 1,998,324 | - | 1,998,324 |
| Translation Reserve resulting from translating USA Subsidiary from US dollars to Australian dollars | - | - | (7,878) | (7,878) |
| Dividends paid | - | (1,690,000) | - | (1,690,000) |
| **AS AT 30 JUNE 2006** | 3,089,200 | 991,007 | (7,878) | 4,072,329 |

| PARENT | Issued Capital $ | Retained Earnings $ | Option /Forex Reserve $ | Total $ |
|---|---|---|---|---|
| At 1 July 2004 | 17,889,728 | (17,685,499) | - | 204,229 |
| Loss for the period | - | (375,633) | - | (375,633) |
| Exercise of 1,000,000 options at 12.5c per share – December 2004 | 125,000 | - | - | 125,000 |
| Issue of 2,777,780 shares at 4.5c per share – June 2005 | 125,000 | - | - | 125,000 |
| Capital raising costs | (6,875) | - | - | (6,875) |
| **AS AT 30 JUNE 2005** | 18,132,853 | (18,061,132) | - | 71,721 |
| Issue of share capital – 7,500,000 fully paid ordinary shares at 20c each issued pursuant to the prospectus | 1,500,000 | - | - | 1,500,000 |
| Costs associated with this share issue | (1,059,951) | - | - | (1,059,951) |
| Issue of 1,250,000 options in consideration for services rendered | - | - | 53,768 | 53,768 |
| Cost of acquisition of QQQ Systems Pty Ltd – Issue of 50,000,000 ordinary shares and 65,000,000 performance shares | 23,000,000 | - | - | 23,000,000 |
| Loss for the period | - | (325,684) | - | (325,684) |
| **AS AT 30 JUNE 2006** | 41,572,902 | (18,386,816) | 53,768 | 23,239,854 |

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

# Statement of Cash Flows

For the year ending 30 June 2006

| | NOTE | CONSOLIDATED | | PARENT | |
|---|---|---|---|---|---|
| | | 2006<br>$ | 2005<br>$ | 2006<br>$ | 2005<br>$ |
| Cash flows from operating activities | | | | | |
| Receipts from customers | | 7,894,431 | 5,937,658 | 698,697 | 762,758 |
| Payments for staff costs | | (2,584,706) | (2,086,754) | (95,396) | - |
| Interest paid | | (87,191) | (35,126) | (2,629) | - |
| Advertising and marketing | | (50,763) | (26,651) | - | - |
| Income tax paid | | (691,433) | (139,581) | - | - |
| Other working capital payments including payments to | | (3,117,365) | (3,156,752) | ( 821,881) | (1,063,767) |
| Other Income | | 14,217 | 242,035 | 160 | - |
| **NET CASH FLOWS FROM OPERATING ACTIVITIES** | 7 | 1,377,190 | 734,829 | (221,049) | (301,009) |
| Cash flows from investing activities | | | | | |
| Interest received | 3(a) | 20,525 | 16,799 | 5,721 | 5,249 |
| Purchase of property, plant and equipment | 11 | (33,702) | (73,686) | (1,730) | - |
| Other - Cash acquired on purchase of subsidiary which is deemed to be 3Q Holdings Limited (including proceeds from public offering of $1,500,000) | | 1,502,707 | - | - | - |
| Cash acquired on purchase of subsidiary, ARS, effective 31 March 2006. | | 486,685 | - | - | - |
| **NET CASH FLOWS USED IN INVESTING ACTIVITIES** | | 1,976,215 | (56,887) | 3,991 | 5,249 |
| Cash flows from financing activities | | | | | |
| Proceeds from capital raising | | - | - | 1,500,000 | 125,000 |
| Capital raising costs | | (1,075,525) | (27,500) | (1,059,951) | (6,875) |
| Other costs relating to re-listing and recapitalisation | | (310,905) | - | (262,865) | - |
| Proceeds from exercise of options | | - | - | - | 125,000 |
| Proceeds from borrowings | | 480,000 | - | - | - |
| Repayment of borrowings | | (667,275) | (122,602) | - | (22,798) |
| Loan to subsidiary | | - | - | (95,790) | - |
| Equity dividends paid | 6 | (1,690,000) | (105,331) | - | - |
| **NET CASH FLOWS FROM/(USED) IN FINANCING** | | (3,263,705) | (255,433) | 81,394 | 220,327 |
| Net increase/(decrease) in cash and cash equivalents | | 89,700 | 422,509 | (135,664) | (75,433) |
| Net foreign exchange differences | | (10,991) | - | - | - |
| Cash and cash equivalents at beginning of period | | 605,392 | 182,882 | 144,700 | 220,133 |
| **CASH AND CASH EQUIVALENTS AT END OF PERIOD** | 7 | 684,101 | 605,391 | 9,036 | 144,700 |

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

# Notes to the Financial Statements

For the year ended 30 June 2006

## 1 Corporate Information

The financial report of 3Q Holdings Limited (the Company) for the year ended 30 June 2006 was authorised for issue in accordance with a resolution of the directors on 22 September 2006.

- 3Q Holdings Limited is a company limited by shares incorporated in Australia whose shares are publicly traded on the Australian stock exchange.
- The nature of the operations and principal activities of the Group are described in the director's report.

## 2 Summary of Significant Accounting Policies

**Basis of preparation**

This general purpose financial report has been prepared in accordance with Australian equivalents to International Financial Reporting Standards (AIFRSs), other authoritative pronouncements of the Australian Accounting Standards Board, Urgent Issues Group Interpretations and the Corporations Act 2001The financial report is presented in Australian dollars.

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

**Reporting Basis and Conventions**

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

### (a) Statement of compliance

The financial report complies with Australian Standards, which include AIFRS. Compliance with AIFRS ensures that the financial report, comprising the financial statements and notes thereto, complies with the International Financial Reporting Standards (IFRS).

This is the first financial report prepared based on AIFRS and comparatives for the year ended 30 June 2005 have been restated accordingly except for the adoption of AASB 132 Financial Instruments: Disclosure and Presentation and AASB 139 Financial Instruments: Recognition and Measurement. The Company has adopted the exemption under AASB 1 First-time Adoption of Australian Equivalents to International Financial Reporting Standards from having to apply AASB 132 and AASB 139 to the comparative period. Reconciliations of AIFRS equity and profit for 30 June 2005 to the balances reported in the 30 June 2005 financial report and at transition to AIFRS are detailed in note 2(b).

Since the end of the financial year certain new Accounting Standards have been published and certain existing Accounting Standards have been amended. These new standards and amendments will be applicable for periods commencing 1 July 2006 and 1 January 2007. The Group's assessment is that there will be no material impact of these new standards and amendments on the accounting polices currently applied

**(i) Basis of consolidation**

The consolidated financial statements comprise the financial statements of 3Q Holdings and its subsidiaries as at 30 June each year ("the Group"). The financial statements of 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. Unrealised losses are eliminated unless costs cannot be recovered.

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.

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

**Reverse acquisition accounting**

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

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

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

Consequently, the financial information contained in this report has been presented as if QQQ was the acquirer. The consolidated figures for the year ended 30 June 2006 include QQQ‘s results for the year as well as 3Q’s from completion (22 December 2005).

The consolidated figures for the comparative financial year ending 30 June 2005 include those of QQQ Systems Pty Limited only.

The financial report has been prepared on a historical cost basis and does not take account of changing money values or, except where stated, current valuations of non-current assets.

**(ii) Foreign currency translation**

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

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

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

The functional currency of the foreign operation, Applied Retail Solution Inc., is United States dollars (US$).

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

The exchange differences arising on the translation are taken directly to a separate component of equity.

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

**(iii) Plant and equipment**

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

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

- Plant and equipment – 12.5% - 40%

**Impairment**

The carrying values of plant, furniture and equipment are reviewed for impairment when events or changes in circumstances indicate the carrying value may not be recoverable or the assets may have been impaired. If any such indication exists and where the carrying values exceed the estimated recoverable amount, the assets or cash-generating units are written down to their recoverable amount and expensed in the income statement.

Impairment testing will be 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 will estimate the recoverable amount of the cash-generating unit to which the asset belongs. The recoverable amount of plant and equipment is the greater of fair value less costs to sell and value in use. An item of property, plant and equipment is derecognised upon disposal or when no future economic benefits are expected to arise from the continued use of the asset.

Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the item) is included in the income statement in the period the item is derecognised.

**(iv) Borrowing costs**

Borrowing costs are recognised as an expense when incurred.

**(v) Goodwill**

Goodwill on acquisition is initially measured at cost being the excess of the cost of the business combination over the acquirer's interest in the net fair value of the identifiable assets, liabilities and contingent liabilities.

Impairment testing will be performed annually for goodwill. Following initial recognition, goodwill is measured at cost less any accumulated impairment losses. Goodwill is not amortised.

Impairment is determined by assessing the recoverable amount of the cash-generating unit to which the goodwill relates.

Where the recoverable amount of the cash-generating unit is less than the carrying amount, an impairment loss is recognised.

