3Q

2017 Annual Report

Corporate Information

ABN 42 089 058 293

Directors
Shaun Rosen (Executive Chairman)
Clive Klugman
Alan Treisman
Mark McGeachen
David Rosen

Company Secretary
Alan Treisman

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

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

Solicitors
Marque Lawyers
Level 4
343 George Street
Sydney NSW 2000

Bankers
Commonwealth Bank of Australia
Bondi Junction, Sydney NSW

Auditors
BDO
Level 11, 1 Margaret Street
Sydney NSW 2000
Australia

Contents

Chairman's Report

My fellow shareholders,

Herewith is an update on our company's performance over the last year.

The company has had a difficult year in all our trading regions. Whilst there are a number of factors that may have exacerbated our performance, the reality is that retail worldwide is not performing. This naturally impacts on the company's revenues.

As such the company has made some significant decisions in terms of staffing and general overheads which are expected to deliver similar levels of profitability to prior years despite lower revenues being anticipated for the next year.

Despite all this, the company continues to invest in R&D to stay abreast with technological advances and to remain competitive in the marketplace.

We continue to rationalize our product set which will lead to a unified offering world-wide which in turn will create more opportunities as well as reducing the staff required to support multiple offerings.

It is anticipated that in the next 12-18 months the company will be ready with a number of new products that will take advantage of the shift in retail to omni-channel retailing. This will open up new markets for the company and allow our existing customers to leverage off of our product set. We will continue to review our R&D spend throughout the year and will ensure that it remains in proportion to the company revenue.

While the retail environment has been challenging, the year included a number of key successes, including the deployment of our Island Pacific SmartPlanning solution at Super Group, based in the UK, the rollout of the AdvanceRetail point of sale to Pandora Jewelry stores in China and Hong Kong, and the deployment of our SmartOmni solution at Jaycar Electronics in Australia, as well as in a major US fashion retailer.

We continue to have strong support from our bankers who have renewed the company's facility for another 3 years whilst increasing the facility should we require it.

Despite all this we continue to pay down our bank debt and managed to return a small dividend to shareholders of $724,967. The company continues to generate cash and would like to see this increase.

Key highlights of our financial performance were:

	2017	2016		Percentage Increase/(Decrease)
Revenue	$33,623,761	$41,901,140	↓	-20%
Gross Profit Percentage	87.86%	84.02%	↑	5%
Underlying EBITDA*	$5,118,513	$7,791,692	↓	-34%
Underlying NPBT*	($214,557)	$2,418,696	↓	-110%
Underlying NPAT*	($102,295)	$2,043,975	↓	-105%
Net Profit after tax	($127,295)	$2,065,248	↓	-106%
(Loss)/earnings per Share (cents)	(0.09)	1.40	↓	-106%
Employee benefit expenses	$19,054,171	$21,685,652	↓	-12%
Number of Employees	209	248	↓	-16%

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

I thank you all for your ongoing support.

Shaun Rosen, Chairman

Directors' Report

Directors & Company Secretary

The names and details of the Directors of 3Q Holdings Ltd in office during or since the end of the financial year are as follows:

Shaun Rosen - Executive Chairman

Shaun Rosen joined the Board as the Executive Chairman on 22 December 2005, as part of the acquisition of Island Pacific Australia Pty Limited. He completed a Bachelor of Computer Science degree at the University of Cape Town in 1982 and founded Divergent Technologies in South Africa in 1983, where he served as Managing Director. The focus of the business was developing software for retailers, wholesalers and manufacturers. He has had more than 30 years' experience in the information technology industry. In 1986 he immigrated to Australia and started Divergent Technologies in Sydney in 1987. In 1994, 20% of Divergent was sold to Tag Pacific and in 1996, 100% of Divergent was sold to SVI Holdings Inc, which was listed on the OTC Bulletin Board. Shaun retired in late 1999. In 2002, Shaun bought back SVI Retail with his business partner, Clive Klugman. Together they traded the Company back into profitability.

Clive Klugman – Non-Executive Director

Clive joined the Board as Executive Director on 22 December 2005, as part of the acquisition of Island Pacific Australia Pty Limited. Clive studied Computer Science at the University of Cape Town, graduating in 1979. He formed Divergent Technologies with Shaun Rosen and has worked with Shaun since that time. He has had more than 30 years' experience in the information technology industry. Clive's role changed from Executive to Non-Executive Director in September 2016. He will now provide consultancy services to the Company.

Mark McGeachen - Executive Director

Mark joined the board on 5 April 2007 as part of the acquisition of AdvanceRetail Technology Limited, where he had served as Managing Director. As one of the initial founders of AdvanceRetail Technology Limited, Mark has experience in international software sales, as well as consulting experience with a number of the regions leading retailers. He has more than 25 years' experience in the information technology sector, including over 20 years' experience in the retail software market. He now serves as CEO for both AdvanceRetail and Island Pacific in Australia and New Zealand.

Alan Treisman - Executive Director & Company Secretary

Alan Treisman joined the Board as Executive Director and CFO on 22 December 2005. He completed a Bachelor of Commerce degree and a Bachelor of Accountancy degree in 1989, and qualified as a Chartered Accountant in 1990. Alan joined Divergent Technologies in 1994 where he worked for almost 8 years as Financial Controller and then Finance Director. He has had more than 15 years' experience in the information technology industry. He now combines the role of Mergers and Acquisitions with that of Chief Financial Officer while also serving as the Company Secretary.

David Rosen – Executive Director

David joined the Board on 12th December 2013. He holds a Bachelor of Science (Hons) and a Master of Arts from the University of Cape Town. He co-founded Divergent Technologies in South Africa with his brother Shaun in 1983, and they brought the company to Australia where David served as Technical Director. David returned to South Africa in 1994 where until 2002 he was the Technical Director of the JSE-listed Softline Group responsible for R&D, and also the Managing Director of VST, Softline's retail software division that specialised in outsourcing merchandising and point of sale systems. In 2002 David joined Shaun Rosen and Clive Klugman when they bought back SVI Retail, and has since lived in the USA, serving as the CEO of Island Pacific USA and UK and Group CTO.

Principal Activities

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

The principal activities include the developing, selling, implementing and integrating of retail technology solutions and professional services. The retail technology solutions encompass software, hardware, services, consulting and maintenance.

The target markets include a wide range of retail businesses, operating in the fashion, electronics, department stores, supermarkets, tourist attractions, furniture, general merchandise, jewellery and discount variety industries.

Dynamics of the Business and Business Strategies

The Retail sector can be characterised as the combination of hardware, software and services being provided by one or more parties to an end user. Due to the nature of the point of service and in particular the need for a fully integrated front and back end application, most end user organisations want to work with one party – a systems integrator – who is ultimately responsible for providing a working solution.

3Q has always been focused on being a one-stop shop for providing customers with a complete working solution together with ongoing maintenance and support since its formation in 1987.

There are a number of well run retail solutions providers in the market, some specialising in software, others in services and most with a loyal client base. These organisations are examples of the type of company that 3Q is looking to acquire in order to grow the client base and its stable of software solutions. The Group is currently well established in the "specialty retail" sector and boasts an impressive client list that includes many brand retailers.

In addition, following completion of the most recent acquisitions, the Group is also now very well established in the 'back office' and merchandising solutions segment of the market for high-end 'Fortune 500' retailers in the United States.

It is from this established base that the Group is able to continue its organic growth, both increasing the scope and scale of its contracted maintenance agreements, and through the acquisition of new customers at both the speciality retail end of the business, and the merchandising and 'back office' solutions markets. In addition, the breadth of the existing client base and the scope of the Group's product offerings provide significant opportunities to cross sell products to existing customers currently using only a subset of the Group's overall portfolio.

Summary of the Group Business Plan

In addition to the opportunities available to the Company to grow its existing business organically – a major driver of the Company's Business Plan - the retail software sector in Australia and around the world is in a fragmented state and presents opportunities for sector consolidation.

A key focus in coming years will be to build on the value of the existing base to lock in a major stronghold in the retail software sector both in Australia and overseas. This will be achieved through acquisitions of similar companies, wherever synergies and economies of scale from the acquisitions are anticipated to increase profitability. This has already been displayed with the acquisitions of Island Pacific and Applied Retail Solutions in the USA and UK, AdvanceRetail Technology in New Zealand and Australia, and Intelligent Retail in the UK.

Prior acquisitions by the management team illustrate its success in implementing a strategy of growth by acquisition and the Board and Management of the Group are committed to building 3Q as quickly as possible, taking into account the key requirement of only acquiring organisations that offer immediate upside to the profitability of the Group and ensuring the ongoing robustness of the Group's focus on enhancing the existing business opportunities and growing them in parallel.

Review of Operations

Refer to Chairman's letter for detail.

Operating Results for the Year

Financial Highlights

	2017	2016		Percentage Increase/(Decrease)
Revenue	$33,623,761	$41,901,140	↓	-20%
Gross Profit Percentage	87.86%	84.02%	↑	5%
Underlying EBITDA*	$5,118,513	$7,791,692	↓	-34%
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Employee benefit expenses	$19,054,171	$21,685,652	↓	-12%
Number of Employees	209	248	↓	-16%

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

Key outcomes for the 2017 Financial Year include:

- Underlying EBITDA, NPBT,NPAT down on last year, mainly due to large drop in revenues. The drop from last year would have been worse had it not been for the cuts in employee expenses and contractor usage in the current year.
- Net debt decreased by $1.2m from FY2016 as a result in principal repayments. Cash reserves are marginally down by $200k from the previous year.

Asset and Capital Structure

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

Consolidated	**2017**	**2016**
	$	**$**
Interest Bearing Loans	9,284,177	10,656,051
Cash & Short Term Deposits	(1,383,099)	(1,583,840)
Net Debt	7,901,078	9,072,211
Total Equity	24,696,336	26,239,857
Total Capital Employed	32,597,414	35,312,068
Gearing (%)	24.24%	25.69%

Profile of Debts

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

	2017	**2016**
	$	**$**
Bank Loans	9,284,177	10,656,051
Other Finance Loans	-	-
TOTAL DEBT	**9,284,177**	**10,656,051**

Share issues during the year

No shares under the Employee Share Ownership Plan were issued during the year to staff and Senior Managers (2016: Nil).

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

Options issued during the year

- No options were issued during the year.
- No options expired during the year.
- No options were issued during the prior year.
- No options expired during the prior year.

Directors' interest in shares and options

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

Director	Ordinary Shares	Options
Shaun Rosen*	61,765,900	-
Clive Klugman	33,015,674	-
Alan Treisman	5,850,000	-
Mark McGeachen	3,127,900	-
David Rosen*	59,500,000	-

*57,500,000 shares are owned by David and Shaun Rosen collectively through their interest in Elabrook Pty Limited.

