

# 3Q

2019 Annual Report



# Corporate Information

ABN 42 089 058 293

## **Directors**

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

## **Auditors**

BDO  
Level 11, 1 Margaret Street  
Sydney NSW 2000  
Australia

## **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  
Bondi Junction  
NSW 2022  
Australia  
Phone 61 2 9369 8590  
Website [www.threeq.com.au](http://www.threeq.com.au)

## **Solicitors**

Marque Lawyers  
Level 4  
343 George Street  
Sydney NSW 2000

## **Bankers**

Commonwealth Bank of Australia  
Bondi Junction, Sydney NSW

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## Chairman's Report

My fellow shareholders

Over the past few years retail has undergone profound transformation, a shift that is ongoing and played out in business headlines on an almost daily basis. As a technology vendor totally focussed on the retail market our company has and continues to take steps to ensure we remain a partner of choice for businesses operating in this new world order of retail.

This year revenues were slightly down from the prior year (8%), with EBITDA also down 25% as a result of the lower revenues. We have taken steps to try restore the EBITDA and believe this should positively impact the 2020 year.

We repaid \$1.5m bank debt (excluding interest) during the year.

During the year we released a new cloud centric version of our Island Pacific SmartStore POS solution, which has been sold to key launch customers. With its focus on omnichannel enterprise retail, we see the opportunity to create significant demand for this product over the coming years.

Despite the challenging environment our sales team continues to perform with some notable successes, in particular a 5-year SAAS deal worth almost \$5m.

To further expand our reach and create new markets we are currently engaged in evaluation of several joint venture opportunities.

Key highlights of our financial performance were:

	2019	2018	Percentage Increase/(Decrease)	
Revenue	\$30,267,248	\$32,745,872	↓	-8%
Gross Profit Percentage	89.37%	89.55%	↓	0%
Underlying EBITDA*	\$5,864,776	\$7,850,577	↓	-25%
Underlying NPBT*	\$940,798	\$2,559,073	↓	-63%
Underlying NPAT*	\$366,284	\$3,627,476	↓	-90%
Net Profit after tax	\$337,452	\$3,181,329	↓	-89%
Total Number Of Shares	152,266,603	153,046,603	↓	-1%
Earnings/(Loss) per Share (cents)	0.22	2.11	↓	-90%
Employee benefit expenses	\$15,861,338	\$15,987,526	↓	-1%
Number of Employees	186	213	↓	-13%

*\*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 18 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 its 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.

## Review of Operations

Refer to Chairman’s letter for detail.

## Operating Results for the Year

### Financial Highlights

	2019	2018	Percentage Increase/(Decrease)	
Revenue	\$30,267,248	\$32,745,872	↓	-8%
Gross Profit Percentage	89.37%	89.55%	↓	0%
Underlying EBITDA*	\$5,864,776	\$7,850,577	↓	-25%
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Employee benefit expenses	\$15,861,338	\$15,987,526	↓	-1%
Number of Employees	186	213	↓	-13%

\*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 2018 Financial Year include:

- Underlying EBITDA, NPBT, NPAT down on last year, mainly due to the drop in revenues. The underlying NPAT was down by a larger proportion due to the large tax benefit arising from the drop in tax rate in the US in the prior period.
- Net debt decreased by \$1.464m from FY2018 as a result in principal repayments of \$1.5m.

## Asset and Capital Structure

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

Consolidated	2019 \$	2018 \$
Interest Bearing Loans	6,676,875	8,617,474
Cash & Short Term Deposits	(905,167)	(1,381,807)
Net Debt	5,771,708	7,235,667
Total Equity	30,111,431	28,712,465
Total Capital Employed	35,883,139	35,948,132
Gearing (%)	16.08%	20.13%

## Profile of Debts

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

	2019 \$	2018 \$
Bank Loans and finance lease liability	6,676,875	8,617,474
<b>TOTAL DEBT</b>	<b>6,676,875</b>	<b>8,617,474</b>



## Share issues during the year

No shares under the Employee Share Ownership Plan were issued during the year to staff (2018: 5,245,000 shares). 780,000 shares under the Employee Share Ownership Plan were cancelled during the year (2018: Nil).

## 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 did not pay a dividend during the reporting period, and none were declared for payment (2018: \$0).

## 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

On 6 September 2019, the Group received a final term sheet extending the Group's financing facilities with the Commonwealth Bank of Australia by a further 3 years.

Other than the above, 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	8	2
Clive Klugman	8	8
Alan Treisman	8	8
Mark McGeachen	8	8
David Rosen	8	8

**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 the following page.

Signed in accordance with a resolution of the Directors.



Shaun Rosen  
Executive Chairman  
Sydney, NSW  
9 September, 2019

## Auditors Independence Declaration



Tel: 61 2 9251 4100  
Fax: 61 2 9240 9821  
www.bdo.com.au

Level 11, 1 Margaret St  
Sydney NSW 2000  
Australia

### DECLARATION OF INDEPENDENCE BY MARTIN COYLE TO THE DIRECTORS OF 3Q HOLDINGS LIMITED

As lead auditor of 3Q Holdings Limited for the year ended 30 June 2019, 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.

Martin Coyle  
Partner

**BDO East Coast Partnership**

Sydney, 9 September 2019

# Consolidated Statement of Profit or Loss and Other Comprehensive Income

For the year ended 30 June 2019

	Note	Consolidated Group	
		2019 \$	2018 \$
Revenue	3(a)	30,267,248	32,745,872
Cost of sales		(3,218,892)	(3,421,763)
Gross profit		27,048,356	29,324,109
Other income	3(b)	168,232	133,690
Operating expenses	3(c)	(5,460,687)	(5,588,824)
Employee benefit expenses		(15,861,338)	(15,987,526)
Earnings before tax, finance costs, depreciation, amortisation, foreign exchange gains/(losses) and share based payments		<b>5,894,563</b>	<b>7,881,449</b>
Depreciation		(210,687)	(213,503)
Amortisation		(4,266,842)	(4,512,427)
Finance costs	3(d)	(476,236)	(596,446)
Foreign exchange (losses)/gains		(28,832)	(210,122)
Share based payments/expenses		-	(236,025)
<b>Profit before income tax</b>		<b>911,966</b>	<b>2,112,926</b>
Income tax (expense)/benefit	4	(574,514)	1,068,403
<b>Profit after income tax</b>		<b>337,452</b>	<b>3,181,329</b>
<b>Other comprehensive income:</b>			
<i>Items that may be reclassified subsequently to profit or loss</i>			
Exchange difference on translating foreign operations, net of tax		856,386	598,775
<b>Other comprehensive income for the year, net of tax</b>		<b>856,386</b>	<b>598,775</b>
<b>Total comprehensive income for the year</b>		<b>1,193,838</b>	<b>3,780,104</b>
<b>Profit attributable to:</b>			
Owners of the parent		337,452	3,181,329
<b>Total comprehensive income attributable to:</b>			
Owners of the parent		1,193,838	3,780,104
Basic and diluted earnings/(loss) per share (cents per share)	5	0.22	2.11

The accompanying notes form part of these Consolidated Financial Statements.