Where goodwill forms part of a cash-generating unit and part of the operation within that unit is disposed of, the goodwill associated with the operation disposed of is included in the carrying amount of the operation when determining the gain or loss on disposal of the operation.

Goodwill disposed of in this circumstance is measured on the basis of the relative values of the operation disposed of and the portion of the cash-generating unit retained.

**(vi) Intangible assets – Intellectual property**

Acquired both separately and from a business combination

Intellectual property acquired separately is capitalised at cost and from a business combination are capitalised at fair value as at the date of acquisition. Following initial recognition, the cost model is applied to the class of intangible assets.

The useful lives of these intangible assets are assessed to be either finite or indefinite.

Where amortisation is charged on assets with finite lives, this expense is taken to the income statement.

Principal technology is being amortised over a period of 5 years.

Intangible assets with indefinite useful lives are tested for impairment annually either individually or at the cash-generating unit level. Such intangibles are not amortised. The useful life of an intangible asset with an indefinite life is reviewed each reporting period to determine whether indefinite life assessment continues to be supportable. If not, the change in the useful life assessment from indefinite to finite is accounted for as a change in an accounting estimate and is thus accounted for on a prospective basis.

Research and development costs are expensed as incurred.

Intellectual property with indefinite lives is tested for impairment annually.

Gains or losses arising from derecognition of an Intellectual property is measured as the difference between the net disposal proceeds and the carrying amount of the asset and are recognised in the income statement when the asset is derecognised.

**(vii) Recoverable amount of assets**

Once a year, the Group will assess whether there is any indication that an asset may be impaired. Where an indicator of impairment exists, the Group will make a formal estimate of recoverable amount.

Where the carrying amount of an asset exceeds its recoverable amount the asset is considered impaired and will be written down to its recoverable amount.

Recoverable amount is the greater of fair value less costs to sell and value in use. It is determined for an individual asset, unless the asset's value in use cannot be estimated to be close to its fair value less costs to sell and it does not generate cash inflows that are largely independent of those from other assets or groups of assets, in which case, the recoverable amount is determined for the cash-generating unit to which the asset belongs.

In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. An assessment is also made at each reporting date as to whether there is any indication that previously recognised impairment losses may no longer exist or may have decreased. If such indication exists, the recoverable amount is estimated. A previously recognised impairment loss is reversed only if there has been a change in the estimates used to determine the asset's recoverable amount since the last impairment loss was recognised. If that is the case the carrying amount of the asset is increased to its recoverable amount. That increased amount cannot exceed the carrying amount that would have been determined, net of depreciation, had no impairment loss been recognised for the asset in prior years. Such reversal is recognised in profit or loss unless the asset is carried at revalued amount, in which case the reversal is treated as a revaluation increase.

After such a reversal the depreciation charge is adjusted in future periods to allocate the asset's revised carrying amount, less any residual value, on a systematic basis over its remaining useful life.

### (viii) Financial Instruments

#### Recognition

Financial instruments are initially measured at cost on trade date, which includes transaction costs, when the related contractual rights or obligations exist. Subsequent to initial recognition these instruments are measured as set out below.

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

A financial asset is classified in this category if acquired principally for the purpose of selling in the short term or if so designated by management and within the requirements of AASB 139: Recognition and Measurement of Financial Instruments. Derivatives are also categorised as held for trading unless they are designated as hedges. Realised and unrealised gains and losses arising from changes in the fair value of these assets are included in the income statement in the period in which they arise.

#### Loans and receivables

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

#### Held-to-maturity investments

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

#### Available-for-sale financial assets

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

#### Financial liabilities

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

### (ix) Inventories

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

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

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

### (x) Trade and other receivables

Trade receivables, which generally have 30 day terms, are recognised and carried at original invoice amount less an allowance for any uncollectible amounts.

The collectivity of debts is assessed at reporting date and a specific provision is made for any doubtful accounts. Bad debts are written off when identified.

**(xi) Cash and cash equivalents**

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

**(xii) Interest-bearing loans and borrowings**

All loans and borrowings are initially recognised at cost, being the fair value of the consideration received net of issue costs associated with the borrowing.

**(xiii) Provisions**

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

Where the Group expects some or all of a provision to be reimbursed, for example under an insurance contract, the reimbursement is recognised as a separate asset but only when the reimbursement is virtually certain. The expense relating to any provision is presented in the income statement net of any reimbursement.

**(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. Finance charges are charged directly against income. Capitalised leased assets are depreciated over the lease term.

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

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

**(xv) Revenue**

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

**Sale of goods**

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

**Rendering of services**

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

**Interest**

Revenue is recognised as the interest accrues using the effective interest rate method.

**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 balance sheet date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

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

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

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

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

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

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

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

As at the 1 April 2006, the Group consolidated for tax purposes (Refer note 4).

### (xvii) Other taxes

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

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

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

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

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

### (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 by an external valuer using a binomial model.

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

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

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

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

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

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

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

**(xx) Trade and other payables**

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

**(xxi) Employee leave benefits**

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

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

**Long service leave**

The liability for long service leave is recognised in the provision for employee benefits and measured as the present value of expected future payments to be made in respect of services provided by employees up to the reporting date using the projected unit credit method. 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.

**(xxii) Share capital**

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.

**(xxiii) Earnings per share**

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

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

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

**(xxiv) Critical Accounting Estimates and Judgments**

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

**Key Estimates – Impairment of Goodwill**

The Group tests annually whether goodwill has suffered any impairment, in accordance with the accounting policy stated in note 2 (v). The recoverable amounts of cash-generating units have been determined based on value-in-use calculations. These calculations require the use of assumptions. Refer to note 13 for details of these assumptions and the potential impact of changes to the assumptions.

**(xxv) Business Combinations**

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

Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date, irrespective of the extent of any minority interest. The excess of the cost of acquisition over the fair value of the Group’s share of the identifiable net assets acquired is recorded as goodwill (refer to note 20). If the cost of acquisition is less than the Group's share of the fair value of the identifiable net assets of the subsidiary acquired, the difference is recognised directly in the income statement, but only after a reassessment of the identification and measurement of the net assets acquired.

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

**(xxvi) Segment Information**

The Group's primary segment reporting format is business segments as the Group's risks and rates of return are affected predominantly by differences in the products and services produced. Secondary segment information is reported geographically

The operating businesses are organised and managed separately according to the nature of the products and services provided, with each segment representing a strategic business unit that offers different products and serves different markets.

Segment revenues and expenses are those directly attributable to the segments and include any joint revenue and expenses where a reasonable basis of allocation exists.

Segment assets include all assets used by a segment and consist principally of cash, receivables, inventories, intangibles and plant and equipment, net of allowances and accumulated depreciation and amortisation.
While most such assets can be directly attributed to individual segments, the carrying amount of certain assets used jointly by more than one segment is allocated to the segments on a reasonable basis.

Segment liabilities consist principally of accounts payable, accrued expenses, borrowings, tax liabilities and provision for staff entitlements.

## (b) Impact of adoption of AIFRS

The impacts of adopting AIFRS on the total equity and profit after tax as reported under Australian Accounting Standards applicable before 1 January 2005 ('AGAAP') are illustrated below.

**(i) Reconciliation of total equity as presented under AGAAP to that under AIFRS**

| **CONSOLIDATED** | **30-Jun-05** | **01-Jul-04** |
|---|---|---|
| Total equity under AGAAP | 682,883 | 170,866 |
| Adjustments to equity: | - | - |
| **TOTAL EQUITY UNDER AIFRS** | 682,883 | 170,866 |

**(ii) Reconciliation of net profit under AGAAP to that under AIFRS**

| | **Year ended 30-Jun-05 $** |
|---|---|
| Net profit after tax as previously reported under AGAAP | 1,027,884 |
| Adjustments to net profit after tax | - |
| **NET PROFIT UNDER AIFRS** | 1,027,884 |

**(iii) Explanation of material adjustments to the cash flow statements**

There are no material differences between the cash flow statements presented under AIFRS and those presented under AGAAP.