Dividends

3Q Holdings Limited paid a dividend of $724,967 during the reporting period (2016: $1,330,214).

Risk Management

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

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

Future Developments and Expected Results

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

Significant Changes in the State of Affairs

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

Significant Events After the Reporting Date

There were no significant events after the reporting 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 Group has indemnified the directors and executives of the Group for costs incurred, in their capacity as a director or executive, for which they may be held personally liable, except where there is a lack of good faith.

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

Proceedings on Behalf of the Group

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

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

Non-Audit Services

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

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

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

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

Indemnity and Insurance of Auditor

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

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

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	5	5
Clive Klugman	5	5
Alan Treisman	5	5
Mark McGeachen	5	5
David Rosen	5	5

Auditor's Independence Declaration

A copy of the Auditor's Independence Declaration, as required under Section 307C of the *Corporations Act 2001*, is set out on page 9.

Signed in accordance with a resolution of the Directors.

Shaun Rosen
Executive Chairman
Sydney, NSW
11 September, 2017

Auditors Independence Declaration

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Level 11, 1 Margaret St
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DECLARATION OF INDEPENDENCE BY ARTHUR MILNER TO THE DIRECTORS OF 3Q HOLDINGS LIMITED

As lead auditor of 3Q Holdings Limited for the year ended 30 June 2017, I declare that, to the best of my knowledge and belief, there have been:

1. No contraventions of the auditor independence requirements of the *Corporations Act 2001* in relation to the audit; and
2. No contraventions of any applicable code of professional conduct in relation to the audit.

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

Arthur Milner
Partner

BDO East Coast Partnership

Sydney, 11 September 2017

Consolidated Statement of Profit or Loss and Other Comprehensive Income

For the year ended 30 June 2017

	Note	Consolidated Group 2017 $	2016 $
Revenue	3(a)	33,623,761	41,901,140
Cost of sales		(4,080,789)	(6,697,584)
Gross profit		29,542,972	35,203,556
Other income	3(b)	109,301	121,165
Operating expenses	3(c)	(5,449,005)	(5,820,381)
Employee benefit expenses		(19,054,171)	(21,685,652)
Earnings before tax, finance costs, depreciation, amortisation, foreign exchange gains/(losses) and share based payments		**5,149,097**	**7,818,688**
Depreciation		(292,715)	(367,754)
Amortisation		(4,550,217)	(4,478,773)
Finance costs	3(d)	(520,720)	(553,465)
Foreign exchange (losses)/gains		(25,002)	291,806
Share based payments/expenses		-	(270,533)
(Loss)/Profit before income tax		**(239,557)**	**2,439,969**
Income tax benefit/(expense)	4	112,262	(374,721)
(Loss)/Profit for the year		**(127,295)**	**2,065,248**
Other comprehensive income:			
Items that may be reclassified subsequently to profit or loss			
Exchange difference on translating foreign operations, net of tax		(691,259)	(60,794)
Other comprehensive income for the year, net of tax		**(691,259)**	**(60,794)**
Total comprehensive income for the year		**(818,554)**	**2,004,454**
(Loss)/Profit attributable to:			
Owners of the parent		(127,295)	2,065,248
Total comprehensive income attributable to:			
Owners of the parent		(818,554)	2,004,454
(Loss)/earnings per share for (loss)/profit attributable to the owners:			
Basic and diluted (loss)/earnings per share (cents per share)	5	(0.09)	1.40

The accompanying notes form part of these Consolidated Financial Statements.

Consolidated Statement of Financial Position

As at 30 June 2017

	Note	Consolidated Group 2017 $	2016 $
ASSETS			
Current Assets			
Cash and cash equivalents	7	1,383,099	1,583,840
Trade and other receivables	8	5,586,523	8,751,420
Other assets	9	1,454,015	1,696,806
Inventories	10	134,597	238,212
Current tax assets	18	-	146,295
Total Current Assets		**8,558,234**	**12,416,573**
Non-current Assets			
Property, plant and equipment	11	387,083	610,658
Trade and other receivables	8	-	10,482
Intangible assets	12	37,276,819	37,297,097
Deferred tax assets	18	7,153,244	6,364,582
Total Non-current Assets		**44,817,146**	**44,282,819**
TOTAL ASSETS		**53,375,380**	**56,699,392**
LIABILITIES			
Current Liabilities			
Trade and other payables	15	8,198,069	9,147,229
Financial liabilities	16	2,318,111	2,439,759
Employee benefits	17	1,587,572	1,807,804
Current tax liabilities	18	662,836	93,799
Total Current Liabilities		**12,766,588**	**13,488,591**
Non-current Liabilities			
Financial liabilities	16	6,981,781	8,250,590
Employee benefits	17	3,189	29,860
Deferred tax liabilities	18	8,927,486	8,690,494
Total Non-current Liabilities		**15,912,456**	**16,970,944**
TOTAL LIABILITIES		**28,679,044**	**30,459,535**
NET ASSETS		**24,696,336**	**26,239,857**
EQUITY			
Issued capital	19	6,712,050	6,712,050
Reserves	20	1,685,847	2,377,106
Retained Earnings		16,298,439	17,150,701
TOTAL EQUITY		**24,696,336**	**26,239,857**

The accompanying notes form part of these Consolidated Financial Statements.

Consolidated Statement of Changes in Equity

For the year ended 30 June 2017

	Note	Issued Capital $	Reserves $	Retained Earnings $	Total $
Balance at 1 July 2015		6,672,263	2,437,900	16,415,667	25,525,830
Profit for the year		-	-	2,065,248	2,065,248
Other comprehensive income for the year, net of tax		-	(60,794)	-	(60,794)
Total comprehensive income for the year		-	(60,794)	2,065,248	2,004,454
Transactions with owners in their capacity as owners:					
Dividend paid	6	-	-	(1,330,214)	(1,330,214)
Share-based payments		39,787	-	-	39,787
Balance at 30 June 2016		**6,712,050**	**2,377,106**	**17,150,701**	**26,239,857**
Balance at 1 July 2016		6,712,050	2,377,106	17,150,701	26,239,857
Loss for the year		-	-	(127,295)	(127,295)
Other comprehensive income for the year, net of tax		-	(691,259)	-	(691,259)
Total comprehensive income for the year		-	(691,259)	(127,295)	(818,554)
Transactions with owners in their capacity as owners:					
Dividend paid	6	-	-	(724,967)	(724,967)
Share-based payments		-	-	-	-
Balance at 30 June 2017		**6,712,050**	**1,685,847**	**16,298,439**	**24,696,336**

The accompanying notes form part of these Consolidated Financial Statements.

Consolidated Statement of Cash Flows

For the year ended 30 June 2017

	Notes	Consolidated Group	
		2017	2016
		$	$
Cash flows from operating activities			
Receipts from customers		39,696,389	46,256,342
Payments to suppliers and employees		(32,198,690)	(38,472,560)
Interest received		390	1,758
Interest paid		(661,930)	(725,574)
Income taxes paid		243,034	(43,239)
Other income		254,138	166,199
Net cash inflows from operating activities	7	**7,333,331**	**7,182,926**
Cash flows from investing activities			
Payment for purchase of business		-	(237,160)
Purchase of property, plant and equipment		(99,299)	(245,878)
Purchase of other non-current assets		(1,224)	-
Loans from/(to) other entities		(67,927)	(493,263)
Payment of development costs		(5,557,503)	(5,192,447)
Net cash outflows from investing activities		**(5,725,953)**	**(6,168,748)**
Cash flows from financing activities			
Proceeds from borrowings		(103,063)	1,136,205
Repayment of borrowings		(1,000,000)	(2,185,550)
Payment of dividend		(724,967)	(1,330,214)
Net cash outflows from financing activities		**(1,828,030)**	**(2,379,559)**
Net decrease in cash and cash equivalents		(220,652)	(1,365,381)
Cash and cash equivalents at beginning of period	7	1,583,840	2,754,064
Exchange rate/translation adjustments		19,911	195,157
Cash and cash equivalents at end of period	7	**1,383,099**	**1,583,840**

The accompanying notes form part of these Consolidated Financial Statements.

Notes to the Financial Statements

For the year ended 30 June 2017

1 Authorisation of Financial Report

The financial report of 3Q Holdings Limited and its controlled entities (“the consolidated entity and/or the Group”) for the year ended 30 June 2017 was authorised for issue in accordance with a resolution of the Directors on 11 September 2017.

2 Statement of Significant Accounting Policies

The principal accounting policies adopted in the preparation of the financial report are set out below. These policies have been consistently applied to all years presented, unless otherwise stated.

Basis of preparation

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

The financial report covers the consolidated group of 3Q Holdings Limited and its controlled entities. 3Q Holdings Limited is an unlisted public company, incorporated and domiciled in Australia.

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

Comparative amounts

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

Going Concern

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

A major component of the current liabilities is prepaid maintenance, deferred revenue, staff leave entitlements and derivative financial liability (fair value of interest rate swap at reporting date) of $6,059,505 (2016: $6,562,678) which is not expected to be paid in cash.

(i) Parent entity information

These financial statements present the results of the consolidated entity only. Supplementary information about the parent entity is disclosed in Note 29.

(ii) Basis of consolidation

The consolidated financial statements comprise the financial statements of 3Q Holdings Limited and its subsidiaries as at 30 June of each year (“the Group”).

The financial statements of the subsidiaries are prepared for the same reporting period as the parent company, using consistent accounting policies except where stated.

Adjustments are made to bring into line any dissimilar accounting policies that may exist.

All inter-company balances and transactions, including unrealised profits arising from intra-group transactions, have been eliminated in full.

Subsidiaries are consolidated from the date on which control is transferred to the Group and cease to be consolidated from the date on which control is transferred out of the Group. Investments in subsidiaries are measured at cost.

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

Reverse acquisition accounting

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

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

If the legal subsidiary (Island Pacific Australia Pty Limited) is identified as the acquirer, then the accounting for the business combination is as if the legal subsidiary acquired the legal parent. In comparison, under Australian Accounting Standards, 3Q Holdings Limited would be the acquirer and would fair value all of Island Pacific Australia Pty Limited's net assets including identifiable intangible assets and goodwill.

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

(iii) Foreign currency translation

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

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

All differences on settlement of such transactions in the consolidated financial report are taken to the Statement of Profit or Loss and other Comprehensive Income.

The functional currency of the foreign operation, Island Pacific Inc., is United States dollars (US$).

The functional currency of the foreign operation, AdvanceRetail Technology Limited, is New Zealand dollars (NZ$).