## Consolidated Statement of Financial Position

As at 30 June 2019

	Note	Consolidated Group	
		2019	2018
		\$	\$
<b>ASSETS</b>			
<b>Current Assets</b>			
Cash and cash equivalents	7	905,167	1,381,807
Trade and other receivables	8	4,217,454	6,010,109
Other assets	9	1,199,464	1,589,653
Inventories	10	90,669	143,076
Current tax assets	18	-	104,716
<b>Total Current Assets</b>		<b>6,412,754</b>	<b>9,229,361</b>
<b>Non-current Assets</b>			
Property, plant and equipment	11	279,593	283,504
Intangible assets	12	41,196,173	39,069,430
Deferred tax assets	18	7,745,831	6,765,927
<b>Total Non-current Assets</b>		<b>49,221,597</b>	<b>46,118,861</b>
<b>TOTAL ASSETS</b>		<b>55,634,351</b>	<b>55,348,222</b>
<b>LIABILITIES</b>			
<b>Current Liabilities</b>			
Trade and other payables	15	8,354,591	8,602,569
Financial liabilities	16	2,221,487	2,863,990
Employee benefits	17	1,649,616	1,700,488
Current tax liabilities	18	1,153,643	903,743
<b>Total Current Liabilities</b>		<b>13,379,337</b>	<b>14,070,790</b>
<b>Non-current Liabilities</b>			
Financial liabilities	16	4,461,005	5,728,992
Employee benefits	17	17,953	13,705
Deferred tax liabilities	18	7,664,625	6,822,270
<b>Total Non-current Liabilities</b>		<b>12,143,583</b>	<b>12,564,967</b>
<b>TOTAL LIABILITIES</b>		<b>25,522,920</b>	<b>26,635,757</b>
<b>NET ASSETS</b>		<b>30,111,431</b>	<b>28,712,465</b>
<b>EQUITY</b>			
Issued capital	19	6,712,050	6,712,050
Reserves	20	3,377,033	2,520,647
Retained Earnings		20,022,348	19,479,768
<b>TOTAL EQUITY</b>		<b>30,111,431</b>	<b>28,712,465</b>

The accompanying notes form part of these Consolidated Financial Statements.

## Consolidated Statement of Changes in Equity

For the year ended 30 June 2019

	Note	Issued Capital \$	Reserves \$	Retained Earnings \$	Total \$
<b>Balance at 1 July 2017</b>		6,712,050	1,685,847	16,298,439	24,696,336
Profit for the year		-	-	3,181,329	3,181,329
Other comprehensive income for the year, net of tax		-	598,775	-	598,775
Total comprehensive income for the year		-	598,775	3,181,329	3,780,104
<i>Transactions with owners in their capacity as owners:</i>					
Dividend paid	6	-	-	-	-
Share-based payments	14	-	236,025	-	236,025
<b>Balance at 30 June 2018</b>		<b>6,712,050</b>	<b>2,520,647</b>	<b>19,479,768</b>	<b>28,712,465</b>
<b>Balance at 1 July 2018 (Reported)</b>		<b>6,712,050</b>	<b>2,520,647</b>	<b>19,479,768</b>	<b>28,712,465</b>
Adjustment on initial application of AASB 15, net of tax (note 2)		-	-	205,128	205,128
<b>Balance at 1 July 2018 (Restated)</b>		<b>6,712,050</b>	<b>2,520,647</b>	<b>19,684,896</b>	<b>28,917,593</b>
Profit for the year		-	-	337,452	337,452
Other comprehensive income for the year, net of tax		-	856,386	-	856,386
Total comprehensive income for the year		-	856,386	337,452	1,193,838
<i>Transactions with owners in their capacity as owners:</i>					
Dividend paid	6	-	-	-	-
Share-based payments		-	-	-	-
<b>Balance at 30 June 2019</b>		<b>6,712,050</b>	<b>3,377,033</b>	<b>20,022,348</b>	<b>30,111,431</b>

The accompanying notes form part of these Consolidated Financial Statements.

## Consolidated Statement of Cash Flows

For the year ended 30 June 2019

	Notes	Consolidated Group	
		2019 \$	2018 \$
<b>Cash flows from operating activities</b>			
Receipts from customers		35,926,952	34,732,405
Payments to suppliers and employees		(28,732,873)	(27,185,401)
Interest received		50	1,187
Interest paid		(448,497)	(630,126)
Income taxes (paid)/received		(462,800)	(321,084)
Other income		130,786	113,961
<b>Net cash inflows from operating activities</b>	7b	<b>6,413,618</b>	<b>6,710,942</b>
<b>Cash flows from investing activities</b>			
Purchase of property, plant and equipment		(119,760)	(86,366)
Purchase of other non-current assets		-	(19,708)
Loans from/(to) other entities		262,473	(116,952)
Payment of development costs		(4,780,570)	(5,652,821)
<b>Net cash outflows from investing activities</b>		<b>(4,637,857)</b>	<b>(5,875,847)</b>
<b>Cash flows from financing activities</b>			
Proceeds from borrowings		-	586,086
Repayment of borrowings		(2,191,623)	(1,500,000)
Repayment of finance lease obligation		(17,030)	-
<b>Net cash outflows from financing activities</b>	7c	<b>(2,208,653)</b>	<b>(913,914)</b>
Net decrease in cash and cash equivalents		(432,892)	(78,819)
Cash and cash equivalents at beginning of period	7	1,381,807	1,383,099
Exchange rate/translation adjustments		(43,748)	77,527
<b>Cash and cash equivalents at end of period</b>	7a	<b>905,167</b>	<b>1,381,807</b>

The accompanying notes form part of these Consolidated Financial Statements.



## Notes to the Financial Statements

For the year ended 30 June 2019

### 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 2019 was authorised for issue in accordance with a resolution of the Directors on 9 September 2019.

### 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 \$6,864,827 (2018: \$6,567,677) which is not expected to be paid in cash.

#### Basis of consolidation

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

The consolidated financial statements comprise the financial statements of 3Q Holdings Limited and its subsidiaries as at 30 June of each year ("the Group"). A list of the controlled entities is disclosed in Note 26 to the financial statements.

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.

#### 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.

#### 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.

#### 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 outlined in the sections within this annual report as follows:

- ▀ The impairment of goodwill in Note 13
- ▀ The impairment of non-financial assets other than goodwill and other indefinite life intangible assets in Note 12
- ▀ The income tax provision in Note 4
- ▀ The recovery of deferred tax assets in Note 18
- ▀ The valuation of share-based payments in Note 14
- ▀ The allowance for expected credit losses of receivables in Note 8

## 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 a significant impact on the financial performance or position of the consolidated entity. Further details are set out below, specifically in relation to the adoption of AASB 9 and AASB 15.

### 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 2019. This list is not complete, however, it represents the key standards applicable to the consolidated entity.

#### AASB 16 Leases

AASB 16 Leases becomes mandatory for the Group's 2020 annual financial statements. The standard replaces AASB 117 'Leases' and for lessees, will eliminate the classifications of operating leases and finance leases. Subject to exceptions, a 'right-of-use' asset will be capitalised in the statement of financial position, measured at the present value of the unavoidable future lease payments to be made over the lease term.

Management anticipate that the Group's operating lease contracts currently in effect will be impacted by the introduction of AASB 16. With implementation of AASB 16, the present value of the operating lease commitments disclosed in note 22 after factoring in the probability of lease options, will be recognised as a lease liability with a corresponding right of use asset. The impact on the statement of profit or loss and other comprehensive income will be that operating lease expenditure will decrease and depreciation and finance charges will increase. Management's initial assessment has concluded that the quantum of the impact may be material to the net assets of the group when the current operating leases are capitalised in the Group's statement of financial position.

#### Interpretation 23 - Uncertainty over Income Tax Treatments

Interpretation 23 sets out how to determine the accounting tax position when there is uncertainty over income tax treatments. The Interpretation requires an entity to:

- Assess whether uncertain tax positions are assessed separately or as a group, and
- Determine whether it is probable that a tax authority will accept an uncertain tax treatment used, or proposed to be used, by an entity in its income tax filings.

If yes, the entity should determine its accounting tax position consistent with the tax treatment used or planned to be used in its income tax filings.

If no, the entity should reflect the effect of uncertainty in determining its accounting tax position.

The interpretation is effective for annual periods beginning on or after 1 January 2019. Entities can apply the Interpretation with either full retrospective application or modified retrospective application without restatement of comparatives retrospectively or prospectively.

The Directors are still assessing the impact that the Interpretation will have on the Group's financial statements.

## Change in accounting policies

The Group has adopted *AASB 15 Revenue from Contracts with Customers* and *AASB 9 Financial Instruments* from 1 July 2018. As a result of these new accounting standards becoming effective, the below significant accounting policies have been amended.