**(iv) There were no adjustments in relation to the adoption of AASB 132 Financial Instruments Presentation and AASB 139 Financial Instruments Recognition and Measurement to the consolidated group or parent.**

# 3 Revenue and Expenses

| | CONSOLIDATED | | PARENT | |
|---|---|---|---|---|
| | 2006 $ | 2005 $ | 2006 $ | 2005 $ |
| (a) Revenue | | | | |
| Sales of Hardware | 1,916,747 | 1,464,010 | - | - |
| Rendering of Services | 2,569,990 | 2,012,267 | 311,840 | 354,661 |
| Maintenance | 1,698,146 | 1,345,912 | - | - |
| License Fees | 1,675,412 | 1,345,894 | 266,400 | 266,400 |
| Interest | 20,525 | 16,798 | 5,721 | 5,249 |
| Other | 58,629 | 207,208 | - | - |
| **TOTAL REVENUE** | 7,939,449 | 6,392,089 | 583,961 | 626,310 |
| (b) Other Income | | | | |
| Recoupment of QQQ Systems' pre 30 June 2005 listing and recapitalization fees from 3Q Holdings Pty Limited | 105,000 | - | - | - |
| Excess of interest in net fair value of assets, liabilities and contingent liabilities acquired on acquisition of Applied Retail Solutions on 31 March 2006 | 271,522 | - | - | - |
| Other Revenue | 51,072 | 10,631 | 11,022 | - |
| **TOTAL OTHER REVENUE** | 427,594 | 10,631 | 11,022 | - |
| (c) Other Expenses | | | | |
| Re-listing and recapitalization expenses | - | - | 262,865 | - |
| Prospectus expenses | - | - | - | 143,611 |
| Options expense | - | - | 53,768 | - |
| Rental expense | 169,132 | 150,087 | - | - |
| Accounting and Audit Fees | 101,415 | 65,347 | 106,300 | 39,348 |
| Bad and doubtful debts - trade receivables | 317,824 | 13,370 | - | - |
| Legal Fees | 102,281 | 116,118 | 94,184 | - |
| Other expenses | 422,760 | 481,097 | 58,421 | 100,702 |
| **TOTAL OTHER EXPENSES** | 1,113,412 | 826,019 | 575,538 | 283,661 |
| (d) Finance Costs | | | | |
| Bank loans | 10,319 | - | 2,629 | - |
| Other loans | 77,533 | 35,126 | - | - |
| Finance charges payable under finance leases and hire purchase contracts | 2,104 | - | - | - |
| **TOTAL FINANCE COSTS** | 89,956 | 35,126 | 2,629 | - |
| (e) Depreciation & Amortisation | | | | |
| Depreciation | 60,545 | 39,952 | - | - |
| Amortisation of principal technology | 110,000 | 110,000 | - | - |
| **TOTAL DEPRECIATION & AMORTISATION** | 170,545 | 149,952 | - | - |

| | CONSOLIDATED | | PARENT | |
|---|---|---|---|---|
| | 2006 $ | 2005 $ | 2006 $ | 2005 $ |
| (f) Employee Benefits Expense | | | | |
| Wages and salaries (including Directors fees) | 2,243,805 | 1,738,737 | 56,516 | 122,765 |
| Workers' compensation costs | 8,715 | 7,924 | - | - |
| Superannuation expense | 220,326 | 217,151 | - | 1,982 |
| Annual leave provision | 21,406 | 41,175 | - | - |
| Long service leave provision | 39,612 | - | - | - |
| Payroll Tax | 118,805 | 82,946 | - | - |
| Other Payroll related expenses | 48,870 | 42,215 | 1,425 | - |
| **TOTAL EMPLOYEE BENEFITS EXPENSE** | 2,701,539 | 2,130,148 | 57,941 | 124,747 |

## 4 Income Tax

The major components of income tax expense in the Income statement are Current income tax, Current income tax charge, deferred income tax, relating to origination and reversal of temporary differences and income tax expense reported in the income statement.

| | CONSOLIDATED | | PARENT | |
|---|---|---|---|---|
| | 2006 $ | 2005 $ | 2006 $ | 2005 $ |
| The components of tax comprise: | | | | |
| Current Tax | 718,646 | 552,939 | 48,660 | - |
| Deferred Tax | (137,693) | (40,080) | (12,000) | - |
| Recoupment / recognition of prior year tax losses | (301,955) | - | (328,157) | - |
| **TOTAL INCOME TAX EXPENSE** | 278,998 | 512,859 | (291,497) | - |

A reconciliation between tax expense and the product of accounting profit before income tax multiplied by the Group's applicable income tax rate is as follows:

| **Accounting profit before tax from continuing operations** | **CONSOLIDATED** | | **PARENT** | |
|---|---|---|---|---|
| | **2006 $** | **2005 $** | **2006 $** | **2005 $** |
| Accounting profit before income tax | 2,277,322 | 1,540,743 | (617,181) | (375,633) |
| At the Group's statutory income tax rate of 30% (2005: 30%) | 683,197 | 462,223 | (185,154) | (112,690) |
| Prima face tax payable on profit from ordinary activities before income tax at 30% for other members of the income tax consolidated group net of inter-company transactions. | - | - | 86,064 | - |
| Expenditure/ (Income) not allowable for income tax purposes | 103,990 | 50,636 | 128,249 | - |
| Tax effect of deductible accounting and legal expenses | (31,500) | - | - | - |
| Tax effect of deductible capitalisation costs in relation to capital raising | (81,656) | - | (99,716) | - |
| Recoupment of tax losses not previously recognised | (26,201) | - | (26,201) | - |
| Adjustment due to difference between USA and Australian tax rates. | 57,818 | - | - | - |
| Recognition of current year pre acquisition tax losses of 3Q Holdings Limited for tax purposes | (119,471) | - | - | - |
| Recognition of tax losses not previously recognised | (301,955) | - | (301,955) | - |
| Recognition of deferred tax asset in foreign subsidiary | (6,062) | - | - | - |
| Other adjustments | 838 | - | (3,403) | - |
| Movement in temporary differences recognised by subsidiaries, post tax consolidation. | - | - | 110,619 | - |
| Tax losses not brought to account | - | - | - | 112,690 |
| **INCOME TAX EXPENSE REPORTED IN THE CONSOLIDATED INCOME STATEMENT** | 278,998 | 512,859 | (291,497) | - |

**Deferred Income Tax**

Deferred income tax at 30 June relates to the following:

| **CONSOLIDATED** | **Balance Sheet** | | **Income Statement** | |
|---|---|---|---|---|
| | **2006 $** | **2005 $** | **2006 $** | **2005 $** |
| Deferred tax assets | | | | |
| Written down value of Principal Technology - Accounting | (91,667) | (201,667) | 110,000 | 110,000 |
| Written down value of Principal Technology – Tax | 458,333 | 480,333 | (22,000) | (22,000) |
| Provision for audit fees | 40,000 | - | 40,000 | - |
| Provision for staff entitlements | 218,071 | 163,998 | 54,073 | 41,175 |
| Provision for doubtful debts | 270,079 | - | 270,079 | - |
| Tax losses | 1,006,516 | - | 1,006,516 | - |
| Other | 20,207 | - | 20,207 | - |
| **TOTAL** | 1,921,539 | 442,664 | 1,478,875 | 129,175 |
| Gross deferred income tax assets @ 30% | 576,462 | 132,799 | - | - |
| Deferred tax income/ (expense) | - | - | 443,662 | 38,753 |

| **PARENT** | **Balance Sheet** | | **Income Statement** | |
|---|---|---|---|---|
| | **2006 $** | **2005 $** | **2006 $** | **2005 $** |
| Deferred tax assets | | | | |
| Provision for audit fees | 40,000 | - | 40,000 | - |
| Tax losses | 1,006,516 | - | 1,006,516 | - |
| **TOTAL** | 1,046,516 | - | 1,046,516 | - |
| Gross deferred income tax assets @ 30% | 313,955 | - | - | - |
| Deferred tax income/ (expense) | - | - | 313,955 | - |

3Q Holdings Limited had income tax losses of $16,219,973 as at 30 June 2006, of which $1,006,516 of these losses (at the tax effective rate) have been recognised as a deferred tax asset in accordance with note 2 (a) (xvi).

The recoupment of these carried forward tax losses is subject to the company satisfying the loss recoupment provisions contained in the Income tax assessment act 1997.

**Tax consolidation**

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

3Q Holdings Limited and its 100% owned Australian resident subsidiaries are eligible to consolidate under this Legislation and will elect to be taxed as a single entity effective 1 April 2006. 3Q Holdings will formally notify the Australian Taxation Office in conjunction with the lodgment of the 2006 company income tax return.

3Q Holdings Limited as the head entity of the tax consolidated group and subsidiary members intend to enter a tax sharing and funding agreement in order to allocate income tax expense to the wholly owned subsidiaries on a pro-rata basis. The details of the agreement have yet to be finalized but the directors are of the opinion that the agreement will be valid under the tax consolidation legislation. The agreement will provide for the allocation of income tax liabilities between the entities should the head entity default on its tax payment obligations. At the balance date, the possibility of default is remote.

## 5 Earnings per share

Basic earnings per share amounts are calculated by dividing net profit for the year attributable to ordinary equity holders of the parent by the weighted average number of ordinary shares outstanding during the year.

Diluted earnings per share amounts are calculated by dividing the net profit attributable to ordinary equity holders of the parent by the weighted average number of ordinary shares outstanding during the year plus the weighted average number of ordinary shares that would be issued on the conversion of all the dilutive potential ordinary shares into ordinary shares.