The functional currency of the foreign operation, Island Pacific (UK) Limited, is Great British Pounds (GBP).

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

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

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

The functional currency of the foreign operation, Island Pacific Systems (Ireland) Limited is Euros (EUR).

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

The exchange differences arising on the translation of the assets and liabilities of these subsidiaries are taken directly to a separate component of equity the foreign currency translation reserve.

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

(iv) Property, plant and equipment

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

The carrying amount of plant and equipment is reviewed annually by Directors to ensure it is not in excess of the recoverable amount from these assets. The recoverable amount is assessed on the basis of the expected net cash flows that will be received from the asset's employment and subsequent disposal. The expected net cash flows have been discounted to their present values in determining recoverable amounts.

(v) Depreciation

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

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

The assets residual values and useful lives are reviewed and adjusted if appropriate at each reporting date. An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount.

(vi) Impairment of assets

At each reporting date, the Group reviews the carrying values of its tangible and intangible assets to determine whether there is any indication that those assets have been impaired. If such an indication exists, their recoverable amount of the asset, being the higher of the asset's fair value less costs to sell and value in use, is compared to the asset's carrying value. The value-in-use is the present value of the estimated future cash flows relating to the asset using a post-tax discount rate specific to the asset or cash-generating unit to which the asset belongs. Assets that do not have independent cash flows are grouped together to form a cash-generating unit.

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

Impairment testing is performed annually for goodwill and intangible assets with indefinite lives.

Where it is not possible to estimate the recoverable amount of an individual asset, the Group estimates the recoverable amount of the cash-generating unit to which the asset belongs.

(vii) Borrowing costs

Borrowing costs are recognised as an expense when incurred.

(viii) Intangibles

Goodwill

Goodwill and goodwill on consolidation are initially recorded at the amount by which the purchase price for a business combination exceeds the fair value attributed to the interest in the net fair value of identifiable assets, liabilities and contingent liabilities at date of acquisition. Goodwill on acquisitions of subsidiaries is included in intangible assets. Goodwill on acquisition of associates is included in investments in associates. Goodwill is tested annually for impairment and carried at cost less accumulated impairment losses. Gains and losses on the disposal of an entity include the carrying amount of goodwill relating to the entity sold.

Goodwill is allocated to cash generating units for the purpose of impairment testing.

Intellectual property

Costs incurred in developing products or systems and costs incurred in acquiring software and licences that will contribute to future period financial benefits through revenue generation and or cost reduction are capitalised to intellectual property. Amortisation is calculated using the straight line method to allocate the cost of intellectual property over their estimated useful lives which vary between 5 and 15 years.

Trademarks and licences

Trademarks and licences have a finite useful life and are carried at cost less accumulated amortisation and impairment losses. Amortisation is calculated using the straight-line method to allocate the cost of trademarks and licences over their estimated useful lives, which vary from 3 to 5 years.

Customer relationships

Customer relationships acquired separately as part of a business combination are recognised separately from goodwill. Customer relationships are carried at the items fair value at the date of acquisition less accumulated amortisation and impairment losses. Amortisation is calculated based on the timing of projected cash flows from the customer relationships over their estimated useful lives, which are currently 10 years.

Research and development

Research expenditure is recognised as an expense as incurred. Costs incurred on development projects (relating to the design and testing of new or improved products) are recognised as intangible assets when it is probable that the project will, after considering its commercial and technical feasibility, be completed and generate future economic benefits and its costs can be measured reliably. The expenditure capitalised comprises all directly attributable costs, including costs of materials, services, direct labour and an appropriate proportion of overheads. Other development expenditures that do not meet these criteria are recognised as an expense as incurred. Development costs previously recognised as an expense are not recognised as an asset in a subsequent period. Capitalised development costs are recorded as intangible assets and amortised from the point at which the asset is ready for use. The method of amortisation is based on the expected pattern of consumption of the expected future economic benefits embodied in the capitalised asset. Where this cannot be estimated reliably, the capitalised asset is amortised on a straight-line basis over the expected useful life, which varies from 5 to 15 years.

(ix) Financial instruments

Recognition

Financial instruments are initially measured at fair value plus transaction costs, unless the financial instrument is classified at fair value through the profit or loss in which case these costs are expensed to the Statement of Profit or loss and other Comprehensive Income immediately. Subsequent to initial recognition these instruments are measured as set out below.

Financial assets at fair value through profit or loss

A financial asset is classified in this category if acquired principally for the purpose of selling in the short term. Derivatives are also categorised as held for trading unless they are designated as hedges. Realised and unrealised gains and losses arising from changes in the fair value of these assets are included in the Statement of Profit or Loss and Other Comprehensive Income in the period in which they arise.

Loans and receivables

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

Effective interest method

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

Held-to-maturity investments

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

Available-for-sale financial assets

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

Financial liabilities

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

(x) Inventories

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

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

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

(xi) Cash and cash equivalents

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

(xii) Borrowings

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

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

(xiii) Provisions

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

Provisions are measured at the present value of management’s best estimate of the expenditure required to settle the present obligation at reporting date, taking into consideration the risks and uncertainty surrounding the obligation.

(xiv) Leases

Finance leases, which transfer to the Group substantially all the risks and benefits incidental to ownership of the leased item, are capitalised at the inception of the lease at the fair value of the leased property or, if lower, at the present value of the minimum lease payments.

Lease payments are apportioned between the finance charges and reduction of the lease liability so as to achieve a constant rate of interest on the remaining balance of the liability. Capitalised leased assets are depreciated over the lease term.

Leases where the lessor retains substantially all the risks and benefits of ownership of the asset are classified as operating leases. Operating lease payments are recognised as an expense in the Statement of Profit or Loss and Other Comprehensive Income on a straight-line basis over the lease term.

(xv) Revenue

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

Sale of goods

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

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

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

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

Rendering of services

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

Interest

Revenue is recognised as the interest accrues.

Dividends

Revenue is recognised when the shareholders' right to receive the payment is established.

(xvi) Income tax

Deferred income tax is provided on all temporary differences at the reporting date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

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

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

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

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

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

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

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

3Q Holdings Limited (the "head entity") and its wholly owned Australian subsidiaries have formed an income tax consolidated group under the tax consolidation legislation. Each entity in the group recognises its own current and deferred tax assets and liabilities. Such taxes are measured using the stand-alone tax payer approach to allocation. Current tax liabilities (assets) and deferred tax assets arising from unused tax losses and tax credits in the subsidiaries are immediately transferred to the head entity.

(xvii) Goods and Services Tax (GST)

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

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

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

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

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

(xviii) Share based payments

The Group provides benefits to employees (including Directors) of the Group in the form of share-based payment transactions, whereby employees render services in exchange for shares or rights over shares (‘equity-settled transactions’).

The cost of these equity-settled transactions with employees is measured by reference to the fair value at the date at which they are granted. The fair value is determined using a binomial model.

The cumulative expense recognised for equity-settled transactions at each reporting date until vesting date reflects:

(i) the extent to which the vesting period has expired, and
(ii) the number of awards that, in the opinion of the Directors of the Group, will ultimately vest.

This opinion is formed based on the best available information at reporting date. No adjustment is made for the likelihood of market performance conditions being met as the effect of these conditions is included in the determination of fair value at grant date. No expense is recognised for awards that do not ultimately vest.

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

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

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

(xix) Trade and other payables

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

(xx) Employee leave benefits

Wages, salaries and annual leave

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

Long service leave

The liability for long service leave is recognised in the provision for employee benefits and measured as the present value of expected future payments to be made in respect of services provided by employees up to the reporting date. Consideration is given to expected future wage and salary levels, experience of employee departures, and periods of service.

Expected future payments are discounted using market yields at the reporting date on national government bonds with terms to maturity and currencies that match, as closely as possible, the estimated future cash outflows.

Defined contribution superannuation expense

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

(xxi) Contributed equity

Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of new shares or options are shown in equity as a deduction, net of tax, from the proceeds.

(xxii) Earnings per share

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

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

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

(xxiii) Critical accounting estimates and judgments

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

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

Key estimates – Impairment of goodwill

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

With respect to cash flow projections for the Group, growth rates of 5% have been factored into valuation models for the next five years on the basis of management's expectations around the Group's continued ability to capture market share from competitors. Cash flow growth rates of 5% subsequent to this period have been used. The rates used incorporate allowance for inflation. Post tax discount rates of 10.2% (Pre-tax rates of 12.79%) have been used in all models.

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

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

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

Income tax

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

Recovery of deferred tax assets

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

Share-based payment transactions

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

Business Combinations

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

Provision for impairment of receivables

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

Non-derivative financial liabilities

Fair value is calculated based on the present value of future principal and interest cash flows, discounted at the market rate of interest at the reporting date. In respect of the liability component of convertible notes, the market rate of interest is determined by reference to similar liabilities that do not have a conversion option.

(xxiv) Business combinations

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

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

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

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

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

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

(xxv) Accounting Standards and interpretations

New, revised or amending Accounting Standards and Interpretations adopted

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

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

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

New Accounting Standards and Interpretations not yet mandatory or early adopted

The following Australian Accounting Standards and Interpretations have recently been issued or amended but are not yet mandatory, have not been early adopted by the consolidated entity for the annual reporting period ended 30 June 2017. This list is not complete, however, it represents the key standards applicable to the consolidated entity.

AASB 9 Financial Instruments, 2009-11 Amendments to Australian Accounting Standards arising from AASB 9, 2010-7 Amendments to Australian Accounting Standards arising from AASB 9 and 2012-6 Amendments to Australian Accounting Standards arising from AASB 9

This standard and its consequential amendments are applicable to annual reporting periods beginning on or after 1 January 2018 and completes phase I of the IASB's project to replace IAS 39 (being the international equivalent to AASB 139 'Financial Instruments: Recognition and Measurement'). This standard introduces new classification and measurement models for financial assets, using a single approach to determine whether a financial asset is measured at amortised cost or fair value. The accounting for financial liabilities continues to be classified and measured in accordance with AASB 139, with one exception, being that the portion of a change of fair value relating to the entity's own credit risk is to be presented in other comprehensive income unless it would create an accounting mismatch. The potential effect of the initial application of the expected Standard has been considered by Management, and from their preliminary assessment they do not believe it will have a material impact on the financial statements

AASB 15 Revenue from Contracts with Customers

This standard is applicable to annual reporting periods beginning on or after 1 January 2018. The standard provides a single standard for revenue recognition. The core principle of the standard is that an entity will recognise revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. The standard will require: contracts (either written, verbal or implied) to be identified, together with the separate performance obligations within the contract; determine the transaction price, adjusted for the time value of money excluding credit risk; allocation of the transaction price to the separate performance obligations on a basis of relative stand-alone selling price of each distinct good or service, or estimation approach if no distinct observable prices exist; and recognition of revenue when each performance obligation is satisfied. Credit risk will be presented separately as an expense rather than adjusted to revenue. For goods, the performance obligation would be satisfied when the customer obtains control of the goods. For services, the performance obligation is satisfied when the service has been provided, typically for promises to transfer services to customers. For performance obligations satisfied over time, an entity would select an appropriate measure of progress to determine how much revenue should be recognised as the performance obligation is satisfied. Contracts with customers will be presented in an entity's statement of financial position as a contract liability, a contract asset, or a receivable, depending on the relationship between the entity's performance and the customer's payment. Sufficient quantitative and qualitative disclosure is required to enable users to understand the contracts with customers; the significant judgments made in applying the guidance to those contracts; and any assets recognised from the costs to obtain or fulfil a contract with a customer. Management has commenced assessing the impact of AASB 15 on its financial statements and have identified some potential areas that will require further assessment to determine the impact of implementing the new standard. Management will continue to evaluate the overall impact of AASB 15 on the financial statements in the forthcoming period.