Due to the transition methods chosen by the Group in applying these standards, comparative information throughout these financial statements have not been restated to reflect the requirements of the new accounting standards.

Other than the impacts disclosed below, there were no other significant effects on the initial application of these new accounting standards.

### *AASB 15 Revenue from Contracts with Customers*

*AASB 15 Revenue from Contracts with Customers* replaces *AASB 118 Revenue*, *AASB 111 Construction Contracts* and several other revenue-related Interpretations. The new Standard has been applied as at 1 July 2018 using the modified retrospective approach. Under this method, the cumulative effect of initial application is recognised as an adjustment to the opening balance of retained earnings at 1 July 2018 and comparatives are not restated.

In accordance with the transition guidance, AASB 15 has only been applied to contracts that are incomplete as at 1 July 2018. The Group has performed an assessment of its contracts with customers in accordance with AASB 15 and has determined the following impacts and changes to its accounting policies as a result of adoption.

The Groups product offerings include the sale of perpetual software licenses which may also include additional charges for other services such as installation, maintenance and product training. Those contracts for perpetual software licences whereby the customer has an unrestricted ability to use the software are now recognised at a point in time when the software license has been transferred to the customer and set up and installed. Where these contracts include other installation, maintenance and product training services, these services are individually accounted for as a separate performance obligation where they can be readily performed by another services provider. The revenue recognition policies for these services remain consistent with AASB 118 Revenue.

#### *Impact on the financial statements*

The effect of applying the modified retrospective basis resulted in an opening retained earnings adjustment of \$205,128 at 1 July 2018 for the cumulative effect of applying AASB 15 up to 30 June 2018.

Effect on retained earnings at 1 July 2018:

	<b>Impact of adopting AASB 15 as at 1 July 2018</b>
<b>Retained earnings</b>	
Software licence revenue	266,496
Tax effect	(61,368)
<b>Impact at 1 July 2018</b>	<b>205,128</b>

Without the adoption of AASB 15, the net impact to the Group's reported revenue and retained earnings, as at, and for the year ended 30 June 2019 was immaterial.

AASB 15 did not have a significant impact on the Group's accounting policies with respect to other revenue streams.

### *AASB 9 Financial Instruments*

AASB 9 Financial Instruments replaces AASB 139 Financial Instruments: Recognition and Measurement. It makes major changes to the previous guidance on the classification and measurement of financial assets and introduces an 'expected credit loss' ('ECL') model for impairment of financial assets. When adopting AASB 9, the Group elected not to restate prior periods.

AASB 9 did not have a significant impact on the Group's accounting policies. Trade and other receivables that were classified as loans and receivables under AASB 139 are now classified at amortised cost. The effect of adopting AASB 9 on the carrying amounts of financial assets at 30 June 2019 and at 1 July 2018 relates solely to the new impairment requirements applying the ECL model. As the ECL assessment has resulted in an immaterial credit loss, no impairment allowance has been recognised by the Group as at 30 June 2019 and as at 1 July 2018, therefore comparatives have not been restated.

## Notes to the financial statements

The notes to the financial statements have been restructured to make the information presented more relevant and readable. Notes to the individual line items in the financial statements now include all relevant accounting policies as well as the disclosure of critical accounting estimates and judgements applied in the preparation of the financial report.

### 3 Revenue and Expenses

	Consolidated Group	
	2019	2018
	\$	\$
(a) Revenue from contracts with customers		
Sales of goods/hardware	641,849	700,808
Rendering of services	10,266,419	13,670,191
Maintenance fees	16,223,765	14,341,781
Licence fees	2,883,677	3,643,018
Other revenue	251,538	390,074
	<b>30,267,248</b>	<b>32,745,872</b>
(b) Other income		
Interest income using the effective interest rate method	29,787	30,873
Other income	138,445	102,817
	<b>168,232</b>	<b>133,690</b>
(c) Operating expenses		
Accounting and audit fees	573,814	656,728
Bad and doubtful debts	246,732	643,097
Legal fees	151,053	250,384
Rental expense and operating lease	997,761	1,046,212
Other expenses	3,491,327	2,992,403
	<b>5,460,687</b>	<b>5,588,824</b>
(d) Finance Costs		
Interest paid on bank loans	446,126	636,654
Loss/(Gain) on SWAP	30,110	(40,208)
	<b>476,236</b>	<b>596,446</b>

### Recognition and Measurement

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:

- Software licenses are recognized at a point in time when the software license is transferred to the customer and set-up so that the customer has the unrestricted ability to use it.
- Revenue for implementation services is recognized over time as the Group provides the services. Recognition is at hourly rates with appropriate consideration of any fixed fee or not-to-exceed amount.
- Revenue for maintenance is recognized over the contract periods on a straight-line basis, to reflect the Groups effort which is generally extended evenly throughout the maintenance period.
- Revenue from rendering of other services is recognised over time when the service is provided to the customer.

Where amounts are invoiced before the satisfaction of the relevant performance obligation, a deferred revenue liability is brought to account.

#### Interest

Revenue is recognised as the interest accrues.

#### Dividends

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

*Disaggregation of revenue*

The disaggregation of revenue from contracts with customers is as follows:

<b>Consolidated - 2019</b>	<b>Software \$</b>	<b>Hardware \$</b>	<b>Maintenance \$</b>	<b>Services \$</b>	<b>Other \$</b>	<b>Total \$</b>
<i>Geographical regions</i>						
Australia	539,326	244,409	2,245,217	1,331,960	80,376	<b>4,441,288</b>
New Zealand	153,288	157,690	1,279,837	1,007,230	7,003	<b>2,605,048</b>
UK	969,505	239,750	6,129,394	4,739,064	66,848	<b>12,144,561</b>
US	1,042,801	-	6,353,941	2,843,823	80,721	<b>10,321,286</b>
Rest of the World	178,757	-	215,376	344,342	16,590	<b>755,065</b>
	<b>2,883,677</b>	<b>641,849</b>	<b>16,223,765</b>	<b>10,266,419</b>	<b>251,538</b>	<b>30,267,248</b>

<b>Consolidated - 2018</b>	<b>Software \$</b>	<b>Hardware \$</b>	<b>Maintenance \$</b>	<b>Services \$</b>	<b>Other \$</b>	<b>Total \$</b>
<i>Geographical regions</i>						
Australia	579,461	377,860	2,136,868	1,511,239	63,510	<b>4,668,938</b>
New Zealand	134,554	95,795	1,340,470	700,403	3,095	<b>2,274,317</b>
UK	1,437,196	227,153	4,674,240	8,691,754	191,034	<b>15,221,377</b>
US	1,397,269	-	6,011,941	2,519,956	127,754	<b>10,056,920</b>
Rest of the World	94,538	-	178,262	246,839	4,681	<b>524,320</b>
	<b>3,643,018</b>	<b>700,808</b>	<b>14,341,781</b>	<b>13,670,191</b>	<b>390,074</b>	<b>32,745,872</b>

## 4 Income Tax

	<b>Consolidated Group</b>	
	<b>2019 \$</b>	<b>2018 \$</b>
<b>(a) Income Tax Expense/(Benefit) Comprises:</b>		
Current tax	925,498	1,033,481
Deferred tax	854,984	(2,533,184)
(Recoupment)/recognition of prior and current year tax losses	(1,205,968)	431,300
	<b>574,514</b>	<b>(1,068,403)</b>
<b>(b) Reconciliation</b>		
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% (2018: 30%)	<b>273,590</b>	<b>633,878</b>
Add:		
Tax effect of:		



non-deductible depreciation and amortisation	121,881	98,378
other non-allowable items	34,420	134,108
adjustment for differences in tax rates	(99,907)	(1,875,628)
shares and options expensed during year	-	70,808
foreign subsidiary income subject to additional tax in US	66,814	52,502
(Over)/under provision for income tax in prior year	396,826	(4,232)
other tax adjustments	(89,631)	105,198
	<b>703,993</b>	<b>(784,988)</b>
Less:		
Tax effect of:		
deduction for current year US state taxes	-	-
research and development additional allowance	(52,208)	(154,740)
Recoupment of tax losses not previously recognised	(77,271)	(128,675)
<b>Income tax attributable to entity</b>	<b>574,514</b>	<b>(1,068,403)</b>
The applicable weighted average effective tax rates are as follows:	63%	(51%)

Effective 1 January 2018 the US federal tax rates were reduced from 34% to 21%. This had the effect of reducing the deferred tax liability by a significant amount and resulted in the group recognising an income tax benefit for the prior year.