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

| | CONSOLIDATED | |
|---|---|---|
| | **2006<br>$** | **2005<br>$** |
| Net profit attributable to ordinary equity holders of the parent | 1,998,324 | 1,027,884 |
| Weighted average number of ordinary shares (excluding reserved shares) for basic earnings per share | 61,949,678 | 50,000,000 |
| Effect of dilution: Share options | 1,250,000 | - |
| Performance shares | 65,000,000 | - |
| Weighted average number of ordinary shares (excluding reserved shares) adjusted for the effect of dilution | 65,650,685 | - |
| Weighted average number of converted, lapsed or cancelled potential ordinary shares included in diluted earnings per share | 127,600,363 | - |

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

| | **2006<br>$** | **2005<br>$** |
|---|---|---|
| Equity dividends on ordinary shares | | |
| Dividends paid or payable during the year. | - | - |
| Franking Deficit tax at year end : | 71,834 | - |
| - 70% to be offset against future tax liabilities | (50,284) | - |
| - 30% non creditable | 21,550 | - |

There are no dividends payable or receivable at reporting date

# 7 Cash Assets

| | CONSOLIDATED | | PARENT | |
|---|---|---|---|---|
| | 2006 $ | 2005 $ | 2006 $ | 2005 $ |
| Cash at bank and in hand | 659,712 | 252,917 | 9,036 | 144,700 |
| Short-term deposits | 24,389 | 352,474 | - | - |
| **TOTAL CASH & CASH EQUIVALENTS** | 684,101 | 605,391 | 9,036 | 144,700 |

Cash at bank earns interest at floating rates based on daily bank deposit rates. Short-term deposits are made for varying periods of between one day and three months, depending on the immediate cash requirements of the Group, and earn interest at the respective short-term deposit rates. At 30 June 2006, the Group had available $360,000 undrawn committed borrowing facilities in respect of which all conditions precedent had been met.

### a) Cash Flow Information

| | CONSOLIDATED | | PARENT | |
|---|---|---|---|---|
| **Reconciliation of net profit after tax to net cash flows from operations** | **2006 $** | **2005 $** | **2006 $** | **2005 $** |
| Net profit/(loss) | 1,998,324 | 1,027,884 | (325,684) | (375,633) |
| Adjustments for:<br>Depreciation | 60,305 | 39,952 | - | - |
| Amortisation | 110,239 | 110,000 | - | - |
| Transfer of listing fees classified as financing activities | (105,000) | 27,500 | - | - |
| Listing fees classified as financing activities | - | - | 262,865 | - |
| Net (profit)/loss on disposal of property, plant and equipment | 6,185 | - | - | - |
| Organisational costs written off | 14,077 | - | - | - |
| Excess of net assets acquired over purchase price of Applied Retail Solutions | (271,522) | - | - | - |
| Interest received | (20,525) | (16,799) | (5,721) | (5,249) |
| Net fair value change on investments | (10,862) | - | (10,862) | - |
| Net exchange differences | 6,373 | - | - | - |
| Share options expensed | - | - | 53,768 | - |
| Other | 9,756 | - | - | - |
| Changes in assets and liabilities<br>(Increase)/decrease in inventories | 66,486 | 169,934 | - | - |
| (Increase)/decrease in trade and other receivables | (617,856) | (942,088) | 57,757 | 74,083 |
| (Increase)/decrease in equity | (27,914) | - | - | - |
| (Increase)/decrease in prepayments | (41,312) | 4,464 | (29,570) | - |

| Reconciliation of net profit after tax to net cash flows from operations | CONSOLIDATED 2006 $ | CONSOLIDATED 2005 $ | PARENT 2006 $ | PARENT 2005 $ |
|---|---|---|---|---|
| (Increase)/decrease in deferred tax assets | (443,663) | (38,753) | (313,955) | - |
| (Decrease)/increase in current tax liability | 27,212 | 412,031 | 22,458 | - |
| (Decrease)/increase in trade and other payables | 278,948 | (213,275) | 67,895 | 5,790 |
| (Decrease)/increase in provisions | 352,720 | 41,175 | - | - |
| (Decrease)/increase in maintenance in advance | (14,781) | 112,804 | - | - |
| **NET CASH FROM OPERATING ACTIVITIES** | 1,377,190 | 734,829 | (221,049) | (301,009) |

# 8 Trade and other receivables

| Current Receivables | CONSOLIDATED 2006 $ | CONSOLIDATED 2005 $ | PARENT 2006 $ | PARENT 2005 $ |
|---|---|---|---|---|
| Trade receivables | 1,428,060 | 815,545 | 52,250 | 104,500 |
| Provision for impairment of receivables | (270,079) | - | - | - |
| | 1,157,981 | 815,545 | 52,250 | 104,500 |
| Other Debtors | - | - | - | 5,507 |
| Sundry Loans | 21,909 | - | - | - |
| Inter-company Loan | - | - | 95,790 | - |
| Related party receivables: | 170,315 | 183,141 | - | - |
| **TOTAL TRADE & OTHER RECEIVABLES** | 1,350,205 | 998,686 | 148,040 | 110,007 |

Trade receivables are non-interest bearing and are generally on 30-90 day terms. An allowance for doubtful debts is made when there is objective evidence that a trade receivable is impaired. An allowance of $270,079 has been recognised as an expense for the current year for specific debtors for which such evidence exists. The amount of the allowance/impairment loss has been measured as the difference between the carrying amount of the trade receivables and the estimated future cash flows expected to be received from the relevant debtors.

For terms and conditions relating to related party receivables refer to note 22.

# 9 Inventories

| | CONSOLIDATED 2006 $ | CONSOLIDATED 2005 $ | PARENT 2006 $ | PARENT 2005 $ |
|---|---|---|---|---|
| Finished goods (at net realisable value) | 83,331 | 149,817 | - | - |
| **TOTAL INVENTORIES** | 83,331 | 149,817 | - | - |

# 10 Available-for-sale Financial Assets

| | CONSOLIDATED | | PARENT | |
|---|---|---|---|---|
| | 2006 $ | 2005 $ | 2006 $ | 2005 $ |
| **TOTAL AT FAIR VALUE: SHARES LISTED** | 10,862 | - | - | - |

Available-for-sale financial assets consist of investments in ordinary shares and therefore have no fixed maturity date or coupon rate.

# 11 Plant and Equipment

| | CONSOLIDATED $ | PARENT $ |
|---|---|---|
| Plant and Equipment Year ended 30 June 2005 | | |
| At 1 July 2004, net of accumulated depreciation | 80,723 | - |
| Additions | 73,726 | - |
| Carrying value of Computer equipment under Hire purchase contract capitalised during | 34,205 | - |
| Disposals | - | - |
| Depreciation charge for the year | (39,952) | - |
| At 30 June 2005, net of accumulated depreciation | 148,702 | - |
| Plant and Equipment at 1 July 2004 - Cost or fair value | 129,206 | - |
| Accumulated depreciation | 48,483 | - |
| **NET CARRYING AMOUNT** | 80,723 | - |
| At 30 June 2005 | | |
| Cost or fair value | 237,137 | - |
| Accumulated depreciation | 88,435 | - |
| **NET CARRYING AMOUNT** | 148,702 | - |
| Plant and Equipment Year ended 30 June 2006 | | |
| At 1 July 2005, net of accumulated depreciation | 148,702 | - |
| Additions – normal from operations | 33,702 | 1,730 |
| – Acquired on acquisition of Applied Retail Solutions | 45,020 | - |
| Disposals | (6,185) | - |
| Depreciation charge for the year | (60,305) | - |
| At 30 June 2006, net of accumulated depreciation | 160,934 | 1,730 |
| At 1 July 2005 - Cost or fair value | 237,137 | - |
| Accumulated depreciation | 88,435 | - |
| **NET CARRYING AMOUNT** | 148,702 | - |
| At 30 June 2006 | | |
| Cost or fair value | 309,674 | 1,730 |
| Accumulated depreciation | 148,740 | - |
| **NET CARRYING AMOUNT** | 160,934 | 1,730 |

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

- Plant and equipment – 12.5% - 40%

The carrying value of plant and equipment held under hire purchase contracts at 30 June 2006 is $32,792 (2005: $34,205)

Assets under hire purchase contracts are pledged as security for the related hire purchase liabilities.

## 12 Intangible Assets

| | CONSOLIDATED | | | PARENT | |
|---|---|---|---|---|---|
| | Principal Technology | Goodwill | Total | Goodwill | Total |
| **At 1 July 2005** | | | | | |
| Cost (gross carrying amount) | 550,000 | 5 | 550,005 | - | - |
| Accumulated amortisation | (348,333) | - | (348,333) | - | - |
| Net Carrying Amount | 201,667 | 5 | 201,672 | - | - |
| At 1 July 2005, net of accumulated amortisation | 201,667 | 5 | 201,672 | - | - |
| Additions | | | | | |
| Acquisition of a subsidiary (note 21) | - | 2,944,937 | 2,944,937 | - | - |
| Amortisation | (110,000) | - | (110,000) | - | - |
| As at 30 June 2006 net of accumulated amortisation | 91,667 | 2,944,942 | 3,036,609 | - | - |
| **At 30 June 2006** | | | | | |
| Cost (gross carrying amount) | 550,000 | 2,944,942 | 3,494,942 | - | - |
| Accumulated amortisation | (458,333) | - | (458,333) | - | - |
| Net Carrying Amount | 91,667 | 2,944,942 | 3,036,609 | - | - |

Research and Development costs are not capitalised but are expensed as and when they occur in the Income Statement. Goodwill is not amortised but is subject to annual impairment testing (see note 13). No impairment loss was recognised in the 2006 financial year.