AASB 16 Leases

This standard is applicable to annual reporting periods beginning on or after 1 January 2019. When effective, this Standard will replace the current accounting requirements applicable to leases in AASB 117: Leases and related Interpretations. AASB 16 introduces a single lessee accounting model that eliminates the requirement for leases to be classified as operating or finance leases. The main changes introduced by the new Standard include:

- recognition of a right–to–use asset and liability for all leases (excluding short–term leases with less than 12 months of tenure and leases relating to low–value assets);
- depreciation of right–to–use assets in line with AASB 116: Property, Plant and Equipment in profit or loss and unwinding of the liability in principal and interest components;
- variable lease payments that depend on an index or a rate are included in the initial measurement of the lease liability using the index or rate at the commencement date;
- by applying a practical expedient, a lessee is permitted to elect not to separate non–lease components and instead account for all components as a lease; and additional disclosure requirements.
- Inclusion of additional disclosure requirements.

Management anticipate the Group’s operating lease contracts currently in effect will be impacted by the introduction of AASB 16, and are currently in the process of determining the potential effects of the implementation of AASB 16 on the financial statements.

3 Revenue and Expenses

	Consolidated Group 2017 $	2016 $
(a) Revenue		
Sales of goods/hardware	1,587,534	1,985,414
Rendering of services	12,768,574	18,332,542
Maintenance fees	14,512,748	15,874,731
Licence fees	4,152,504	5,199,172
Other revenue	602,401	509,281
	33,623,761	**41,901,140**
(b) Other income		
Interest income	30,583	26,997
Other income	78,718	94,168
	109,301	**121,165**
(c) Operating expenses		
Accounting and audit fees	549,109	525,037
Bad and doubtful debts	216,386	56,926
Legal fees	284,343	226,974
Rental expense and operating lease	1,117,115	1,074,716
Other expenses	3,282,052	3,936,728
	5,449,005	**5,820,381**
(d) Finance Costs		
Interest paid on bank loans	539,305	548,595
(Gain)/loss on SWAP	(18,585)	4,870
	520,720	**553,465**

4 Income Tax

	Consolidated Group	
	2017	2016
	$	$
(a) Income Tax Expense/(Benefit) Comprise:		
Current tax	559,653	335,098
Deferred tax	927,543	451,751
(Recoupment)/recognition of prior and current year tax losses	(1,599,458)	(412,128)
	(112,262)	**374,721**
(b) Reconciliation		
The prima facie tax on profit from ordinary activities before income tax is reconciled to the income tax as follows:		
Prima facie tax payable on profit from ordinary activities before income tax at 30% (2016: 30%)	**(71,867)**	**731,991**
Add:		
Tax effect of:		
non-deductible depreciation and amortisation	99,076	135,607
other non-allowable items	131,342	42,440
adjustment for differences in tax rates	(115,817)	(57,286)
shares and options expensed during year	-	81,160
foreign subsidiary income subject to additional tax in US	112,105	92,190
under/(over) provision for income tax in prior year	23,332	(114,230)
other tax adjustments	(151,533)	(84,416)
	26,638	**827,456**
Less:		
Tax effect of:		
deduction for current year US state taxes	69,676	89
research and development additional allowance	136,683	(350,179)
(recoupment)/reversal of tax losses not previously recognised	(345,259)	(102,645)
Income tax attributable to entity	**(112,262)**	**374,721**
The applicable weighted average effective tax rates are as follows:	-47%	14%

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

Tax consolidation

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

3Q Holdings Limited as the head entity of the tax consolidated group and subsidiary members entered a tax sharing and funding agreement in order to allocate income tax expense to the wholly owned subsidiaries on a pro-rata basis. The agreement provides for the allocation of income tax liabilities between the entities should the head entity default on its tax payment obligations. At the reporting date, the possibility of default is remote.

5 Earnings per Share

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

	Consolidated Group	
	2017	2016
Net (loss)/profit attributed to ordinary equity holders of the parent	(127,295)	2,065,248
Weighted average number of ordinary shares for basic earnings per share	147,801,603	147,801,603
Weighted average number of ordinary shares adjusted for the effect of dilution	147,801,603	147,801,603

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 which could impact upon basic or diluted earnings per share.

6 Dividends Paid and Proposed

Dividends
Dividends declared and paid during the financial year were as follows:

	Consolidated Group	
	2017 $	2016 $
Final	-	1,330,214
Interim	724,967	-
	724,967	**1,330,214**

On 13 December 2016 the directors declared a special dividend for the year, with a record date of 13 December 2016 of 0.4905c per share to be paid on 30 December 2016, a total distribution of $724,967 based on the number of ordinary shares in issue as at 31 December 2016. During the 30 June 2016 financial year, the directors declared and paid a dividend of 0.9 cents per ordinary share.

As the dividend was fully franked, there are no income tax consequences for the owners of 3Q Holdings Limited relating to this dividend.

There are no dividends payable or receivable at reporting date.

	Consolidated Group	
	2017 $	2016 $
Franking Credit Balance		
The amount of franking credits available for the subsequent financial year are:		
- Franking account balance as at end of the financial year at 30% (2016 - 30%)	1,029,618	1,479,257
- Franking credits/(debits) that will arise from the payment/(receipt) of income tax payable/(receivable) as at the end of the financial year	178,979	(137,943)
The amount of franking credits available for future reporting periods	1,208,597	1,341,314

7 Cash and Cash Equivalents

(a) Cash Balance

	Consolidated Group 2017 $	Consolidated Group 2016 $
Cash at bank	1,383,099	1,583,840
	1,383,099	**1,583,840**

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

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

	Consolidated Group 2017 $	Consolidated Group 2016 $
Cash and cash equivalents	1,383,099	1,583,840
Cash per Statement of Cash Flows	**1,383,099**	**1,583,840**

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

	Consolidated Group 2017 $	Consolidated Group 2016 $
(Loss)/Profit after income tax	(127,295)	2,065,248
Non-cash flows in profit:		
Depreciation expenses	292,715	367,754
Amortisation expenses	4,550,217	4,478,773
Net profit on disposal of property, plant and equipment	3,975	-
Share option expenses	-	270,533
Net foreign exchange difference	177,510	31,818
Changes in assets and liabilities (net of settlement)		
(Increase)/decrease in inventories	101,448	(8,048)
(Increase)/decrease in trade and other receivables	2,966,375	456,154
(Increase)/decrease in prepayments	335,693	(34,054)
(Increase)/decrease in deferred tax assets	(237,414)	(170,034)
(Increase)/decrease in current tax assets	192,170	294,341
Increase/(decrease) in current/deferred tax liabilities	277,882	(78,272)
Increase/(decrease) in trade and other payables	(850,560)	(929,381)
Increase/(decrease) in provisions	(222,786)	129,825
Increase/(decrease) in maintenance in advance	(126,599)	308,269
Net Cash from Operating Activities	**7,333,331**	**7,182,926**

8 Trade and other receivables

	Consolidated Group 2017 $	2016 $
Current		
Trade receivables	5,586,920	8,245,323
Less: Provision for impairment (a)	(270,079)	(275,303)
	5,316,841	**7,970,020**
Unbilled receivables	259,201	769,400
Receivable from related party	10,481	12,000
	5,586,523	**8,751,420**
Non-Current		
Trade receivables	-	-
Receivable from related party	-	10,482
	-	**10,482**

(a) Allowance for impairment loss

Trade receivables are non-interest bearing and are generally on 7-30 day terms. An allowance for impairment loss is recognised when there is objective evidence that an individual trade receivable is impaired.

The ageing analysis of trade receivables is as follows:

	Consolidated Group 2017 $	2016 $
0-30 days	4,051,129	6,235,706
0-30 days/CI*	1,041	2,772
31-60 days/PDNI*	529,364	700,289
31-60 days/CI*	-	3,535
61-90 days/PDNI*	178,454	304,961
61-90 days/CI*	1,955	6,279
+ 91 days/PDNI*	568,374	751,545
+ 91 days/CI*	267,081	262,717
	5,597,398	**8,267,804**

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

Receivables past due but not considered impaired are: Consolidated $1,276,192 (2016: $1,756,795). Payment terms on these amounts have in some cases been re-negotiated, however in certain circumstances credit has been stopped until payment is made. The carrying value of these re-negotiated amounts are $40,179 at 30 June 2017 (2016: $30,364). Each operating unit has been in direct contact with the relevant debtor and is satisfied that payment will be received in full.

Other balances within trade and other receivables do not contain impaired assets.