## Recognition and Measurement

### 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.

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.

#### Income tax - key estimate and judgement

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.

## 5 Earnings per Share

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

	<b>Consolidated Group</b>	
	<b>2019</b>	<b>2018</b>
Net profit attributed to ordinary equity holders of the parent	337,452	3,181,329
Weighted average number of ordinary shares for basic earnings per share	152,965,398	151,092,302
Weighted average number of ordinary shares adjusted for the effect of dilution	152,965,398	151,092,302

### Recognition and Measurement

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.

Basic earnings per share is calculated as net profit/(loss) 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

## 6 Dividends Paid and Proposed

### Dividends

No Dividend paid during the financial year (2018: Nil)

### Recognition and Measurement

Dividends are recognised when declared during the financial year and no longer at the discretion of the company.

There are no dividends payable or receivable at reporting date.

	<b>Consolidated Group</b>	
	2019	2018
	\$	\$
<b>Franking Credit Balance</b>		
The amount of franking credits available for the subsequent financial year are:		
- Franking account balance as at end of the financial year at 30% (2018 - 30%)	1,616,505	1,208,272
- Franking credits that will arise from the payment/(receipt) of income tax payable/(receivable) as at the end of the financial year	240,998	329,775
The amount of franking credits available for future reporting periods	<u>1,857,503</u>	<u>1,538,047</u>

## 7 Cash and Cash Equivalents

### (a) Cash Balance

	<b>Consolidated Group</b>	
	2019	2018
	\$	\$
Cash at bank	905,167	1,381,807
	<u>905,167</u>	<u>1,381,807</u>

### Recognition and Measurement

Cash and short-term deposits in the Statement of Financial Position comprise cash at bank and in hand and short-term deposits, highly liquid investments that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value. 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.

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:

	<b>Consolidated Group</b>	
	2019	2018
	\$	\$
Cash and cash equivalents	905,167	1,381,807
<b>Cash per Statement of Cash Flows</b>	<u><b>905,167</b></u>	<u><b>1,381,807</b></u>

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

	<b>Consolidated Group</b>	
	2019	2018
	\$	\$
Profit after income tax	337,452	3,181,329
Non-cash flows in profit:		
Depreciation expenses	210,687	213,502
Amortisation expenses	4,266,842	4,512,427
Net profit on disposal of property, plant and equipment	3,995	414
Share option expenses	-	236,025
Net foreign exchange difference	(38,093)	19,258
Changes in assets and liabilities (net of settlement)		
Decrease/(increase) in inventories	53,499	(7,227)
Decrease/(increase) in trade and other receivables	2,077,326	(166,757)
Decrease/(increase) in prepayments	227,016	(46,128)
(Increase)/ in deferred tax assets	(1,563,244)	(584,970)
(Increase)/decrease in current tax assets	(52,034)	2,156
Increase/(decrease) in current/deferred tax liabilities	1,736,923	(865,559)
(Decrease) in trade and other payables	(874,619)	(164,966)
Increase/(decrease) in provisions	(93,750)	106,754
Increase/(decrease) in maintenance in advance	121,618	274,684
<b>Net Cash from Operating Activities</b>	<b>6,413,618</b>	<b>6,710,942</b>

(c) Changes in liabilities arising from financing activities

	<b>Consolidated Group</b>
	2019
	\$
<b>Financial liabilities 1 July 2018</b>	<b>8,592,982</b>
<b>Cash activities</b>	
Repayment of borrowings	(2,191,623)
<b>Non cash changes</b>	
Fair value change in derivative financial liability	30,110
FX unrealised loss	251,023
<b>Financial liabilities 30 June 2019</b>	<b>6,682,492</b>

## 8 Trade and other receivables

	<b>Consolidated Group</b>	
	2019	2018
	\$	\$
<b>Current</b>		
Trade receivables	4,694,854	6,133,099
Less: Provision for expected credit losses	(799,060)	(832,056)
	<b>3,895,794</b>	<b>5,301,043</b>
Unbilled receivables	321,660	709,066
Receivable from related party	-	-
	<b>4,217,454</b>	<b>6,010,109</b>

### Recognition and Measurement

Trade receivables are non-interest bearing and are generally on 7-30 day terms. These assets are held for collection of contractual cashflows where these cashflows represent payment of principal and are measured at amortised cost. The Consolidated Group has applied the simplified approach to measuring expected credit losses, which uses a lifetime expected loss allowance. To measure the expected credit losses, trade receivables have been grouped based on days overdue.

The ageing analysis of trade receivables is as follows:

	<b>Consolidated Group</b>	
	2019	2018
	\$	\$
0-30 days	2,990,188	4,734,230
0-30 days/CI*	3,540	1,338
31-60 days/PDNI*	522,903	273,391
31-60 days/CI*	2,823	101
61-90 days/PDNI*	161,777	82,816
61-90 days/CI*	578	908
+ 91 days/PDNI*	214,285	210,606
+ 91 days/CI*	798,760	829,709
	<b>4,694,854</b>	<b>6,133,099</b>

\* Past due no allowance ('PDNI')

\* Allowance for expected credit losses ('CI')

According to AASB 9, the weighted expected credit loss rates for FY2019 are 0-30 days (0.57%), 31-60 days (2.34%), 61-90 days (8.59%) and 91+ days (2.25%).

Receivables past due but not considered impaired are \$898,964 (2018: \$566,813). 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 were nil at 30 June 2019 (2018: \$6,798). 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 are recognised at amortised cost, less any allowance for expected credit losses. No allowance for expected credit losses have been recognised for these receivables.

Movements in the allowance for expected credit losses are as follows:

	<b>Consolidated Group</b>	
	2019	2018
	\$	\$
<b>Movement in provision</b>		
Balance of the beginning of the year	832,056	270,079
Increase/(decrease) in provision	(47,954)	532,600
Foreign currency exchange difference	14,958	29,377
<b>Balance at the end of year</b>	<b>799,060</b>	<b>832,056</b>

**(a) Related party receivables**

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

**(b) Fair value and credit risk**

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

**(c) Foreign exchange and interest rate risk**

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

**(d) Non current receivables**

There were no non-current receivables.

**Allowance for expected credit losses of receivables - key estimate and judgement**

The allowance for expected credit losses assessment requires a degree of estimation and judgement. It is based on the lifetime expected credit loss, grouped based on days overdue, and makes assumptions to allocate an overall expected credit loss rate for each group. These assumptions include recent sales experience and historical collection rates.

## 9 Other Assets

	<b>Consolidated Group</b>	
	2019	2018
	\$	\$
Prepayments	1,199,464	1,589,653
	<b>1,199,464</b>	<b>1,589,653</b>

### Recognition and Measurement

Prepayments for goods and services are recognised at cost and amortised over the consumption of the good or service.

## 10 Inventories

	<b>Consolidated Group</b>	
	2019	2018
	\$	\$
Finished goods at the lower of cost and net realisable value	90,669	143,076
	<b>90,669</b>	<b>143,076</b>

### Recognition and Measurement

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.