Principal Technology includes software that was previously acquired by QQQ Systems Pty Limited.

This software is amortised over 5 years.

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

The software will be fully amortised over the next 10 months.

## 13 Impairment testing of Goodwill

Goodwill is allocated to a cash-generating unit which is based on the group's primary reporting segment.

The recoverable amount of the 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 3-year period.

The cash flows are discounted using the weighted average cost of capital at the beginning of the budget period of 11.3%.

**Key assumptions used**

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

- Budgeted gross margins — the basis used to determine the value assigned to the budgeted gross margins is the average gross margins achieved in the year immediately before the budgeted year. Thus, values assigned to gross margins reflect past experience.
- Sales and all applicable variable costs are budgeted at an average annual increase of 10%.
- Certain fixed costs are budgeted at the same annual cost achieved in the year immediately before the budgeted year.

## 14 Employee Share Plan

There was no Employee Share Plan in place at the date of this report.

It is the intention of Management to implement an Employee Share Plan towards the latter part of this calendar year or early next year.

## 15 Trade and Other Payables

| | CONSOLIDATED | | PARENT | |
|---|---|---|---|---|
| | 2006<br>$ | 2005<br>$ | 2006<br>$ | 2005<br>$ |
| Trade and other payables | 631,638 | 281,567 | 269,941 | 186,423 |
| GST due | 99,994 | 81,417 | (19,060) | (3,437) |
| Maintenance in advance | 286,632 | 212,154 | - | - |
| **TOTAL TRADE & OTHER PAYABLES** | 1,018,264 | 575,138 | 250,881 | 182,986 |
| Related party payables (included in trade and other payables above) | (14,300) | - | - | - |

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

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

The rental paid to Isalux is at normal market related prices and on arms length commercial terms (refer to note 22 for details).

## 16 Borrowings

| **Short Term** | **Maturity** | CONSOLIDATED | | PARENT | |
|---|---|---|---|---|---|
| | | 2006<br>$ | 2005<br>$ | 2006<br>$ | 2005<br>$ |
| Obligations under hire purchase contracts | 30 June 2007 | 17,921 | 20,844 | - | - |
| Bank Loan | | 121,147 | - | - | - |
| Other Loans | | - | 307,275 | - | - |
| **TOTAL** | | 139,068 | 328,119 | - | - |

| Long Term | Maturity | CONSOLIDATED 2006 $ | CONSOLIDATED 2005 $ | PARENT 2006 $ | PARENT 2005 $ |
|---|---|---|---|---|---|
| Obligations under hire purchase contracts | 30 June 2007 | - | 17,921 | - | - |
| Bank Loan | | - | - | - | - |
| Other Loans | | - | - | - | - |
| **TOTAL** | | - | 17,921 | - | - |

**Bank loan**

The 3Q Group provides no security for this loan.

Two related companies, Eastfall Pty Limited and Elabrook Pty Limited, provide security for this loan.

Interest is charged on this loan at the Variable rate of interest.

The loan has no fixed terms of repayment.

The loan is subject to an annual review.

**Financing facilities available**

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

| | CONSOLIDATED 2006 $ | CONSOLIDATED 2005 $ | PARENT 2006 $ | PARENT 2005 $ |
|---|---|---|---|---|
| Total facilities – bank loan | 480,000 | - | - | - |
| Facilities used at reporting date - bank loans | 120,000 | - | - | - |
| Facilities unused at reporting date - bank loans | 360,000 | - | - | - |
| **TOTAL FACILITIES USED AT REPORTING DATE** | 120,000 | - | - | - |
| **TOTAL FACILITIES UN-USED AT REPORTING DATE** | 360,000 | - | - | - |

## 17 Provisions

| | CONSOLIDATED 2006 $ | CONSOLIDATED 2005 $ | PARENT 2006 $ | PARENT 2005 $ |
|---|---|---|---|---|
| **Curren**t – Provision for Annual Leave | 178,459 | 163,998 | - | - |
| **Long Term** - Provision for Long Service Leave | 39,612 | - | - | - |
| **TOTAL PROVISIONS** | 218,071 | 163,998 | - | - |

**Provision for Employee Entitlements**

A provision has been recognised for employee entitlements relating to annual and long service leave. The measurement and recognition criteria relating to provisions have been included in note 2 (a) (xxi).

# 18 Issued Capital and Reserves

| CONSOLIDATED | Issued Capital $ | Retained Earnings $ | Option /Forex Reserve $ | Total $ |
|---|---|---|---|---|
| At 1 July 2004 | 200 | 170,666 | - | 170,866 |
| Profit for the period | - | 1,027,884 | - | 1,027,884 |
| Dividend paid | - | (515,867) | - | (515,867) |
| **AT 30 JUNE 2005** | 200 | 682,683 | - | 682,883 |
| Cost of acquisition | 3,089,000 | - | - | 3,089,000 |
| Profit for the period | - | 1,998,324 | - | 1,998,324 |
| Translation Reserve resulting from translating USA Subsidiary from US dollars to Australian dollars | - | - | (7,878) | (7,878) |
| Dividends paid | - | (1,690,000) | - | (1,690,000) |
| **AT 30 JUNE 2006** | 3,089,200 | 991,007 | (7,878) | 4,072,329 |

| PARENT | Issued Capital $ | Retained Earnings $ | Option /Forex Reserve $ | Total $ |
|---|---|---|---|---|
| At 1 July 2004 | 17,889,728 | (17,685,499) | - | 204,229 |
| Loss for the period | - | (375,633) | - | (375,633) |
| Exercise of 1,000,000 options at 12.5c per share – December 2004 | 125,000 | - | - | 125,000 |
| Issue of 2,777,780 shares at 4.5c per share – June 2005 | 125,000 | - | - | 125,000 |
| Capital raising costs | (6,875) | - | - | (6,875) |
| **AT 30 JUNE 2005** | 18,132,853 | (18,061,132) | - | 71,721 |
| Issue of share capital – 7,500,000 fully paid ordinary shares at 20c each issued pursuant to the prospectus | 1,500,000 | - | - | 1,500,000 |
| Costs associated with this share issue | (1,059,951) | - | - | (1,059,951) |
| Issue of 1,250,000 options in consideration for services rendered | - | - | 53,768 | 53,768 |
| Cost of acquisition of QQQ Systems Pty Ltd – Issue of 50,000,000 ordinary shares and 65,000,000 performance shares | 23,000,000 | - | - | 23,000,000 |
| Loss for the period | - | (325,684) | - | (325,684) |
| **AT 30 JUNE 2006** | 41,572,902 | (18,386,816) | 53,768 | 23,239,854 |

**CONSOLIDATED**

| Movement During the Year | 2006 | 2005 |
|---|---|---|
| Ordinary shares issued and fully paid | 3,089,200 | 200 |

| Movements in ordinary shares on issue | Number of shares | $ |
|---|---|---|
| At 1 July 2005 | 30,911,883 | 18,132,853 |
| Consolidation of shares 1 for 2 | (15,455,923) | - |
| Ordinary shares issued per the acquisition of QQQ Systems Pty Limited | 50,000,000 | 3,089,000 |
| Issue of share capital – 7,500,000 fully paid shares at 20c each issued pursuant to the prospectus | 7,500,000 | 1,500,000 |
| Costs associated with this share issue | - | (1,103,025) |
| Elimination of cost of 3Q Holdings Limited's share capital on acquisition of QQQ Systems Pty Limited | - | (18,529,828) |
| Cost of QQQ Systems Pty Ltd's share capital pre-acquisition | - | 200 |
| **AT 30 JUNE 2006** | 72,955,960 | 3,089,200 |

**PARENT**

| Movement During the Year | 2006 | 2005 |
|---|---|---|
| Ordinary shares issued and fully paid | 41,572,902 | 18,132,853 |

| Movements in ordinary shares on issue | Number of shares | $ |
|---|---|---|
| At 1 July 2005 | 30,911,883 | 18,132,853 |
| Consolidation of shares 1 for 2 | (15,455,923) | - |
| Ordinary shares issued per the acquisition of QQQ Systems Pty Limited | 50,000,000 | 10,000,000 |
| Performance shares issued per the acquisition of QQQ Systems Pty Limited | - | 13,000,000 |
| Issue of share capital – 7,500,000 fully paid shares at 20c each issued pursuant to the prospectus | 7,500,000 | 1,500,000 |
| Costs associated with this share issue | - | (1,059,951) |
| **AT 30 JUNE 2006** | 72,955,960 | 41,572,902 |

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.

## Nature and Purpose of Reserves

### Foreign Currency Translation Reserve

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

# 19 Financial Risk Management Objectives and Policies

The Group's principal financial instruments comprise a bank loan facility and a hire purchase contract, and cash and short-term deposits.

The main purpose of these financial instruments is to raise finance for the Group's operations. The Group has various other financial assets and liabilities such as trade receivables and trade payables, which arise directly from its operations.