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

	Consolidated Group 2017 $	2016 $
Movement in provision		
Balance of the beginning of the year	275,303	261,808
(Decrease)/increase in provision	(5,224)	13,495
Balance at the end of year	**270,079**	**275,303**

(b) Related party receivables

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

(c) Fair value and credit risk

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

(d) Foreign exchange and interest rate risk

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

(e) Non current receivables

The non-current receivables from 2016 were repaid by June 2017.
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9 Other Assets

	Consolidated Group	
	2017 $	2016 $
Prepayments	1,454,015	1,696,806
	1,454,015	**1,696,806**

10 Inventories

	Consolidated Group	
	2017 $	2016 $
Finished goods at the lower of cost and net realisable value	134,597	238,212
	134,597	**238,212**

11 Property, Plant & Equipment

	Consolidated Group	
	2017 $	2016 $
(a) Property, plant, equipment, furniture and motor vehicles		
At cost	2,121,939	2,105,016
Accumulated depreciation	(1,896,940)	(1,782,569)
	224,999	**322,447**
Movement in carrying amount		
Balance at the beginning of the year	322,447	320,644
Additions	73,866	205,336
Reclassify India’s fixed assets	1,176	-
Disposal	(8,162)	(97)
Depreciation expense	(152,875)	(207,019)
Foreign currency exchange difference	(11,453)	3,583
Balance at the end of year	**224,999**	**322,447**

	Consolidated Group 2017 $	2016 $
(b) Leasehold improvements		
At cost	376,448	479,156
Accumulated depreciation	(280,550)	(340,702)
	95,898	**138,454**
Movement in carrying amount		
Balance at the beginning of the year	138,454	156,635
Additions	-	24,647
Depreciation expense	(38,576)	(45,096)
Foreign currency exchange difference	(3,980)	2,268
Balance at the end of year	**95,898**	**138,454**
(c) Software		
At cost	457,711	451,448
Accumulated depreciation	(391,525)	(301,691)
	66,186	**149,757**
Movement in carrying amount		
Balance at the beginning of the year	149,757	252,320
Additions	22,330	2,044
Reclassify India's fixed assets	(1,176)	-
Disposal	(2,061)	-
Depreciation expense	(101,264)	(115,639)
Foreign currency exchange difference	(1,400)	11,032
Balance at the end of year	**66,186**	**149,757**
Total Property, plant and equipment		
At cost	2,956,098	3,035,620
Accumulated depreciation	(2,569,015)	(2,424,962)
	387,083	**610,658**
Movement in carrying amount		
Balance at the beginning of the year	610,658	729,599
Additions	96,196	232,027
Disposal	(10,223)	(97)
Depreciation expense	(292,715)	(367,754)
Foreign currency exchange difference	(16,833)	16,883
Balance at the end of year	**387,083**	**610,658**

12 Intangible Assets

Consolidated Group	Intellectual Property $	Customer relationship $	Tradename $	Goodwill $	Development costs $	Website Services $	Total $
2016							
At cost	7,923,522	8,515,660	898,914	15,351,379	25,376,359	89,015	58,154,849
Accumulated Amortisation	(7,041,276)	(6,739,658)	(459,617)	-	(6,576,932)	(40,269)	(20,857,752)
Net carrying value	**882,246**	**1,776,002**	**439,297**	**15,351,379**	**18,799,427**	**48,746**	**37,297,097**
2017							
At cost	7,845,330	8,199,625	873,187	15,112,257	30,087,545	84,640	62,202,584
Accumulated Amortisation	(7,224,901)	(7,315,779)	(516,198)	-	(9,818,506)	(50,381)	(24,925,765)
Net carrying value	**620,429**	**883,846**	**356,989**	**15,112,257**	**20,269,039**	**34,259**	**37,276,819**
Balance at the beginning of the year 2016	1,572,276	2,772,394	500,320	15,256,149	16,146,579	70,498	36,318,216
Capitalised cost	-	-	7,968	-	4,812,114	-	4,820,082
Amortisation	(559,081)	(907,558)	(58,636)	-	(2,938,982)	(14,516)	(4,478,773)
Foreign currency exchange difference	(130,949)	(88,834)	(10,355)	95,230	779,716	(7,236)	637,572
Balance at the end of year	**882,246**	**1,776,002**	**439,297**	**15,351,379**	**18,799,427**	**48,746**	**37,297,097**
Balance at the beginning of the year 2017	882,246	1,776,002	439,297	15,351,379	18,799,427	48,746	37,297,097
Capitalised cost	-	-	-	-	5,052,700	-	5,052,700
Amortisation	(220,088)	(831,153)	(57,506)	-	(3,429,369)	(12,101)	(4,550,217)
Foreign currency exchange difference	(41,729)	(61,003)	(24,802)	(239,122)	(153,719)	(2,386)	(522,761)
Balance at the end of year	**620,429**	**883,846**	**356,989**	**15,112,257**	**20,269,039**	**34,259**	**37,276,819**

Intangible assets, other than goodwill, have finite useful lives. Goodwill is not amortised but is subject to annual impairment testing (see Note 13). No impairment loss was recognised in the 2017 financial year.

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

13 Goodwill impairment testing and cash-generating units

Goodwill is allocated to cash-generating units as set out below. The recoverable amount of each cash-generating unit has been determined based on a value-in-use calculation. Value-in-use is calculated based on the present value of cash flow projections over a 5-year period, including a terminal value in the 6th year. The cash flows are discounted using the post-tax weighted average cost of capital at the beginning of the budget period of 10.2% (pre-tax rate of 12.79%).

Goodwill is allocated to cash-generating units as follows:

	Consolidated Group	
	2017 $	2016 $
3Q Holdings & Island Pacific Australia (excluding AdvanceRetail Division of 3Q Holdings)	3,119,666	3,119,666
Business of AdvanceRetail Technology (Subsidiary in New Zealand and division of 3Q Holdings in Australia)	5,068,889	5,078,323
Business of Island Pacific (Subsidiaries in US and UK)	6,923,702	7,153,390
	15,112,257	**15,351,379**

Key assumptions used

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

- 10.2% (2016: 10.2%) post-tax discount rate;
- Between 0%-5% (2016: 2.5%-5%) per annum projected revenue growth rate; and
- Between 0%-5% (2016: 0%-5%) per annum increase in operating costs and overheads.

The discount rate of 10.2% post-tax reflects management's estimate of the time value of money and the consolidated entity's weighted average cost of capital adjusted for the computer industry, the risk free rate and the cost of equity relative to market movements.

- Management believes the projected 0%-5% revenue growth rate is prudent and justified, based on the current market and new product sales resulting from the group's investment in research and development.

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

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

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

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

- Island Pacific US/UK/India Segment
  Revenue growth would need to decrease by more than 22% than currently budgeted for before goodwill and other intangible assets would need to be impaired, with all other assumptions remaining constant.

- AdvanceRetail/Island Pacific Australia Segment
  Revenue growth would need to decrease by more than 1% than currently budgeted for before goodwill and other intangible assets would need to be impaired, with all other assumptions remaining constant.

- Intelligent Retail Segment
  Revenue growth would need to decrease by more than 5% than currently budgeted for before goodwill and other intangible assets would need to be impaired, with all other assumptions remaining constant.

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

14 Share-based payments

There were no options under the Employee Share Option Plan issued during the year (2016: Nil).

No options expired during the year (2016: Nil).

No shares under the Employee Share Ownership Plan were issued during the year to staff and Senior Managers (2016: Nil).

(a) Employee Share Ownership Plan

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

Under the terms of the Employee Share Ownership Plan, the company has granted each of the participating executives and employees a limited recourse loan equal to the purchase value of the shares which is repayable within 10 years. The financial assistance becomes immediately repayable in the event of dismissal, resignation, death or retirement of the executive or employee so long as the shares have been acquired. The financial assistance is secured over the shares and the rights attached to the shares.

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

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

	Tranche 1	Tranche 2	Tranche 3	Tranche 4
Number of Shares issued	7,250,000	4,500,000	750,000	1,200,000
Exercise Price	$0.13	$0.10	$0.07	$0.05
Time to Maturity from issue date	10 years	10 years	10 years	10 years
Underlying Share Price	$0.13	$0.10	$0.07	$0.05
Expected Share Price Volatility	36.84%	36.84%	36.84%	36.84%
Risk-free Interest Rate	5.11%	5.11%	5.11%	5.11%
Dividend Yield	5.00%	5.00%	5.00%	5.00%

15 Trade and Other Payables

	Consolidated Group	
	2017 $	2016 $
Current		
Trade payables	3,084,920	3,546,889
Deferred revenue	4,453,030	4,720,576
Other payables	437,050	535,785
Payable to related party	223,069	343,979
	8,198,069	**9,147,229**

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

(a) Fair value

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

(b) Related party payable

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

16 Financial Liabilities

	Consolidated Group	
	2017 $	2016 $
Current		
Secured:		
Bank loans	2,302,396	2,405,460
Derivative financial liability	15,715	34,299
	2,318,111	**2,439,759**
Non-current		
Secured:		
Bank loans	6,981,781	8,250,590
	6,981,781	**8,250,590**
Total financial liabilities	**9,299,892**	**10,690,349**

Financial guarantees

The Group has guaranteed the Commonwealth Bank of Australia facility, which commits the individual companies within the Group to make payments on behalf of the other entities in the Group upon the failure by any such entity to perform under the terms of the relevant facility agreement.

Bank loan

The bank loan facilities include the following key terms and balances:

- The facilities are secured by a first charge over the assets of the Group, held by the Commonwealth Bank of Australia.
- The interest on the loan is charged at a fixed and variable rate of interest.
- On 22 June 2017 the company refinanced it bank loan with Commonwealth Bank of Australia. The facility includes a three year amortising facility of $8,800,000, a three year bullet non-revolving cash advance facility of $2,000,000, and a three year revolving working capital facility of $3,000,000. All three facilities are denominated in AUD, USD, Sterling and any other Optional Currency. The aggregate of all outstanding amounts under the facilities may at any relevant date exceed the facility limits by 1.075 times.
- A margin of between 2.5% and 3.5% (depending on the Net Leverage Ratio) will be payable on the daily balance outstanding and will be payable in arrears at the end of each quarterly interest period.
- A line fee of 1% on the facility limit of the three year bullet non-revolving cash advance facility of $2,000,000 and 0.8% on the facility limit of the revolving working capital facility is payable quarterly.
- The three year amortising facility is made up of an AUD$ loan with a balance of $2,000,000 at 30 June 2017, a US$ loan with a balance of US$2,777,366 (AUD$3,618,224) at 30 June 2017 , and a GBP loan with a balance of GBP1,582,685(AUD$2,679,285) at 30 June 2017. These facilities are amortising and bear interest at a variable rate with a margin of between 2.5% and 3.5%, and interest fixed at a rate of 2.83 % for the AUD$ loan until April 2018 and then capped at 3% until 2020, plus a margin of between 2.5% and 3.5%. As at 30 June 2017, AUD$2,000,000 of the AUD$ loan was fixed, the fixed portion reducing by $500,000 at June 2018 and a further $500,000 at June 2019.

  For the US$ and the GBP loans, the interest rates are capped at 1.64% for US$ loan and 1.44% for the GBP loan until April 2018, and then interest on the US$ loan will be fixed at a rate of 2.21% until July 2020, and the GBP loan will be capped at 1.44% until July 2020. As at 30 June 2017, US$1,600,000 and 1,000,000 GBP were subject to capped rates.
- At 30 June 2017, the balance outstanding on the three year revolving working capital facility, shown as an overdraft, was $802,397.
- At 30 June 2017, the balance outstanding on the three year bullet non-revolving cash advance facility was GBP 108,852(AUD$184,273).