## 11 Property, Plant & Equipment

	<b>Consolidated Group</b>	
	<b>2019</b>	<b>2018</b>
	<b>\$</b>	<b>\$</b>
<b>(a) Property, plant, equipment, furniture and motor vehicles</b>		
At cost	2,439,716	2,221,089
Accumulated depreciation	(2,227,799)	(2,043,201)
	<b>211,917</b>	<b>177,888</b>
<b>Movement in carrying amount</b>		
Balance at the beginning of the year	177,888	224,999
Additions	180,180	58,110
Disposal	(1,064)	(5,570)
Depreciation expense	(148,104)	(119,092)
Foreign currency exchange difference	3,017	19,441
<b>Balance at the end of year</b>	<b>211,917</b>	<b>177,888</b>
<b>(b) Leasehold improvements</b>		
At cost	406,338	404,091
Accumulated depreciation	(353,102)	(325,157)
	<b>53,236</b>	<b>78,934</b>
<b>Movement in carrying amount</b>		
Balance at the beginning of the year	78,934	95,898
Additions	19,558	18,031
Disposal	(2,932)	-
Depreciation expense	(44,862)	(41,074)
Foreign currency exchange difference	2,538	6,079
<b>Balance at the end of year</b>	<b>53,236</b>	<b>78,934</b>
<b>(c) Software</b>		
At cost	515,306	485,095
Accumulated depreciation	(500,866)	(458,413)
	<b>14,440</b>	<b>26,682</b>
<b>Movement in carrying amount</b>		
Balance at the beginning of the year	26,682	66,186
Additions	4,927	10,225
Disposal	-	-
Depreciation expense	(17,721)	(53,337)
Foreign currency exchange difference	552	3,608
<b>Balance at the end of year</b>	<b>14,440</b>	<b>26,682</b>
<b>Total Property, plant and equipment</b>		
At cost	3,361,360	3,110,275
Accumulated depreciation	(3,081,767)	(2,826,771)
	<b>279,593</b>	<b>283,504</b>



**Movement in carrying amount**

Balance at the beginning of the year
Additions
Disposal
Depreciation expense
Foreign currency exchange difference
<b>Balance at the end of year</b>

**Consolidated Group**

2019	2018
\$	\$
283,504	387,083
204,665	86,366
(3,996)	(5,570)
(210,687)	(213,503)
6,107	29,128
<b>279,593</b>	<b>283,504</b>

**Recognition and Measurement**

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.

**Depreciation**

Depreciation is calculated on a straight-line 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% to 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.

## 12 Intangible Assets

Consolidated Group	Intellectual Property \$	Customer relationship \$	Tradename \$	Goodwill \$	Development costs \$	Website Services \$	Total \$
2018							
At cost	7,927,999	8,550,262	877,721	15,295,190	36,499,955	89,175	69,240,302
Accumulated Amortisation	(7,505,094)	(8,078,734)	(575,264)	-	(13,945,960)	(65,820)	(30,170,872)
<b>Net carrying value</b>	<b>422,905</b>	<b>471,528</b>	<b>302,457</b>	<b>15,295,190</b>	<b>22,553,995</b>	<b>23,355</b>	<b>39,069,430</b>
2019							
At cost	7,950,420	8,888,636	878,951	15,718,474	43,062,880	90,405	76,589,766
Accumulated Amortisation	(7,755,323)	(8,509,508)	(633,576)	-	(18,415,544)	(79,642)	(35,393,593)
<b>Net carrying value</b>	<b>195,097</b>	<b>379,128</b>	<b>245,375</b>	<b>15,718,474</b>	<b>24,647,336</b>	<b>10,763</b>	<b>41,196,173</b>
Balance at the beginning of the year 2018	620,429	883,846	356,989	15,112,257	20,269,039	34,259	37,276,819
Capitalised cost	-	-	-	-	5,636,601	-	5,636,601
Amortisation	(225,214)	(435,610)	(57,666)	-	(3,781,498)	(12,439)	(4,512,427)
Foreign currency exchange difference	27,690	23,292	3,134	182,933	429,853	1,535	668,437
<b>Balance at the end of year</b>	<b>422,905</b>	<b>471,528</b>	<b>302,457</b>	<b>15,295,190</b>	<b>22,553,995</b>	<b>23,355</b>	<b>39,069,430</b>
Balance at the beginning of the year 2019	422,905	471,528	302,457	15,295,190	22,553,995	23,355	39,069,430
Capitalised cost	-	-	-	-	5,045,928	-	5,045,928
Amortisation	(233,796)	(98,969)	(57,893)	-	(3,863,259)	(12,925)	(4,266,842)
Foreign currency exchange difference	5,988	6,569	811	423,284	910,672	333	1,347,657
<b>Balance at the end of year</b>	<b>195,097</b>	<b>379,128</b>	<b>245,375</b>	<b>15,718,474</b>	<b>24,647,336</b>	<b>10,763</b>	<b>41,196,173</b>

### Recognition and Measurement

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 2019 financial year.

The current amortisation charge is included under the depreciation and amortisation expense in the Statement of Profit and loss and other Comprehensive Income. Refer below for the amortisation policies for the above intangible assets.

#### 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.

#### Impairment – key estimate and judgement

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.

## 13 Goodwill impairment testing and cash-generating units

Goodwill is allocated to cash-generating units as set out below. The recoverable amount of each cash-generating unit has been determined based on a value-in-use calculation. Value-in-use is calculated based on the present value of cash flow projections over a 5-year period, including a terminal value in the 6th year. The cash flows are discounted using the post-tax weighted average cost of capital at the beginning of the budget period of 11.3%.

Goodwill is allocated to cash-generating units as follows:

	<b>Consolidated Group</b>	
	<b>2019</b>	<b>2018</b>
	<b>\$</b>	<b>\$</b>
3Q Holdings, AdvanceRetail & Island Pacific Australia	8,195,670	8,087,175
Business of Island Pacific (Subsidiaries in US and UK)	7,522,804	7,208,015
	<b>15,718,474</b>	<b>15,295,190</b>

#### Key assumptions used

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

- 11.3% (2018: 10.2%) post-tax discount rate;
- Between 0%-10% (2018: 0%-10%) per annum projected revenue growth rate; and
- Between 0%-5% (2018: 0%-5%) per annum increase in operating costs and overheads.

The discount rate of 11.3% 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 technology industry, the risk free rate and the cost of equity relative to market movements.

- Management believes the projected 0%-10% 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 13% 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 3% 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 1% than currently budgeted for before goodwill and other intangible assets would need to be impaired, with all other assumptions remaining constant.

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

#### Impairment of goodwill – key estimate and judgement

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 0-10% 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 11.3% 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.

## 14 Share-based payments

### Recognition and Measurement

There were no options under the Employee Share Option Plan issued during the year (2018: Nil).

No options expired during the year (2018: Nil).

No shares under the Employee Share Ownership Plan were issued during the year to staff and Senior Managers (2018: 5,245,000 shares).

780,000 shares under the Employee Share Ownership Plan were cancelled during the year (2018: 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	Tranche 5
Number of Shares issued	7,250,000	4,500,000	750,000	1,200,000	4,465,000
Exercise Price	\$0.13	\$0.10	\$0.07	\$0.05	\$0.17
Time to Maturity from issue date	10 years	10 years	10 years	10 years	10 years
Underlying Share Price	\$0.13	\$0.10	\$0.07	\$0.05	\$0.17
Expected Share Price Volatility	36.84%	36.84%	36.84%	36.84%	36.80%
Risk-free Interest Rate	5.11%	5.11%	5.11%	5.11%	4.29%
Dividend Yield	5.00%	5.00%	5.00%	5.00%	5.00%

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.

**Share-based payment transactions – key estimate and judgement**

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.

## 15 Trade and Other Payables

	<b>Consolidated Group</b>	
	2019	2018
	\$	\$
<b>Current</b>		
Trade payables	2,444,472	2,822,524
Deferred revenue	5,191,594	4,891,681
Other payables	358,728	428,562
Payable to related party	359,797	459,802
	<b>8,354,591</b>	<b>8,602,569</b>

### Recognition and Measurement

Trade payables represent liabilities for goods and services provided to the Group prior to the end of financial year which are unpaid. Trade payables are non-interest bearing and are normally settled on 30-day terms. Deferred revenue includes billings or payments received in advance of revenue recognition and is recognised as the revenue recognition criteria are met.