The main risks arising from the Group's financial instruments are cash flow interest rate risk, liquidity risk, foreign currency risk and credit risk. The Board reviews and agrees policies for managing each of these risks and they are summarised below.

Details of the significant accounting policies and methods adopted, including the criteria for recognition, the basis of measurement and the basis on which income and expenses are recognised, in respect of each class of financial asset, financial liability and equity instrument are disclosed in note 2 to the financial statements.

### Cash flow interest rate risk

The Group's exposure to the risk of changes in market interest rates relates primarily to the Group's debt obligation with a floating interest rate.

He effective weighted average interest rates on financial assets and liabilities is as follows:

| | Weighted Average Effective Interest Rate | | Floating Interest Rate | | Within Year | | 1 to 5 Years | | Over 5 Years | | Non-interest Bearing | | Total | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | 2006 | 2005 | 2006 | 2005 | 2006 | 2005 | 2006 | 2005 | 2006 | 2005 | 2006 | 2005 | 2006 | 2005 |
| | % | % | $ | $ | $ | $ | $ | $ | $ | $ | $ | $ | $ | $ |
| Financial Assets | | | | | | | | | | | | | | |
| Cash & Cash Equivalents | 3.45 | 4.27 | 684,101 | 605,391 | - | - | - | - | - | - | - | - | 684,101 | 605,391 |
| Receivables | - | - | - | - | - | - | - | - | | | 1,350,205 | 998,686 | 1,350,205 | 998,686 |
| **TOTAL FINANCIAL ASSETS** | | | 684,101 | 605,391 | - | - | - | - | - | - | 1,350,205 | 998,686 | 2,034,306 | 1,604,077 |
| Financial Liabilities | | | | | | | | | | | | | | |
| Short Term & Long Term Borrowings | 7.90 | 11.92 | - | - | 121,147 | 307,275 | - | - | - | - | - | - | 121,147 | 307,275 |
| Lease & Hire Purchase Liabilities | 7.79 | 7.79 | - | - | 17,921 | 20,844 | - | 17,921 | - | - | - | - | 17,921 | 38,765 |
| Trade & Other Payables | - | - | - | - | - | - | - | - | - | - | 1,018,264 | 575,138 | 1,018,264 | 575,138 |
| **TOTAL FINANCIAL LIABILITIES** | | | - | - | 139,068 | 328,119 | - | 17,921 | - | - | 1,018,264 | 575,138 | 1,157,332 | 921,178 |

**Foreign currency risk**

As a result of investment in operations in the United States, the Group's balance sheet can be affected by movements in the US$/A$ exchange rates. At this stage the Group does not seek to hedge this exposure, however as the investment in the USA grows, the Group may change its policy.

The Group also has some transactional currency exposures. Such exposure arises from sales or purchases in currencies other than the unit's functional currency. These are not considered material.

**Commodity price risk**

The Group's exposure to price risk is minimal.

**Credit risk**

In general, the Group trades with recognised, creditworthy third parties. In addition, receivable balances are monitored on an ongoing basis with the result that the Group's exposure to bad debts is not significant.

## 20 Business Combinations

### Acquisition of QQQ Systems Pty Limited

On the 24th October 2005 3Q Holdings Limited (formerly Acuity Investment Management Limited) signed a share sale and purchase agreement for the acquisition of 100% of QQQ Systems Pty Limited trading as SVI Retail subject to all relevant regulatory and shareholder approvals and the satisfaction of a number of conditions. All these approvals were obtained and all the conditions were met and the transaction was finally completed on 22 December 2005 (date effective gain of control of QQQ took place) and the company recommenced trading on the ASX on 28 December 2005. The consideration for the 100% equity in QQQ comprised the issue of 50,000,000 ordinary shares at 20c per share and 65,000,000 performance shares which are convertible into up to 65,000,000 ordinary shares upon achievement of certain specified targets in the periods ending 30 June 2006 or 2007.

3Q Holdings Limited also issued 7,500,000 ordinary shares under a public offering at an issue price of 20c per share to raise $1,500,000.

The net assets of 3Q on completion of the sale included cash reserves of $1,502,707, which included $1,500,000 proceeds from the issue of the 7,500,000 ordinary shares under the public offering.

QQQ Systems Pty Limited contributed $1,889,647 net profit before tax from ordinary activities ($1,550,165 net profit after tax from ordinary activities) during the year ended 30 June 2006.

The fair value of the identifiable assets and liabilities of 3Q Holdings Limited as at the date of acquisition are:

| **CONSOLIDATED** | **Recognised on Acquisition $** | **Carrying Value $** |
|---|---:|---:|
| Cash and cash equivalents | 1,502,707 | 1,502,707 |
| Trade receivables | 104,500 | 104,500 |
| Other assets | 19,992 | 19,992 |
| Loan from QQQ Systems Pty Limited | (819,257) | (819,257) |
| Trade payables | (663,879) | (663,879) |
| Fair value of net assets | 144,063 | 144,063 |
| Goodwill arising on acquisition | 2,944,937 | 2,944,937 |
| Shares issued at fair value | 3,089,000 | 3,089,000 |
| The cash inflow on acquisition is as follows: | | |
| Net cash acquired on acquisition of QQQ | 1,502,707 | 1,502,707 |
| Cash paid | - | - |
| **NET CASH INFLOW** | 1,502,707 | 1,502,707 |

| Purchase consideration | Economic Entity | | Parent Entity | |
|---|---|---|---|---|
| | 2006 $ | 2005 $ | 2006 $ | 2005 $ |
| Ordinary Shares Issued – 50 million shares at 20 cents per share | 10,000,000 | - | 10,000,000 | - |
| Cash Consideration | - | - | - | - |
| Deferred Consideration – 65 million performance shares at 20 cents per share | 13,000,000 | - | 13,000,000 | - |
| Capitalised Costs Associated with the Acquisition | (1,103,025) | - | (1,059,951) | - |
| **TOTAL CONSIDERATION** | 21,896,975 | - | 21,940,049 | - |

As the acquisition was recognised in the consolidated accounts as a reverse acquisition, the actual cost on acquisition amounted to $3,089,000. The goodwill associated with the acquisition was $2,944,937.

**Acquisition of Applied Retail Solutions Inc**

On the 31st March 2006 Applied Retail Solutions Inc acquired the Applied Retail Solutions business of Island Pacific. The consideration for the business was AUD $300,000.

The net assets of Applied Retail Solutions Inc on acquisition included cash reserves of $486,685.

Applied Retail Solutions Inc contributed $584,135 net profit before tax, which includes a surplus of net assets over the purchase price of Applied Retail Solutions of $271,522 ($353,122 net profit after tax) during the year ended 30 June 2006.

The fair value of the identifiable assets and liabilities of Applied Retail Solutions Inc as at the date of acquisition are:

| CONSOLIDATED | Recognised on Acquisition $ | Carrying Value $ |
|---|---|---|
| Cash and cash equivalents | 486,685 | 486,685 |
| Trade receivables | 47,527 | 47,527 |
| Fixed assets | 45,828 | 45,828 |
| Loan from QQQ Systems Pty Limited | 104,678 | 104,678 |
| Other | (13,340) | (13,340) |
| Trade payables | (89,259) | (89,259) |
| Fair value of net assets | 582,119 | 582,119 |
| Surplus of net assets over the purchase price * | (282,119) | (282,119) |
| Payable to Island Pacific | 300,000 | 300,000 |
| The cash inflow on acquisition is as follows: | | |
| Net cash acquired | 486,685 | 486,685 |
| Cash paid | - | - |
| **NET CASH INFLOW** | 486,685 | 486,685 |

* The surplus of net assets over the purchase price of $282,119 is based on the exchange rate at the date of acquisition, being 31 March 2006. The surplus of net assets over the purchase price at the average exchange rate for the period from acquisition (31 March 2006) to 30 June 2006, is $271,522

| Purchase consideration | Economic Entity | | Parent Entity | |
|---|---|---|---|---|
| | 2006 $ | 2005 $ | 2006 $ | 2005 $ |
| Ordinary Shares Issued | - | - | - | - |
| Cash Consideration * | 300,000 | - | 300,000 | - |
| **TOTAL CONSIDERATION** | 300,000 | - | 300,000 | - |

* This consideration of $300,000 was set off against a trade receivable with Island Pacific.

# 21 Commitments and Contingencies

## Commitments

### Hire Purchase Agreements

The Group has a hire purchase contract for various items of computer equipment.

Future minimum installments under the hire purchase contract are as follows:

| CONSOLIDATED | 2006 $ | 2005 $ |
|---|---|---|
| Within one year | 17,921 | 20,844 |
| After one year but not more than five years | - | 17,921 |
| **TOTAL HIRE PURCHASE PAYMENTS** | 17,921 | 38,765 |

### Lease Agreements

The group entered into a commercial property lease for use of its Sydney offices. The lease is a five year lease and expires on 5 August 2007. There is an option to renew for a further five years. The lease includes a clause to enable upward revision of the rental charge on an annual basis, according to the prevailing consumer price index.

| CONSOLIDATED | 2006 $ | 2005 $ |
|---|---|---|
| Within one year | 94,000 | 94,000 |
| After one year but not more than five years | 9,271 | 103,271 |
| **TOTAL LEASE PAYMENTS** | 103,271 | 197,271 |

There are no commitments for the parent company.