The three year bullet non-revolving cash advance facility was primarily for the purpose of funding the earn-out of the acquisition of Intelligent Retail, as well as the funding of any other acquisitions.

Financing facilities available

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

	Consolidated Group	
	2017 $	2016 $
Total facilities - bank loan	13,800,000	14,700,000
Facilities used at reporting date - bank loans	9,284,178	10,656,050
Facilities unused at reporting date - bank loans	4,515,822	2,900,750

Details of the financing facilities are set out above. The bank facilities were available to both the parent and its subsidiaries jointly and severally.

(a) Fair values

The carrying amount of the Group's current and non-current borrowings approximate their fair value.

(b) Assets pledged as security

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

	Note	Consolidated Group	
		2017 $	2016 $
Current			
Cash and cash equivalents	7	1,383,099	1,583,840
Trade and other receivables	8	5,586,523	8,751,420
Other assets	9	1,454,015	1,696,806
Inventories	10	134,597	238,212
Tax asset	18	-	146,295
		8,558,234	**12,416,573**
Non-current			
Deferred tax assets	18	7,153,244	6,364,582
Trade and other receivables	8	-	10,482
Property, plant and equipment	11	387,083	610,658
Intangible assets	12	37,276,819	37,297,097
		44,817,146	**44,282,819**
Total assets pledged as security		**53,375,380**	**56,699,392**

The Commonwealth Bank of Australia has a fixed and floating charge over all the assets of the Group.

(c) Defaults and breaches

At the reporting date there were no breaches or defaults with the Commonwealth Bank of Australia.

17 Employee Benefits

	Consolidated Group 2017 $	2016 $
Current - Provision for annual leave and long service leave	1,587,572	1,807,804
Non-current - Provision of long service leave	3,189	29,860
	1,590,761	**1,837,664**

	Consolidated Group 2017 $	2016 $
Movement in provision		
Balance at the beginning of the year	1,837,664	1,692,444
Amounts provided	1,521,638	1,540,100
Leave taken	(1,663,919)	(1,376,419)
Translation differences	(104,619)	(18,461)
Balance at the end of year	**1,590,764**	**1,837,664**

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

Amounts not expected to be settled within the next 12 months

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

	Consolidated Group 2017 $	2016 $
Leave obligations expected to be settled after 12 months	392,867	750,842
	392,867	**750,842**

18 Tax

NON-CURRENT	Opening Balance $	Charged to Income $	Charged Directly to Equity $	Changes in Tax Rate $	Exchange Differences $	Closing Balance $
Deferred Tax Liability						
Property Plant and Equipment tax allowance	1,880,738	24,135	-	-	62,102	1,966,975
Capitalised development costs	5,923,289	640,036	-	-	160,194	6,723,519
Balance at June 2016	**7,804,027**	**664,171**	**-**	**-**	**222,296**	**8,690,494**
Property Plant and Equipment tax allowance	1,966,975	(36,142)	-	-	(60,389)	1,870,444
Capitalised development costs	6,723,519	507,057	-	-	(173,534)	7,057,042
Balance at June 2017	**8,690,494**	**470,915**	**-**	**-**	**(233,923)**	**8,927,486**

NON-CURRENT	Opening Balance	Charged to Income	Charged Directly to Equity	Changes in Tax Rate	Exchange Differences	Closing Balance
	$	$	$	$	$	$
Deferred Tax Assets						
Provisions	809,718	(135,154)	-	-	22,569	697,133
Transaction costs on equity issue and convertible notes	14,145	(2,323)	-	-	-	11,822
Unrealised foreign exchange loss/ (gain)	133,008	51,034	-	-	(14,213)	169,829
Property, Plant and Equipment, Intangibles tax allowance	2,290,928	162,758	-	-	18,429	2,472,115
Recognition/recoupment of tax losses	2,144,969	544,655	-	-	(26,212)	2,663,412
Other	289,348	50,874	-	-	10,049	350,271
Balance at 30 June 2016	**5,682,116**	**671,844**	**-**	**-**	**10,622**	**6,364,582**
Provisions	697,133	8,480	-	-	(5,950)	699,663
Transaction costs on equity issue and convertible notes	11,822	24,163	-	-	-	35,985
Unrealised foreign exchange loss/ (gain)	169,829	(155,597)	-	-	6,178	20,410
Property, Plant and Equipment, Intangibles tax allowance	2,472,115	(566,309)	-	596	(21,358)	1,885,044
Recognition/recoupment of tax losses	2,663,412	1,747,642	-	(57,261)	(94,277)	4,259,516
Other	350,271	(89,941)	-	-	(7,704)	252,626
Balance at 30 June 2017	**6,364,582**	**968,438**	**-**	**(56,665)**	**(123,111)**	**7,153,244**

Deferred tax assets from tax losses which have not been brought into account, the benefits of which will only be realised if the conditions for deductibility as set out in Note 2(xvi) are met, amount to $11,358,494 (tax effected $3,407,548) (2016: $11,441,210, tax effected $3,432,363) .

3Q Holdings Limited had income tax losses of $13,799,261 at 30 June 2017 ($13,881,977 as at 30 June 2016), of which $2,440,767 of these losses have been recognised as a deferred tax asset in accordance with Note 2 (xvi).

Island Pacific (UK) Limited had income tax losses of $1,373,528 at 30 June 2017 ($68,358 as at 30 June 2016), of which all of these losses have been recognised as a deferred tax asset in accordance with Note 2 (xvi).

AdvanceRetail Technology Limited had income tax losses of $338,562 at 30 June 2017 ($Nil as at 30 June 2016), all of these loses have been recognised as a deferred tax asset in accordance with Note 2 (xvi) in 2017.

Island Pacific Systems Inc had income tax losses of $$2,188,787 at 30 June 2017 ($890,310 at 30 June 2016), of which all of these losses have been recognised as a deferred tax asset in accordance with Note 2 (xvi).

Intelligent Retail Limited had income tax losses at 30 June 2017 of $1,435,445 ($1,938,374 as at 30 June 2016), all of these loses have been recognised as a deferred tax asset in accordance with Note 2 (xvi).

	Consolidated Group	
	2017	2016
	$	$
CURRENT		
Income Tax Receivable	-	146,295
Income Tax Payable	(662,836)	(93,799)
Net Current Tax Receivable (liability)	**(662,836)**	**52,496**

19 Issued Capital

	Consolidated Group	
	Number	$
2017		
(a) Ordinary shares		
Fully paid	147,801,603	6,712,050
Partially paid	-	-
	147,801,603	**6,712,050**
(i) Movements in ordinary share on issue		
Balance at the beginning of the year	147,801,603	6,712,050
Balance at the end of the year	**147,801,603**	**6,712,050**
2016		
(b) Ordinary shares		
Fully paid	147,801,603	6,712,050
Partially paid	-	-
	147,801,603	**6,712,050**
(j) Movements in ordinary share on issue		
Balance at the beginning of the year	147,228,893	6,672,263
Shares issued to Intelligent Retail vendors	572,710	39,787
Balance at the end of the year	**147,801,603**	**6,712,050**

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.

Capital Management

When managing capital, Management's objective is to ensure the entity continues as a going concern as well as to maintain optimal returns to shareholders and benefits for other stakeholders. Management also aims to maintain a capital structure that ensures a balanced cost of capital available to the entity.

One method that Management monitors capital, is through the gearing ratio (net debt / total capital). The gearing ratio at reporting date decreased from the prior year.Net debt decreased by $1.2m from FY2016. The gross debt decreased by $1.4m from the prior year. Cash decreased this year as a result of principal debt repayments, a dividend payment and other commitments. Management intends to continually reduce this ratio by repaying part of its debt using internally generated funds.

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

- Interest cover ratio
- Leverage ratio

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

The gearing ratios based on operations at 30 June 2017 and 2016 were as follows:

	Consolidated Group 2017 $	Consolidated Group 2016 $
Interest bearing loans & borrowings	9,284,177	10,656,051
Cash & equivalent	(1,383,099)	(1,583,840)
Net debt	**7,901,078**	**9,072,211**
Total equity	24,696,336	26,239,857
Total capital employed	**32,597,414**	**35,312,068**
Gearing (%)	**24.24%**	**25.69%**

20 Reserves

	Consolidated Group 2017 $	Consolidated Group 2016 $
Foreign currency translation reserve		
Balance at the beginning of the year	2,377,106	2,437,900
Gain/(loss) on translation of overseas controlled entities	(691,259)	(60,794)
Balance at the end of the year	**1,685,847**	**2,377,106**
Total reserves	**1,685,847**	**2,377,106**

Foreign Currency Translation Reserve

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

Options Reserve

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

21 Financial Risk Management Objectives and Policies

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

	Consolidated Group 2017 $	Consolidated Group 2016 $
Financial assets		
Cash and equivalents	1,383,099	1,583,840
Financial assets at amortised costs		
- Loans and receivables	5,586,523	8,761,902
Total financial assets	**6,969,622**	**10,345,742**
Financial liabilities		
Financial liabilities at amortised costs		
- Trade and other payables	8,198,069	9,147,229
- Borrowings	9,284,177	10,656,051
- Financial liabilities at FV through profit or loss	15,715	34,299
Total financial liabilities	**17,497,961**	**19,837,579**

The Group manages its exposure to key financial risks, including interest rate and currency risk in accordance with the Group's financial risk management policy. The objective of the policy is to support the delivery of the Group's financial targets whilst protecting future financial security.

The Group enters into derivative transactions, principally interest rate swaps and forward currency contracts (to a limited extent). The purpose is to manage the interest rate and currency risks arising from the Group's operations and its sources of finance. These derivatives provide economic hedges, but do not qualify for hedge accounting. The main risks arising from the Group's financial instruments are interest rate risk and foreign currency risk. The Group uses different methods to measure and manage different types of risks to which it is exposed. These include monitoring levels of exposure to interest rate and foreign exchange risk and assessments of market forecasts for interest rate and foreign exchange. Ageing analyses and monitoring of specific credit allowances are undertaken to manage credit risk, liquidity risk is monitored through the development of future rolling cash flow forecasts.

Risk Exposures and Responses

Interest rate risk

The Group's exposure to market interest rates relates primarily to the Group's debt obligations. The level of debt is disclosed in Note 16.