#### (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.

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.

## 16 Financial Liabilities

	<b>Consolidated Group</b>	
	2019	2018
	\$	\$
<b>Current</b>		
Secured:		
Bank loans (borrowings) and finance lease liabilities	2,215,870	2,888,482
Derivative financial liability	5,617	(24,492)
	<b>2,221,487</b>	<b>2,863,990</b>
<b>Non-current</b>		
Secured:		
Bank loans (borrowings) and finance lease liabilities	4,461,005	5,728,992
	<b>4,461,005</b>	<b>5,728,992</b>
<b>Total financial liabilities</b>	<b>6,682,492</b>	<b>8,592,982</b>

### Recognition and Measurement

Borrowings are initially recognised at fair value, net of transaction costs incurred. Borrowings are subsequently measured at amortised cost. Any difference between the proceeds (net of transaction costs) and the redemption amount is recognised in profit or loss over the period of the borrowings using the effective interest method.

Borrowings are classified as current liabilities unless the group has an unconditional right to defer settlement of the liability for at least 12 months after the reporting date. Borrowing costs are recognised as an expense when incurred.

#### 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 its 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 A\$1,500,000 at 30 June 2019, a US\$ loan with a balance of US\$1,634,729 (AUD\$2,327,571) at 30 June 2019, and a GBP loan with a balance of GBP1,041,180 (AUD\$1,882,619) at 30 June 2019. These facilities are amortising and bear interest at a variable rate with a margin of between 2.5% and 3.5%, and interest for the AUD\$ loan is capped at 3% until July 2020, plus a margin of between 2.5% and 3.5%. As at 30 June 2019, AUD\$1,500,000 of the AUD\$ loan was capped, reducing by \$500,000 at September 2019.
- For the US\$ loan, the interest rates are fixed at a rate of 2.21% until July 2020, and the GBP loan is capped at 1.44% until July 2020. As at 30 June 2019, US\$1,600,000 was fixed and 1,000,000 GBP were subject to capped rates.
- At 30 June 2019, the balance outstanding on the three year revolving working capital facility, shown as an overdraft, was \$696,860.
- At 30 June 2019, the balance outstanding on the three year bullet non-revolving cash advance facility was GBP 108,852 (AUD\$196,822).
- 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	
	2019 \$	2018 \$
Total facilities - bank loan	10,800,000	12,300,000
Facilities used at reporting date - bank loans	6,603,872	8,617,474
Facilities unused at reporting date - bank loans	4,196,128	3,682,526

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	
		2019 \$	2018 \$
<b>Current</b>			
Cash and cash equivalents	7	905,167	1,381,807
Trade and other receivables	8	4,217,454	6,010,109
Other assets	9	1,199,464	1,589,653
Inventories	10	90,669	143,076
Tax asset	18	-	104,716
		<b>6,412,754</b>	<b>9,229,361</b>
<b>Non-current</b>			
Deferred tax assets	18	7,745,831	6,765,927
Property, plant and equipment	11	279,593	283,504
Intangible assets	12	41,196,173	39,069,430
		<b>49,221,597</b>	<b>46,118,861</b>
<b>Total assets pledged as security</b>		<b>55,634,351</b>	<b>55,348,222</b>

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 and during the year there were no breaches or defaults with Commonwealth Bank of Australia.

## 17 Employee Benefits

	Consolidated Group	
	2019 \$	2018 \$
Current - Provision for annual leave and long service leave	1,649,616	1,700,488
Non-current - Provision of long service leave	17,953	13,705
	<b>1,667,569</b>	<b>1,714,193</b>
<b>Movement in provision</b>		
Balance at the beginning of the year	1,714,193	1,590,760
Amounts provided	1,321,341	1,475,627
Leave taken	(1,405,256)	(1,309,124)
Translation differences	37,290	(43,070)
<b>Balance at the end of year</b>	<b>1,667,568</b>	<b>1,714,193</b>

### Recognition and Measurement

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 is described below

#### 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.

Leave obligations expected to be settled after 12 months

Consolidated Group	
2019	2018
\$	\$
629,730	682,167
<b>629,730</b>	<b>682,167</b>

#### 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.

## 18 Tax

#### NON-CURRENT

	Opening Balance	Credited to Income	Charged Directly to Equity	Changes in Tax Rate	Exchange Differences	Closing Balance
	\$	\$	\$	\$	\$	\$
<b>Deferred Tax Liability</b>						
Property Plant and Equipment tax allowance	1,870,444	(601,518)	-	-	39,498	1,308,424
Capitalised development costs	7,057,043	(1,681,696)	-	-	138,499	5,513,846
<b>Balance at June 2018</b>	<b>8,927,487</b>	<b>(2,283,214)</b>	-	-	<b>177,997</b>	<b>6,822,270</b>
Property Plant and Equipment tax allowance	1,308,424	16,106	-	-	71,201	1,395,731
Capitalised development costs	5,513,846	506,993	-	-	248,054	6,268,893
<b>Balance at June 2019</b>	<b>6,822,270</b>	<b>523,099</b>	-	-	<b>319,256</b>	<b>7,664,625</b>

#### Deferred Tax Assets

Provisions	699,663	(35,165)	-	-	(3,199)	661,299
Transaction costs on equity issue and convertible notes	35,985	(11,037)	-	-	-	24,948
Unrealised foreign exchange loss/ (gain)	20,410	159,129	-	-	(5,616)	173,923
Property, Plant and Equipment, Intangibles tax allowance	1,885,044	(339,973)	-	-	14,298	1,559,369
Recognition/recoupment of tax losses	4,259,516	221,220	(299,221)	-	79,412	4,260,927
Other	252,626	(168,168)	-	-	1,003	85,461
<b>Balance at 30 June 2018</b>	<b>7,153,244</b>	<b>(173,994)</b>	<b>(299,221)</b>	-	<b>85,898</b>	<b>6,765,927</b>

**NON-CURRENT**

	Opening Balance	Credited to Income	Charged Directly to Equity	Changes in Tax Rate	Exchange Differences	Closing Balance
	\$	\$	\$	\$	\$	\$
Provisions	661,299	13,041	-	-	32,559	706,899
Transaction costs on equity issue and convertible notes	24,948	(8,956)	-	-	-	15,992
Unrealised foreign exchange loss/ (gain)	173,923	85,160	-	-	(10,028)	249,055
Property, Plant and Equipment, Intangibles tax allowance	1,559,369	(195,947)	-	-	23,356	1,386,778
Recognition/recoupment of tax losses	4,260,927	990,222	(107,549)	-	216,331	5,359,931
Other	85,461	(60,947)	-	-	2,662	27,176
<b>Balance at 30 June 2019</b>	<b>6,765,927</b>	<b>822,573</b>	<b>(107,549)</b>	<b>-</b>	<b>264,880</b>	<b>7,745,831</b>

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 4 are met, amount to \$10,831,085 (tax effected \$3,249,326) (2018: \$11,081,268, tax effected \$3,324,380).

3Q Holdings Limited had income tax losses of \$13,271,852 at 30 June 2019 (\$13,522,035 as at 30 June 2018), of which \$2,440,767 of these losses have been recognised as a deferred tax asset in accordance with Note 4.

Island Pacific (UK) Limited had no income tax losses as at 30 June 2019 (2018: Nil). During the year, it used \$565,997 of tax losses from Intelligent Retail Limited by taking advantage of Group Tax Relief.

AdvanceRetail Technology Limited had income tax losses of \$1,695,279 at 30 June 2019 (\$508,445 as at 30 June 2018), all of these losses have been recognised as a deferred tax asset in accordance with Note 4.

Island Pacific Systems Inc had income tax losses of \$11,148,245 at 30 June 2019 (losses of \$7,461,811 at 30 June 2018), of which all of these losses have been recognised as a deferred tax asset in accordance with Note 4.