## Contingencies

The Group and the parent has no contingent assets or liabilities as at the date of this report.

# 22 Related party disclosure

The following table provides the total amount of transactions that were entered into with related parties for the relevant financial year (for information regarding outstanding balances at year-end, refer to note 8 and note 15):

| Consolidated | Sales financed by Related Parties excluding GST (Note 1) $ | Rent paid to Related Parties excluding GST (Note 2) $ | Compensation of David Rosen (Note 5) $ | Amounts owed by Related Parties for financed sales (Note 1) $ | Amounts owed to Related Parties for rent (Note 2) $ |
|---|---|---|---|---|---|
| 2006 | 9,780 | 34,000 | 41,625 | 170,315 | (14,300) |
| 2005 | - | - | - | | - |

**Note 1 - Sales financed by related parties**

Sales to certain customers of QQQ Systems Pty Limited are financed by Isalux Pty Limited, a related party. Isalux repays QQQ on a monthly basis.

**Note 2 - Rent paid to related parties**

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

**Note 3 - Security for Bank Loan Facility**

Two related companies, Eastfall Pty Limited and Elabrook Pty Limited, provide security for the QQQ System Pty Limited bank facility referred to in note 16.

**Note 4 - Distributor**

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

Under an agreement with Island Pacific Inc, QQQ Systems Pty Limited granted Island Pacific rights in respect of the Pyramid Software in the Americas and Europe. QQQ Systems Pty Limited has earned revenues over the last few years from the granting of such rights to Island Pacific.

**Note 5 - Director of Related Party**

As disclosed as part of the distributor note above, David Rosen has a 50% interest in Elabrook Pty Limited, one of the Vendors of QQQ Systems Pty Limited, and is a director of Applied Retail Solutions Inc, a Related Party. By virtue of his directorship in Applied Retail Solutions Inc., a Related Party, David is a Related Party himself. David receives remuneration as a director of Applied Retail Solutions Inc, which is disclosed above as a Related Party transaction.

# 23 Events after balance sheet date

The Board of Directors are in the process of approving an Employee Share Plan, which would come into effect at the earliest 28 December 2006. The plan will provide for the issue of approximately 2.5 million Options in Ordinary shares to employees of the Group.

The Board of Directors are also in the process of approving the issue of 4 million Options in Ordinary shares to Directors of 3Q Holdings Limited.

These options are required to be approved by Shareholders in the Annual General Meeting to be held in November 2006.

The Board of Directors are also in the process of approving the issue of 4 million Options in Ordinary shares to a Third Party Consultant. These options are also required to be approved by Shareholders in the Annual General Meeting to be held in November 2006.

The Group is currently in negotiations for the approval of an Acquisition Finance Facility of at least $10 million.

## 24 Auditors' Remuneration

The auditor of 3Q Holdings Limited is PKF. Prior to the Acquisition of QQQ Systems Pty Limited on 22 December 2005, the auditor of 3Q Holdings was KPMG

| | CONSOLIDATED | | PARENT | |
|---|---|---|---|---|
| | 2006<br>$ | 2005<br>$ | 2006<br>$ | 2005<br>$ |
| Amounts received or due and receivable by PKF for:<br>- an audit or review of financial reports of the entity and any other entity in the consolidated group | 57,440 | - | 17,440 | - |
| - other services in relation to the entity and any other entity in the consolidated group | 2,505 | - | 2,505 | - |
| **TOTAL** | 59,945 | | 19,945 | |
| Amounts received or due and receivable by KPMG for:<br>- an audit or review of the financial report of subsidiaries | 15,000 | 16,000 | 15,000 | 16,000 |
| - investigating accountants/experts report | - | 12,500 | - | 12,500 |
| - taxation services | 3,300 | 11,340 | 3,300 | 11,340 |
| - other services | 575 | - | 575 | - |
| **TOTAL** | 18,875 | 39,840 | 18,875 | 39,840 |

## 25 Segment Information

The operating businesses in the Group operate in the same segment with each business unit offering primarily the same products and markets.

The group operates in the information technology industry in Australia, New Zealand and USA.

The Group's primary segment reporting format is by business unit and its secondary reporting format is by geographic region.

There is no comparative information as the Geographic Segment only commenced with the acquisition of Applied Retail Solutions in the USA on 31 March 2006.

| CONSOLIDATED | Australia<br>$ | New Zealand<br>$ | United States<br>$ | Total<br>$ |
|---|---|---|---|---|
| Year ended 30 June 2006 – Revenue<br>Sales to customers | 7,018,869 | 99,735 | 779,203 | 7,897,807 |
| Other revenues from customers | 188,264 | - | 9,450 | 197,714 |
| Other revenue | - | - | 271,522 | 271,522 |
| | 7,207,133 | 99,735 | 1,060,175 | 8,367,043 |
| Inter-segment sales | - | - | - | - |
| Total Revenue | 7,306,868 | - | 1,060,175 | 8,367,043 |
| Net Profit After Tax | 1,557,503 | ** 7,699 | 353,122 | 1,998,324 |
| Other segment information<br>Segment assets – before consolidation adjustments | 25,170,955 | 71,628 | 710,990 | 25,953,573 |
| Consolidation adjustments | (19,987,941) | - | (762) | (19,988,703)) |
| Consolidated Segment assets | * 5,183,014 | 71,628 | 710,228 | 5,964,870 |
| Segment liabilities – before consolidation adjustments | 1,460,435 | - | 337,069 | 1,797,504 |
| Consolidation adjustments | 95,037 | - | - | 95,037 |
| Consolidated Segment liabilities | 1,555,472 | - | 337,069 | 1,892,541 |

* Included in consolidated segment assets above are the acquisition of plant and equipment on the purchase of the Applied Retail Solutions business of $45,828.
Also included in the segment assets are the cost of plant and equipment acquired during the year of $33,702.

** The profit from New Zealand operations does not take into account tax which is payable in Australia.

## 26 Financial Assets

| | CONSOLIDATED | | PARENT | |
|---|---|---|---|---|
| | 2006<br>$ | 2005<br>$ | 2006<br>$ | 2005<br>$ |
| Shares in Subsidiaries at cost (note 27) | - | - | 23,000,000 | - |
| **TOTAL FINANCIAL ASSETS** | - | - | 23,000,000 | - |

## 27 Subsidiaries

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

| Name of Entity | Country of Incorporation | Class of Shares | Equity Holding 2006 % | Equity Holding* 2005 % |
|---|---|---|---|---|
| QQQ Systems Pty Limited | Australia | Ordinary | 100 | - |
| ARS Australia Pty Limited | Australia | Ordinary | 100 | - |
| Applied Retail Solutions Inc | United States of America | Ordinary | 100 | - |

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

# Directors' Declaration

In accordance with a resolution of the directors of 3Q Holdings Limited, I state that:

1 In the opinion of the directors:

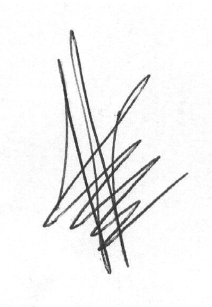
(a) The financial statements and notes of the company and of the consolidated entity are in accordance with the Corporations Act 2001, including:

- giving a true and fair view of the company's and consolidated entity's financial position as at 30 June 2006 and of their performance for the year ended on that date; and
- complying with Accounting Standards and Corporations Regulations 2001; and

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

2 This declaration has been made after receiving the declarations required to be made to the directors in accordance with sections 295A of the Corporations Act 2001 for the financial period ending 30 June 2006.

On behalf of the Board



Shaun Rosen
Executive Chairman
Sydney
22 September 2006

# Independent Auditor's Report

Chartered Accountants
& Business Advisers

**INDEPENDENT AUDIT REPORT TO THE MEMBERS OF**
**3Q HOLDINGS LIMITED**
**ABN 40 113 329 016**

**Scope**

*The financial report, remuneration disclosures and directors' responsibility*

The financial report comprises the balance sheet, income statement, statement of changes in equity, cash flow statement, notes to the financial statements and the directors' declaration for both 3Q Holdings Limited (the company) and its controlled entities (the consolidated entity), for the year ended 30 June 2006. The consolidated entity comprises both the company and the entities it controlled during that year as defined in note 2(a)(i) to the financial statements.

The company has disclosed information about the remuneration of key management personnel ("remuneration disclosures"), as required by Accounting Standard AASB 124 Related Party Disclosures under the heading "remuneration report" in pages 11 to 14 of the directors' report, as permitted by the Corporations Regulations 2001.

The directors of the company are responsible for the preparation and true and fair presentation of the financial report in accordance with the Corporations Act 2001. This includes responsibility for the maintenance of adequate accounting records and internal controls that are designed to prevent and detect fraud and error, and for the accounting policies and accounting estimates inherent in the financial report. The directors are also responsible for the remuneration disclosures contained in the directors' report.