At reporting date, the Group had the following mix of financial assets and liabilities exposed to Australian, USA, UK and New Zealand variable interest rate risk that are not designated as cash flow hedges:

	Consolidated Group	
	2017 $	2016 $
Financial assets		
Cash and equivalents	1,383,099	1,583,840
	1,383,099	**1,583,840**
Financial liabilities		
Bank overdrafts	802,397	905,461
Interest rate swaps	15,715	34,299
Bank loans and financial lease liabilities	2,704,388	3,821,010
	3,522,500	4,760,770
Net exposure	**2,139,401**	**3,176,930**

The Group's policy is to manage its finance costs using a mix of fixed and variable rate debt, and at times to fix all its debt. The Group's policy is to maintain between 50% and 100% of its bank borrowings at fixed rates which are carried at amortised cost and it is acknowledged that fair value exposure is a by-product of the Group's attempt to manage its cash flow volatility arising from interest rate changes. To manage this mix in a cost-efficient manner, the Group enters into interest rate swaps or caps, in which the Group agrees to exchange, at specified intervals, the difference between fixed and variable rate interest amounts calculated by reference to an agreed-upon notional principal amount. At 30 June 2017, after taking into account the effect of interest rate swaps and caps, 62% of the Group's bank borrowings are at a fixed or capped rate of interest (2016: 64%). The Group constantly analyses its interest rate exposure. Within this analysis consideration is given to potential renewals of existing positions, alternative financing, alternative hedging positions and the mix of fixed, capped and variable interest rates.

The following sensitivity analysis is based on the interest rate risk exposures in existence at the reporting date (the rates used are based on average movements between 2017 and 2016):

	Consolidated Group	
Judgments of reasonably possible movements	2017 $	2016 $
Post tax profit		
+ 1% (100 basis points)	(14,976)	(22,239)
- 0.5% (50 basis points)	7,488	11,119
Equity		
+ 1% (100 basis points)	(14,976)	(22,239)
- 0.5% (50 basis points)	7,488	11,119

The movements in profit are due to higher/lower interest rates from variable rate debt and cash balances that incur/earn interest which is not fixed. The sensitivity is higher in 2016 than in 2017 because there was a higher exposure of net debt in 2016 by $1.038m compared to 2017.

Foreign currency risk

As a result of significant operations in the United States, United Kingdom and New Zealand (to a lesser extent) following the acquisitions of Island Pacific in December 2007, AdvanceRetail in March 2007, and Intelligent Retail in May 2013, the Group's Statement of Financial Position can be affected significantly by movements in the US$/A$, GBP/A$ and to a lesser extent, NZ$/A$ exchange rates. The Group has mitigated the effect of its foreign currency exposure by increasing its borrowing in US Dollars and GBP. The reason only US Dollar and GBP debt has been increased and not other currencies is because the Board believe the US Dollar and GBP are the most volatile of currencies to the AUD Dollar, in comparison to the NZ Dollar, and also the US$ and GBP earnings are larger than the other overseas earnings. These borrowings in foreign currencies then act as a hedge against the earnings and cash reserves from these currencies.

The Group also has transactional currency exposures. Such exposure arises from sales or purchases by an operating entity in currencies other than the functional currency.

The Group has no forward currency contracts in place at 30 June 2017 (2016: Nil).

Between 2017 and 2016, exchange rates moved by almost 3.0% (2016: 3.5%) for the AUD$:US$, by 4.9% (2016: 13%) for the AUD$:GBP, and by 0.4% (2016: 9%) for the AUD$:NZ$. This is an average movement of 2.77% (2016:9%). For comparitive purposes, assume a higher-end movement of 10% (2016: 15%), and using a lower-end movement of 5% (2016: 10%), as illustrated in the table below, with all other variables held constant, post tax profit and equity would have been affected as follows:

	Consolidated Group	
	2017 $	2016 $
Net Profit after tax	2,073,190	3,847,957
Net Profit after tax subject to exposure	**2,073,190**	**3,847,957**
Equity		
Assets	33,363,827	36,638,331
	33,363,827	**36,638,331**
Liability		
Bank loans	6,481,781	7,750,590
Others	11,870,324	16,187,165
	18,352,104	**23,937,755**
Equity to exposure	**15,011,723**	**12,700,576**
Judgments of reasonably possible movements		
Post tax profit		
-10% (2016: -15%) movement in AUD$	98,350	273,812
-5% (2016: -10%) movement in AUD$	49,175	182,541
+5% (2016: +10%) movement in AUD$	(49,175)	(182,541)
+10% (2016: +15%) movement in AUD$	(98,350)	(273,812)
Equity		
-10% (2016: -15%) movement in AUD$	1,501,200	1,905,086
-5% (2016: -10%) movement in AUD$	750,600	1,270,058
+5% (2016: +10%) movement in AUD$	(750,600)	(1,270,058)
+10% (2016: +15%) movement in AUD$	(1,501,200)	(1,905,086)

The Group has a US$ borrowing facility of $2,777,366 (2016: $3,427,112) that is used as a hedge of the net investment in the US operation.

The Group has a UK£ borrowing facility of £1,691,537 (2016: £1,658,800) that is used as a hedge of the net investment in the UK operations.

At 30 June 2017, the Group hedged none of its foreign currency purchases that are firm commitments (2016: Nil).

Price risk

The Group's exposure to commodity price risk is minimal.

Credit risk

Credit risk arises from the financial assets of the Group, which comprise cash and cash equivalents, trade and other receivables, and derivative instruments. The Group's exposure to credit risk arises from potential default of the counter party, with a maximum exposure equal to the carrying amount of these instruments. Exposure at reporting date is addressed in each applicable note.

The Group does not hold any credit derivatives to offset its credit exposure.

The Group trades only with recognised, creditworthy third parties, and as such collateral is not requested nor is it the Group's policy to securitise its trade and other receivables. In addition, the Group has the ability to “withhold support” to its customers should it be difficult to receive payment from them.

Liquidity risk

The Group's objective is to maintain a balance between continuity of funding and flexibility through the use of bank loans.

The table below reflects all contractually fixed pay-offs for settlement, repayments and interest resulting from recognised financial liabilities as of 30 June 2017. Cash flows for liabilities without fixed amount or timing are based on the conditions existing at 30 June 2017.

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

	Consolidated Group	
	2017 $	2016 $
6 months or less	9,750,465	10,802,690
6-12 months	765,714	750,000
1-5 years	6,981,780	8,250,590
Over 5 years	-	-
	17,497,959	**19,803,280**

Included in the maturities of 6 months or less is an amount of $4,453,030 (2016: $4,720,576) representing maintenance and other amounts paid by customers in advance. Even though these are contractual liabilities, it is very unlikely that these amounts will result in a cash outflow in the period, or in any period thereafter.

Based on the above, the actual estimated cash outflows in the 6 months or less is $5,297,468 (2016: $6,082,114) instead of the stated amount of $9,750,465 (2016: $10,802,690).

The above table excludes derivatives.

Maturity analysis of financial liabilities based on management's expectation

The risk implied from the values shown in the table below, reflects a balanced view of cash outflows.

	Consolidated Group 2017 $	Consolidated Group 2016 $
Trade & other payable		
< 6 months	8,198,069	9,147,229
6 - 12 months	-	-
1-5 years	-	-
Over 5 years	-	-
	8,198,069	9,147,229
Interest rate swaps		
< 6 months	-	-
6 - 12 months	15,714	34,299
	15,714	34,299
Interest bearing loans & borrowings		
< 6 months	1,552,397	1,655,461
6 - 12 months	750,000	750,000
1-5 years	6,981,780	8,250,590
	9,284,177	**10,656,051**
	17,497,960	**19,837,579**

Fair value

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

Fair value measurement

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

(a) quoted prices (unadjusted) and active markets for identical assets or liabilities (level 1) .
(b) inputs other than quoted price included with level 1 that are observable for the assets or liability, either directly (as prices) or indirectly (derived from prices) (level 2), and
(c) inputs for the assets or liability that are not based on observable market data (unobservable inputs) (level 3).

The following table presents the group's assets and liabilities measured and recognised at fair value at 30 June 2017. Comparatives included below.

	Consolidated Group			
At 30 June 2017	Level 1 $	Level 2 $	Level 3 $	Total $
Assets	-	-	-	-
Liabilities				
Financial liabilities at FV through profit or loss	-	15,714	-	15,714
	-	**15,714**	**-**	**15,714**

	Consolidated Group			
At 30 June 2016	Level 1 $	Level 2 $	Level 3 $	Total $
Assets	-	-	-	-
Liabilities				
Financial liabilities at FV through profit or loss	-	34,299	-	34,299
	-	**34,299**	**-**	**34,299**

	Consolidated Group 2017 $	Consolidated Group 2016 $
Movement		
Balance at the beginning of the year	34,299	29,429
Additional provision /(reversal)	(18,585)	4,870
Balance at the end of the year	**15,714**	**34,299**

There were no transfers between levels during the financial year.

Fair value of financial instruments that are not measured at fair value on a recurring basis

The carrying value of current financial assets and liabilities approximate their fair value. The carrying value less impairment provision of trade receivables and payables are assumed to approximate their fair values due to their short term nature.

The fair value of financial liabilities is estimated by discounting the remaining contractual maturities at the current market interest rate that is available for similar financial liabilities.

The carrying amount of borrowings disclosed in note 16 are assumed to approximate their fair values.

Valuation techniques for fair value measurements categorised within level 2 and level 3

Derivative financial instruments have been valued using quoted market rates. This valuation technique maximises the use of observable market data where it is available and relies as little as possible on entity specific estimates.

22 Commitments and Contingencies

Commitments

Operating Leases

The Group entered into the operating lease agreements set out below, with the following commitments for minimum lease payments (not capitalised in the financial statements).

	Consolidated Group 2017 $	Consolidated Group 2016 $
Within one year	649,478	599,228
After one year, but not more than five years	721,737	1,103,442
	1,371,215	**1,702,670**

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

Contingencies

There were no material contingent liabilities at the reporting date (2016: Nil).

23 Related party disclosure

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

Annual Report 2017

Consolidated		2017 $	2016 $
Rent paid to Related Parties excluding GST	Note 2	184,080	141,360
Compensation of David Rosen	Note 4	419,080	407,585
Transactions with Distributor	Note 3	440,432	1,131,830
Amounts owed by Related Parties for financed sales	Note 1	10,481	22,481
Amounts owed to Related Parties – Distributor	Note 3	223,068	343,979
Amounts owed by (to) Related Parties for rent	Note 2	7,566	7,566
Compensation of McGeachen Bell Associates Ltd (Mark McGeachen)	Note 5	260,691	252,480
Compensation of McGeachen Bell Associates Ltd (Andrew Bell)	Note 6	236,992	229,527
Compensation of High Expectations Pty Ltd (Stephe Wilks)	Note 7	-	77,000
Loan to Director (Shaun Rosen)	Note 8	550,171	449,774

Note 1 - Sales financed by related parties

Sales to certain customers of Island Pacific Australia Pty Limited are financed by Isalux Pty Limited, a related party of the Group. Isalux Pty Ltd is 100% owned by Shaun Rosen, Clive Klugman and David Rosen (through their personally-related entities), who are also Directors of Isalux. Isalux repays Island Pacific Australia Pty Limited on a monthly basis. There were no sales in the current or prior year.