Intelligent Retail Limited had income tax losses at 30 June 2019 of \$417,064 (\$437,372 as at 30 June 2018), all of these losses have been recognised as a deferred tax asset in accordance with Note 4. In addition, it also provided \$ 565,997 of tax losses to Island Pacific (UK) Limited during the year by taking advantage of Group Tax Relief.

	<b>Consolidated Group</b>	
	2019	2018
	\$	\$
<b>CURRENT</b>		
Income Tax Receivable	-	104,716
Income Tax Payable	(1,153,643)	(903,743)
<b>Net Current Tax Receivable (liability)</b>	<b>(1,153,643)</b>	<b>(799,027)</b>

**Recovery of deferred tax assets – key estimate and judgement**

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.

# Annual Report 2019

## 19 Issued Capital

2018

(a) Ordinary shares

Fully paid

Partially paid

(i) Movements in ordinary share on issue

Balance at the beginning of the year

Staff shares issued

Balance at the end of the year

2019

(b) Ordinary shares

Fully paid

Partially paid

(i) Movements in ordinary share on issue

Balance at the beginning of the year

Staff shares cancelled

Balance at the end of the year

### Consolidated Group

Number

\$

153,046,603 6,712,050

- -

153,046,603 6,712,050

147,801,603 6,712,050

5,245,000 -

153,046,603 6,712,050

152,266,603 6,712,050

- -

152,266,603 6,712,050

153,046,603 6,712,050

(780,000) -

152,266,603 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 \$1.464m from FY2018. The gross debt decreased by \$1.94m from the prior year. Cash decreased by \$476k from the prior year. Management intend to continually reduce this ratio by repaying part of its debt using internally generated funds.

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

 Interest cover ratio

 Leverage ratio

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

The gearing ratios based on operations at 30 June 2019 and 2018 were as follows:

### Consolidated Group

2019

2018

\$

\$

Interest bearing loans &amp; borrowings

6,676,875 8,617,474

Cash &amp; equivalent

(905,167) (1,381,807)

Net debt

5,771,708 7,235,667

Total equity

30,111,431 28,712,465

Total capital employed

35,883,139 35,948,132

Gearing (%)

16.08% 20.13%

### 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.

## 20 Reserves

	<b>Consolidated Group</b>	
	2019 \$	2018 \$
<b>(a) Foreign currency translation reserve</b>		
Balance at the beginning of the year	2,284,622	1,685,847
Gain/(loss) on translation of overseas controlled entities	856,386	598,775
<b>Balance at the end of the year</b>	<b>3,141,008</b>	<b>2,284,622</b>
<b>(b) Employee benefits equity reserve</b>		
Balance at the beginning of the year	236,025	-
Options expensed during the year	-	236,025
<b>Balance at the end of the year</b>	<b>236,025</b>	<b>236,025</b>
<b>Total reserves</b>	<b>3,377,033</b>	<b>2,520,647</b>

### 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 21. 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.

	<b>Consolidated Group</b>	
	2019 \$	2018 \$
<b>Financial assets</b>		
Cash and equivalents	905,167	1,381,807
Financial assets at amortised cost		
- Loans and receivables	4,217,454	6,010,109
<b>Total financial assets</b>	<b>5,122,621</b>	<b>7,391,916</b>
<b>Financial liabilities</b>		
Financial liabilities at amortised costs		
- Trade and other payables	8,354,591	8,602,569
- Borrowings	6,676,874	8,617,474
- Financial liabilities at FV through profit or loss	5,618	(24,492)
<b>Total financial liabilities</b>	<b>15,037,083</b>	<b>17,195,551</b>

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:

	<b>Consolidated Group</b>	
	2019 \$	2018 \$
<b>Financial assets</b>		
Cash and equivalents	905,167	1,381,807
	<b>905,167</b>	<b>1,381,807</b>
<b>Financial liabilities</b>		
Bank overdrafts	696,860	1,388,483
Interest rate swaps	5,618	(24,492)
Bank loans and financial lease liabilities	320,832	1,284,692
	<b>1,023,310</b>	<b>2,648,683</b>
<b>Net exposure</b>	<b>118,143</b>	<b>1,266,876</b>

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. These swaps and caps are designated to hedge underlying debt obligations. At 30 June 2019, after taking into account the effect of interest rate swaps and caps, 95% of the Group's bank borrowings are at a fixed or capped rate of interest (2018: 82%). 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 2019 and 2018):

	<b>Consolidated Group</b>	
	2019 \$	2018 \$
<b>Judgements of reasonably possible movements</b>		
<b>Post tax profit</b>		
+ 1% (100 basis points)	(827)	(8,868)
- 0.5% (50 basis points)	414	4,434
<b>Equity</b>		
+ 1% (100 basis points)	(827)	(8,868)
- 0.5% (50 basis points)	414	4,434

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 lower in 2019 than in 2018 because there was a higher exposure of net debt in 2018 by \$1,148,733 compared to 2019.

#### 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 2018 (2018: Nil).

	Consolidated Group	
	2019 \$	2018 \$
Net Profit after tax	210,780	4,047,060
<b>Net Profit after tax subject to exposure</b>	<b>210,780</b>	<b>4,047,060</b>
<b>Equity</b>		
Assets	49,504,612	47,471,019
	<b>49,504,612</b>	<b>47,471,019</b>
<b>Liability</b>		
Bank loans	4,407,012	5,228,992
Others	32,225,432	30,154,998
	<b>36,632,444</b>	<b>35,383,990</b>
<b>Equity to exposure</b>	<b>12,872,168</b>	<b>12,087,029</b>

Between 2019 and 2018, exchange rates moved by almost -5.43% (2018: -3.67%) for the AUD\$:US\$, by -1.38% (2018: -5.36%) for the AUD\$:GBP, and by -4.67% (2018: 4.18%) for the AUD\$:NZ\$. This is an average movement of -3.83% (2018: -1.61%). For comparative purposes, assume a higher-end movement of 10% (2018: 10%), and using a lower-end movement of 5% (2018: 5%), as illustrated in the table below, with all other variables held constant, post tax profit and equity would have been affected as follows:

	Consolidated Group	
	2019 \$	2018 \$
<b>Judgements of reasonably possible movements</b>		
<b>Post tax profit</b>		
-10% (2018: -10%) movement in AUD\$	8,574	211,208
-5% (2018: -5%) movement in AUD\$	4,287	105,604
+5% (2018: +5%) movement in AUD\$	(4,287)	(105,604)
+10% (2018: +10%) movement in AUD\$	(8,574)	(211,208)
<b>Equity</b>		
-10% (2018: -10%) movement in AUD\$	1,288,823	1,208,715
-5% (2018: -5%) movement in AUD\$	644,411	604,357
+5% (2018: +5%) movement in AUD\$	(644,411)	(604,357)
+10% (2018: +10%) movement in AUD\$	(1,288,823)	(1,208,715)



The Group has a US\$ borrowing facility of \$1,634,729 (2018: \$2,069,903) that is used as a hedge of the net investment in the US operation.

The Group has a UK£ borrowing facility of £1,150,032 (2018: £1,364,435) that is used as a hedge of the net investment in the UK operations.

At 30 June 2019, the Group hedged none of its foreign currency purchases that are firm commitments (2018: 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 securities 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 2019. Cash flows for liabilities without fixed amount or timing are based on the conditions existing at 30 June 2019.

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

	<b>Consolidated Group</b>	
	2019 \$	2018 \$
6 months or less	9,810,956	10,741,051
6-12 months	765,122	725,507
1-5 years	4,461,005	5,728,993
Over 5 years	-	-
	<b>15,037,083</b>	<b>17,195,551</b>

Included in the maturities of 6 months or less is an amount of \$5,191,594 (2018: \$4,891,681) representing maintenance and other amounts invoiced to 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 \$4,619,362 (2018: \$5,848,926) instead of the stated amount of \$9,810,956 (2018: \$10,741,051).

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.