**Audit approach**

We conducted an independent audit in order to express an opinion to the members of the company. Our audit was conducted in accordance with Australian Auditing Standards, in order to provide reasonable assurance as to whether the financial report is free of material misstatement and the remuneration disclosures comply with Accounting Standard AASB 124 and the Corporations Regulations 2001. The nature of an audit is influenced by factors such as the use of professional judgment, selective testing, the inherent limitations of internal control, and the availability of persuasive rather than conclusive evidence. Therefore, an audit cannot guarantee that all material misstatements have been detected.

We performed procedures to assess whether in all material respects the financial report presents fairly, in accordance with the Corporations Act 2001, including compliance with Accounting Standards and other mandatory financial reporting requirements in Australia, a view which is consistent with our understanding of the company's and the consolidated entity's financial position, and of their performance as represented by the results of their operations and cash flows and whether the remuneration disclosures comply with Accounting Standard AASB 124 and the Corporations Regulations 2001.

We formed our audit opinion on the basis of these procedures, which included:

- examining, on a test basis, information to provide evidence supporting the amounts and disclosures in the financial report and remuneration disclosures, and
- assessing the appropriateness of the accounting policies and disclosures used and the reasonableness of significant accounting estimates made by the directors.

Tel: 61 2 9251 4100 | Fax: 61 2 9240 9821 | www.pkf.com.au
New South Wales Partnership | ABN 83 236 985 726
Level 10, 1 Margaret Street | Sydney | New South Wales 2000 | Australia
DX 10173 | Sydney Stock Exchange | New South Wales

PKF

Chartered Accountants
& Business Advisers

**Independence**

In conducting our audit, we followed applicable independence requirements of Australian professional ethical pronouncements and the Corporations Act 2001.

**Qualification**

The financial report of QQQ Systems Pty Limited, a subsidiary of 3Q Holdings Limited (refer to note 2(a)(i) to the financial statements), for the year ended 30 June 2005 has not been audited, except for the balance sheet. Accordingly we are not in a position to and do not express an opinion on the consolidated entity comparatives for 30 June 2005, except for the balance sheet.

**Qualified Audit Opinion**

In our opinion, except for the effects on the consolidated entity comparatives for 30 June 2005 of such adjustments, if any, as might have been determined to be necessary had the limitation on the scope of our work as discussed in the qualification paragraph not existed:

(1) the financial report of 3Q Holdings Limited is in accordance with:

  (a) the Corporations Act 2001, including:

    (i) giving a true and fair view of the company’s and consolidated entity’s financial position as at 30 June 2006 and of their performance for the year ended on that date; and

    (ii) complying with Accounting Standards in Australia and the Corporations Regulations 2001; and

    (b) other mandatory financial reporting requirements in Australia; and

(2) the remuneration disclosures that are contained in pages 11 to 14 of the directors’ report comply with Accounting Standard AASB 124 and the Corporations Regulations 2001.

PKF

**PKF**

**ARTHUR MILNER**
**Partner**

**Sydney, 22 September 2006**

# ASX Additional Information

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

## SHAREHOLDINGS

As at 4 September 2006

### Substantial Shareholders

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

| | Ordinary Shares | % | Performance Shares | % |
|---|---|---|---|---|
| Eastfall Pty Limited | 25,000,000 | 34.27 | 32,500,000 | 50 |
| Elabrook Pty Limited | 25,000,000 | 34.27 | 32,500,000 | 50 |

| | Options over Ordinary Shares | % |
|---|---|---|
| Investec Bank (Australia) Limited | 950,000 | 76 |
| Capital Investment Partners Pty Ltd | 300,000 | 24 |

### Voting Rights

Each Ordinary shareholder is entitled to receive notice of and attend and vote at general meetings of the Company. At a general meeting, every ordinary shareholder present in person or by proxy, representative or attorney will have one vote on a show of hands and on a poll, one vote for each share held. Performance shareholders are entitled to receive notice of general meetings of the Company, however, they are not entitled to vote. Holders of Options over ordinary shares are not entitled to receive notice of general meetings nor are they entitled to vote.

### Distribution of equity security holders

As at 31 August 2006

| Category | Ordinary Shareholders | Performance Shareholders | Options Holders |
|---|---|---|---|
| 1 – 1,000 | 625 | - | - |
| 1,001 – 5,000 | 266 | - | - |
| 5,001 – 10,000 | 133 | - | - |
| 10,001 – 100,000 | 151 | - | - |
| 100,001 and over | 47 | 2 | 2 |
| **TOTAL** | 1,222 | 2 | 2 |

The number of Ordinary shareholders holding less than a marketable parcel of ordinary shares is 765.

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

| Equity Security | Number of Holders |
|---|---|
| Ordinary Shares | 1,222 |
| Performance shares | 2 |
| Options over ordinary shares | 2 |

### On-Market buy back

There is no current on-market buy back.

### Equity Securities on issue

| Equity Security | Number |
|---|---|
| Ordinary Shares | 72,955,960 |
| Performance shares | 65,000,000 |
| Options over ordinary shares | 1,250,000 |

## Twenty largest shareholders of quoted ordinary shares

| Name | Ordinary Shares | % |
|---|---|---|
| Eastfall Pty Limited | 25,000,000 | 34.27 |
| Elabrook Pty Limited | 25,000,000 | 34.27 |
| Ron-Ton Fashions Pty Ltd (Retirement fund A/C) | 1,428,097 | 1.96 |
| Hillridge Pty Ltd | 1,394,193 | 1.91 |
| Sydney Boardriders Pty Ltd | 1,000,000 | 1.37 |
| Hillridge Pty Ltd | 781,823 | 1.07 |
| Cardy & Co Pty Ltd | 640,300 | 0.88 |
| GDL Investments Pty Ltd | 584,243 | 0.80 |
| Bullimore Investments Pty Ltd (The CK Super fund A/C) | 550,000 | 0.75 |
| Tidereef Pty Limited (Hammerschlag Superfund A/C) | 500,000 | 0.69 |
| Camden International Investments Ltd | 475,000 | 0.65 |
| Manikato Financial Services Pty Ltd | 400,001 | 0.55 |
| BV Holdings Australia Pty Ltd | 400,000 | 0.55 |
| Snowglaze Investments Pty Ltd | 400,000 | 0.55 |
| Ortis Investments SA | 371,840 | 0.51 |
| LSL Holdings Pty Limited | 351,800 | 0.48 |
| McNeil Nominees Pty Limited | 333,423 | 0.46 |
| Lewis Securities Ltd (LSL Holdings Pty Ltd A/C) | 331,255 | 0.45 |
| Mr John Michael Gillon | 319,866 | 0.44 |
| Affinity Ltd | 300,000 | 0.41 |
| **TOTAL** | 60,561,841 | 83.02 |

## Quotation of Securities on other Stock Exchanges

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

## Restricted securities or securities subject to voluntary escrow

The equity securities of the company are unrestricted and not subject to voluntary escrow.

## Unquoted Securities

| Unquoted Equity Security | Number of Holders | Securities on issue |
|---|---|---|
| Performance shares | 2 | 65,000,000 |
| Options over ordinary shares | 2 | 1,250,000 |

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

Since readmission of the Company to the Australian Stock Exchange, the Company has used to its cash and assets in a form readily convertible to cash, primarily in a way that is consistent with its business objectives. However, at this stage, the funds have not been used on research and development of the Thin POS to the extent that is consistent with its business objectives. As was disclosed in the Prospectus dated 25 November 2005, of the cash resources that were raised, $250,000 was to be allocated to research and development of the Thin POS. At the date of this report, the amount spent on research and development of the Thin POS has been minimal as the intention of the directors has been to initially stablise the USA acquisition and thereafter to look at potentially developing and launching the product into the USA. The expenditure on this commitment will depend on the feasibility of launching the product particularly in the USA.

Instead, to date, these resources have been used for working capital as well as to fund some additional costs of listing and recapitalisation.

# CORPORATE INFORMATION

ABN 42 089 058 293

## Directors

Shaun Rosen (Executive Chairman)
Clive Klugman
Alan Treisman
Geoff Gander

## Company Secretary

Alan Treisman

## Registered office

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

## Principal Place of Business

Ground Floor, 35 Spring Street
Bondi Junction
NSW 2022
Australia
Phone 61 2 9389 3555
Website www.threeq.com.au

## Share Register

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

## Solicitors

Freehills
MLC Centre Martin Place
Sydney NSW 2000
Australia

## Bankers

Commonwealth Bank of Australia
Western Perth WA
St George's Terrace, Perth WA
Bondi Junction, Sydney NSW

National Australia Bank
Bondi Junction, Sydney NSW

St George Bank
George Street, Sydney NSW

## Auditors

PKF
Level 10 /1 Margaret Street
Sydney NSW 2000
Australia

## Stock Exchange Listing

Australian Stock Exchange, code: TQH

Empowering
RETAILERS
Through Technology

Applied Retail Solutions

svi