Note 2 - Rent paid to related parties

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

Note 3 - Distributor

Under an agreement with Pyramid Merchandising Software Pty Limited (PMS), Island Pacific Australia Pty Limited was appointed the worldwide master distributor in all territories outside Africa of PMS's merchandising software product known as "Island Pacific SmartPlanning". David Rosen, who has a 50% interest in Elabrook Pty Limited, one of the vendors of Island Pacific Australia Pty Limited, and who is a Director of Island Pacific Systems Inc, is an owner of 25% of the issued capital of PMS.

Note 4 - Director of Related Party

As disclosed as part of the distributor note above, David Rosen has a 50% interest in Elabrook Pty Limited, one of the vendors of Island Pacific Australia Pty Limited, and is a Director of Island Pacific Systems Inc, a related party. By virtue of his directorship in Island Pacific Systems Inc., a related party, David is a related party himself. David receives remuneration as a Director of Island Pacific Systems Inc, which is disclosed above as a related party transaction.

Note 5 – Company controlled by Director - McGeachen Bell Associates Limited

Mark McGeachen, a Director of 3Q Holdings Limited, has a 50% interest in McGeachen Bell Associates Limited. Mark McGeachen provides all the administrative and management services required for AdvanceRetail Technology to operate efficiently on a day-to-day basis, including the normal day-to-day management of the Company, through McGeachen Bell Associates Limited.

Mark, being a Director of 3Q Holdings Limited, is a related party. By virtue of his controlling interest in McGeachen Bell Associates Limited, this makes McGeachen Bell Associates Limited a related party as well. McGeachen Bell Associates Limited receives remuneration from AdvanceRetail Technology for Mark's services, which is disclosed above as a related party transaction.

Note 6 – Company controlled by Key Management Personnel - McGeachen Bell Associates Limited

Andrew Bell, a Key Management Personnel of AdvanceRetail Technology, has a 50% interest in McGeachen Bell Associates Limited. Andrew Bell provides all the technical services required for AdvanceRetail Technology to operate efficiently on a day-to-day basis, including the normal day-to-day management of all the technical aspects of the Company, through McGeachen Bell Associates Limited.

Andrew, being a Key Management Personnel of AdvanceRetail Technology, is a related party. By virtue of his controlling interest in McGeachen Bell Associates Limited, this makes McGeachen Bell Associates Limited a related party as well. McGeachen Bell Associates Limited receives remuneration from AdvanceRetail Technology for Andrew's services, which is disclosed above as a related party transaction.

Note 7 – Company controlled by Director - High Expectations Pty Limited

Stephe Wilks, was a Director of 3Q Holdings Limited (Resigned 31 May 2016), has a 40% interest in High Expectations Pty Limited. Stephe was paid his Director's fees through High Expectations Pty Ltd.

Stephe, having been a Director of 3Q Holdings Limited, was a related party. By virtue of his controlling interest in High Expectations Pty Ltd, this made High Expectations Pty Ltd a related party as well. The Director's fees paid to Stephe are disclosed above as a related party transaction.

Note 8 – Loan to director (Shaun Rosen)

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

24 Significant events after the reporting date

There were no significant events after the reporting date.

25 Auditors' Remuneration

The auditor of 3Q Holdings Limited is BDO.

	Consolidated Group	
	2017 $	2016 $
Amounts received, or due and receivable by BDO for:		
- Audit or review of financial reports of the entity	151,247	146,984
- Other non-auditor services in relation to the entity		
R&D tax allowance preparation and other tax services	-	12,000
Remuneration of other auditors of subsidiaries for:		
- Audit or review of financial reports of the entities	116,376	113,883
- Other non-auditor services in relation to the entities		
Tax services	63,605	65,624
Other services charge	10,537	44,491
	341,765	**382,982**

26 Controlled Entities

The consolidated financial statements incorporate the assets, liabilities and results of the following subsidiaries in accordance with the accounting policy described in Note 2.

Name of Entity	**Country of Incorporation**	**Class of Shares**	**Equity Holding** 2017 %	**Equity Holding** 2016 %
Island Pacific Australia Pty Limited	Australia	Ordinary	100	100
ARS Australia Pty Limited	Australia	Ordinary	100	100
Island Pacific Systems Inc	United States of America	Ordinary	100	100
AdvanceRetail Technology Limited	New Zealand	Ordinary	100	100
Island Pacific (UK) Limited	United Kingdom	Ordinary	100	100
AdvanceRetail Technology Asia Sdn Bhd	Malaysia	Ordinary	100	100
Island Pacific Retail Systems Private Limited	India	Ordinary	100	100
Intelligent Retail (UK) Limited	United Kingdom	Ordinary	100	100
Island Pacific Systems (Ireland) Limited	Republic of Ireland	Ordinary	100	100

27 Derivative financial instruments

(a) Instruments used by the Group

Derivative financial instruments are used by the Group in the normal course of business in order to hedge exposure to fluctuations in interest and foreign exchange rates.

(i) Forward currency contracts - held for trading

The Group has no forward currency contracts in place at 30 June 2017 (2016: Nil).

(ii) Interest rate swaps - cash flow hedges

The Groups Interest bearing loans at reporting date bear an average fixed or capped interest rate (including average margin of 2.25% (2016: 2.75%) of 5.08% (2016: 5.90%) on Australian loans, 3.89% (2016: 4.01%) on US loans, and 3.69% (2016: 4.19%) on Sterling loans. In order to protect against rising interest rates the Group has entered into interest cap and swap contracts for the AU$, US$ and Sterling loans which caps the rate of interest it pays. Caps and swaps in place over bank borrowings at 30 June 2017 cover 62% (2016: 64%) of the principal outstanding and some expire in April 2018 and others on 1st July 2020. $2million of the Australian loan was fixed at 2.83%, US$1.6 million was capped at 1.64% and £1 million was capped at 1.44% at 30 June 2017.

(b) Interest rate risk

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

28 Key Management Personnel Disclosures

Compensation

The aggregate compensation made to directors and other members of key management personnel of the consolidated entity is set out below:

	Consolidated Group	
	2017 $	2016 $
Short-term employee benefits	2,902,711	2,881,574
Post employment benefits	147,655	97,461
	3,050,366	**2,979,035**

29 Parent Entity Information

Information relating to 3Q Holdings Limited.

	Parent Entity	
	2017 $	2016 $
Current assets	2,936,934	3,422,584
Non-current assets	39,928,116	39,967,862
Total assets	42,865,050	43,390,446
Current liabilities	4,694,454	4,525,132
Non-current liabilities	10,141,410	11,510,516
Total liabilities	14,835,864	16,035,648
Equity		
- Issued Capital	45,195,754	45,195,754
- Reserves	-	-
- Accumulated losses	(17,166,568)	(17,840,955)
Shareholder's equity	28,029,186	27,354,799
Profit for the year	1,399,354	639,847
Total comprehensive income for the year	1,399,354	639,847

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

There are no guarantees entered into by 3Q in relation to the debts of its subsidiaries (2016: Nil).

Contingent liabilities

There were no contingent liabilities at Balance sheet date (2016: Nil).

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

There are no commitments in the current year (2016: Nil).

Directors' Declaration

In the directors' opinion:

- the attached financial statements and notes thereto comply with the Corporations Act 2001, the Accounting Standards, the Corporations Regulations 2001 and other mandatory professional reporting requirements;

- the attached financial statements and notes thereto comply with International Financial Reporting Standards as issued by the International Accounting Standards Board as described in Note 1 and Note 2 to the financial statements;

- the attached financial statements and notes thereto give a true and fair view of the consolidated entity's financial position as at 30 June 2017 and of its performance for the financial year ended on that date; and

- there are reasonable grounds to believe that the consolidated entity will be able to pay its debts as and when they become due and payable.

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

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

On behalf of the directors,

Dated at Sydney, 11 September 2017.

....
Director

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Australia

INDEPENDENT AUDITOR'S REPORT

To the members of 3Q Holdings Limited

Report on the Audit of the Financial Report

Opinion

We have audited the financial report of 3Q Holdings Limited (the Company) and its subsidiaries (the Group) which comprises the consolidated statement of financial position as at 30 June 2017, the consolidated statement of profit or loss and other comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, and notes to the financial report, including a summary of significant accounting policies and the directors' declaration.

In our opinion the accompanying financial report of 3Q Holdings Limited, is in accordance with the *Corporations Act 2001*, including:

(i) Giving a true and fair view of the Group's financial position as at 30 June 2017 and of its financial performance for the year ended on that date; and

(ii) Complying with Australian Accounting Standards and the *Corporations Regulations 2001*.

Basis for opinion

We conducted our audit in accordance with Australian Auditing Standards. Our responsibilities under those standards are further described in the *Auditor's responsibilities for the audit of the Financial Report* section of our report. We are independent of the Group in accordance with the *Corporations Act 2001* and the ethical requirements of the Accounting Professional and Ethical Standards Board's APES 110 *Code of Ethics for Professional Accountants* (the Code) that are relevant to our audit of the financial report in Australia. We have also fulfilled our other ethical responsibilities in accordance with the Code.

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

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Other information

The directors are responsible for the other information. The other information obtained at the date of this auditor's report is information included in the Chairman's Report and Directors' Report, but does not include the financial report and our auditor's report thereon.

Our opinion on the financial report does not cover the other information and accordingly we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial report, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial report or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

If, based on the work we have performed on the other information obtained prior to the date of this auditor's report, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of the directors for the Financial Report

The directors of the Company are responsible for the preparation of the financial report that gives a true and fair view in accordance with Australian Accounting Standards and the *Corporations Act 2001* and for such internal control as the directors determine is necessary to enable the preparation of the financial report that gives a true and fair view and is free from material misstatement, whether due to fraud or error.

In preparing the financial report, the directors are responsible for assessing the ability of the Group to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the Group or to cease operations, or has no realistic alternative but to do so.

Auditor's responsibilities for the audit of the Financial Report

Our objectives are to obtain reasonable assurance about whether the financial report as a whole is free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with the Australian Auditing Standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of this financial report.

A further description of our responsibilities for the audit of the financial report is located at the Auditing and Assurance Standards Board website (http://www.auasb.gov.au/Home.aspx) at: http://www.auasb.gov.au/auditors_responsibilities/ar3.pdf
This description forms part of our auditor's report.

BDO East Coast Partnership

BDO

Arthur Milner
Partner

Sydney, 11 September 2017