	<b>Consolidated Group</b>	
	2019 \$	2018 \$
<b>Trade &amp; other payable</b>		
< 6 months	8,354,591	8,602,569



	<b>Consolidated Group</b>	
	2019 \$	2018 \$
6 - 12 months	-	-
1-5 years	-	-
Over 5 years	-	-
	<b>8,354,591</b>	<b>8,602,569</b>
<b>Interest rate swaps</b>		
< 6 months	-	-
6 - 12 months	5,617	(24,492)
	<b>5,617</b>	<b>(24,492)</b>
<b>Interest bearing loans &amp; borrowings</b>		
< 6 months	1,456,365	2,138,482
6 - 12 months	759,505	750,000
1-5 years	4,461,005	5,728,992
	<b>6,676,875</b>	<b>8,617,474</b>
	<b>15,037,083</b>	<b>17,195,551</b>

**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 2019. Comparatives included below.

	<b>Consolidated Group</b>			
	Level 1 \$	Level 2 \$	Level 3 \$	Total \$
<b>At 30 June 2019</b>				
Financial liabilities/(assets) at FV through profit or loss	-	5,618	-	5,618
	-	5,618	-	5,618

	<b>Consolidated Group</b>			
	Level 1 \$	Level 2 \$	Level 3 \$	Total \$
<b>At 30 June 2018</b>				
Financial liabilities/(assets) at FV through profit or loss	-	(24,492)	-	(24,492)
	-	(24,492)	-	(24,492)

	<b>Consolidated Group</b>	
	2019 \$	2018 \$
<b>Movement</b>		
Balance at the beginning of the year	(24,492)	15,714
Additional (reversal)/provision	30,110	(40,206)
<b>Balance at the end of the year</b>	<b>5,618</b>	<b>(24,492)</b>

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 allowance for expected credit loss 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.

### Recognition and Measurement

#### Initial Recognition and measurement

Financial assets and financial liabilities are recognised when the Group becomes a party to the contractual provisions of the instrument. Financial assets and financial liabilities are initially measured at fair value. Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities (other than financial assets and financial liabilities at fair value through profit or loss) are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition. Transaction costs directly attributable to the acquisition of financial assets or financial liabilities at fair value through profit or loss are recognised immediately in profit or loss.

#### Classification and subsequent measurement

Financial assets that meet the following conditions are measured subsequently at amortised cost:

- Held within a business model whose objective is to hold financial assets in order to collect contractual cash flows;
- The contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

Financial assets that meet the following conditions are measured subsequently at fair value through other comprehensive income (FVTOCI):

- The financial asset is held within a business model whose objective is achieved by both collecting contractual cash flows and selling the financial assets;
- The contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

By default, all other financial assets are measured subsequently at fair value through profit or loss (FVTPL).

As at the reporting date, the Group's financial assets consisted of cash and cash equivalents and trade and other receivables which are measured at amortised cost in accordance with the above accounting policy.

Non-derivative financial liabilities are initially measured at fair value and are subsequently measured at amortised cost. Gains or losses are recognised in profit or loss through the amortisation process and when the financial liability is derecognised.

As at the reporting date, the Group's financial liabilities consisted of trade and other payables, bank loans and derivatives. Other than the derivative instruments which are measured at fair value with changes recognised in profit or loss, the Group's other financial liabilities have been measured at amortised cost in accordance with the above accounting policy.

## 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).

	<b>Consolidated Group</b>	
	<b>2019</b>	<b>2018</b>
	<b>\$</b>	<b>\$</b>
Within one year	708,773	458,881
After one year, but not more than five years	871,960	195,004
	<b>1,580,733</b>	<b>653,885</b>

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 (2018: Nil).

### 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.

## 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):

<b>Consolidated</b>		<b>2019</b>	<b>2018</b>
		<b>\$</b>	<b>\$</b>
Rent paid to Related Parties excluding GST	Note 2	184,080	188,625
Compensation of David Rosen	Note 4	436,989	700,202
Transactions with Distributor	Note 3	875,148	917,149
Amounts owed to Related Parties – Distributor	Note 3	359,797	459,802
Compensation of McGeachen Bell Associates Ltd (Mark McGeachen)	Note 5	284,986	251,305
Compensation of McGeachen Bell Associates Ltd (Andrew Bell)	Note 6	234,475	230,091
Loan to Director (Shaun Rosen)	Note 7	369,543	579,806

#### 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 –Loan to director (Shaun Rosen)**

Shaun Rosen, a Director of 3Q Holdings Limited is a related party. Interest has been charged on such amounts loaned at an arm's length rate of 6%.

## **24 Significant events after the reporting date**

On 6 September 2019, the Group received a final term sheet extending the Group's financing facilities with the Commonwealth Bank of Australia by a further 3 years.

Other than the above, there were no significant events after the reporting date.

## 25 Auditors' Remuneration

The auditor of 3Q Holdings Limited is BDO.

	<b>Consolidated Group</b>	
	<b>2019</b>	<b>2018</b>
	<b>\$</b>	<b>\$</b>
Amounts received, or due and receivable by BDO for:		
- Audit or review of financial reports of the entity	151,299	149,140
- Other non-auditor services in relation to the entity		
R&D tax allowance preparation and other tax services	5,041	5,492
Other services charge	-	2,643
Remuneration of other auditors of subsidiaries for:		
- Audit or review of financial reports of the entities	190,870	258,368
- Other non-auditor services in relation to the entities		
Tax services	54,985	49,874
Other services charge	29,574	13,666
	<b>431,769</b>	<b>479,183</b>

## 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.

<b>Name of Entity</b>	<b>Country of Incorporation</b>	<b>Class of Shares</b>	<b>Equity Holding 2019 %</b>	<b>Equity Holding 2018 %</b>
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
Island Pacific Retail Systems Private Limited	India	Ordinary	100	100
Intelligent Retail (UK) Limited (subsidiary of IP UK)	United Kingdom	Ordinary	100	100

## Recognition and Measurement

### 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 Systems 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, Island Pacific Retail Systems Private Limited, is Rupee (INR).

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

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

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

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

## 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 2019 (2018: 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 2.5% (2018: 3%) of 5.50% (2018: 5.87%) on Australian loans, 4.71% (2018: 4.77%) on US loans, and 3.94% (2018: 4.44%) 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 2019 cover 95% (2018: 82%) of the principal outstanding and they expire on 1st July 2020. A\$1.5million of the Australian loan was capped at 3%, US\$1.6 million was fixed at 2.21% and £1 million was capped at 1.44% at 30 June 2019.

### (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:

	<b>Consolidated Group</b>	
	2019 \$	2018 \$
Short-term employee benefits	2,820,054	3,140,476
Post-employment benefits	101,532	121,613
	<b>2,921,586</b>	<b>3,262,089</b>

## 29 Parent Entity Information

Information relating to 3Q Holdings Limited.

	<b>Parent Entity</b>	
	<b>2019</b>	<b>2018</b>
	<b>\$</b>	<b>\$</b>
Current assets	1,906,596	2,682,605
Non-current assets	40,111,299	39,566,525
Total assets	42,017,895	42,249,130
Current liabilities	3,954,287	4,433,684
Non-current liabilities	7,551,281	8,469,333
Total liabilities	11,505,568	12,903,017
Equity		
- Issued Capital	45,431,779	45,431,779
- Reserves	-	-
- Accumulated losses	(14,919,452)	(16,085,666)
Shareholder's equity	30,512,327	29,346,113
Profit for the year	1,166,214	1,080,902
Total comprehensive income for the year	1,166,214	1,080,902

### 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 (2018: Nil).

### Contingent liabilities

There were no contingent liabilities at Balance sheet date (2018: Nil).

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

There are no commitments in the current year (2018: 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 2019 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, 9 September 2019.



.....  
Director



## Independent Auditor's Report



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Sydney NSW 2000  
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 2019, 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 2019 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](http://www.auasb.gov.au/auditors_responsibilities/ar3.pdf)

This description forms part of our auditor's report.

#### **BDO East Coast Partnership**



Martin Coyle  
Partner

Sydney, 9 September 2019