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**tomizone®**

# Annual Report 2018

**Tomizone Limited**

ABN 99 000 094 995

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# Chairman's Report

## IAN BAILEY



It is a privilege to be writing this report a little over 12 months since I was elected as Chairman of Tomizone. There has been a significant amount of work completed and results achieved this year, although there is still more to be done to position Tomizone where the board has planned.

Over the last 12 months the Board and management have been working hard to ensure the long term success of Tomizone. We have structured the company for growth and to be cashflow positive and profitable in the near term. The recent cash flow reports show we are almost there, a great achievement from where Tomizone was just 12 months ago.

Whilst this process has taken a little longer than expected, and incurred additional unexpected restructuring costs, the business is heading in the right direction.

The business has been repositioned into a full service Managed Services company offering many complimentary products - a contrast to the previous, one product WiFi business. Revenue has been significantly increased through both acquisition and organic growth (\$2.1m in FY17 to \$5.1m in FY18). Importantly the majority of the increased revenue was achieved in the last 8 months of trading.

Tomizone's customer base has increased to over 4,000 customers, and significant improvements have been achieved in regard to company operational processes. As part of the restructure, Tomizone's technology hub has been completely rebuilt and upgraded to provide our customers with the latest available suite of products and services.

Positively, in addition to the \$5.1M of revenues generated in 2018, the business now has contracted future cashflows of circa \$4M. The company's strategy of adding new products and services that generate recurring revenue instead of one-off sales, secures the revenue growth achieved to date. The increase of recurring revenue endorses the company's strategy of organic growth and growth through acquisition. Additional revenue growth will be seen upon the completion of the recently approved acquisitions of Lighthouse and Sweep.

**The balance sheet restructure that the Board is currently pursuing will secure the business and ensure it has a long term future with profitability and ongoing growth prospects.**

The restructure will deliver significant finance cost savings as well as bringing significant revenue streams into Tomizone that are currently sitting with Tomizone's funders. The Board anticipates further announcements with regard to this initiative in coming months.

We have always seen ourselves in the *Managed Services* business whereby we offer a wide range of products and services to our customers and, where possible provide those services on a recurring annuity subscription basis.

The transition that began in August 2017 from a single product (WiFi) to a multi-product, fully integrated managed services business, is coming to fruition. In addition to the new strategy, Tomizone has undertaken a restructure of the Board and middle management team which has transformed the business and set it on a path to profitability.

In February 2018 the Board approved the appointment of Matt Adams as Tomizone's Managing Director. Having previously served as an Independent Director, Matt has been instrumental to the company's success and under his leadership we anticipate a further expansion of the business. As a Board we also anticipate expanding the number of directors to include additional independent directors who have sound commercial knowledge and understand the company's growth strategy.

I wish to take this opportunity to thank all of our shareholders who have supported Tomizone during our transition. The staff of the company have been key to the achievements to date and the board and I acknowledge their fantastic efforts. I would also like to thank the entire board for their support and commitment to the company.

It has been a big year and we expect the next 12 months will continue to be very busy as we integrate the recent acquisitions into the enlarged business, expand into the Australian market, complete the refinancing and grow the business.

**Ian Bailey**  
Chairman & Executive Director  
Tomizone Limited

# Managing Director's Report

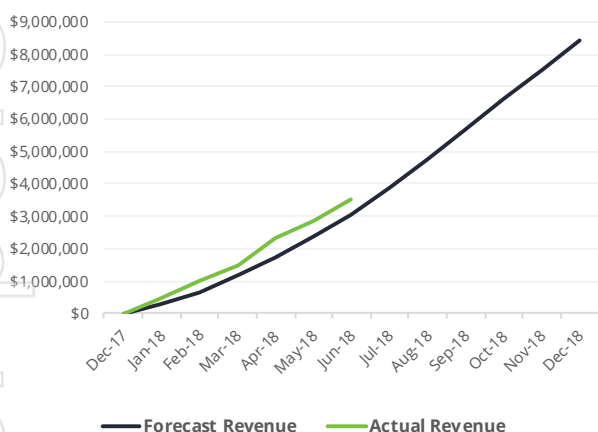
## MATT ADAMS



It has been a transformational year for Tomizone. In June 2017 the company had a single product set, focused on an expensive international expansion strategy, and a small but geographically spread customer base. Over the last year we have refocused the company into the New Zealand, Australian and Singaporean markets, with the majority of the revenues being generated between Australia and New Zealand.

Tomizone undertook 2 acquisitions in October 2017 with the value of those transactions being seen in the significant increase in revenues over last year to circa \$5.1M, representing a 238% increase to FY17. Importantly, a significant part of these revenues are recurring and on a subscription basis. Given the acquisitions were only trading within Tomizone for 8 months of the year, this annualises to a revenue figure of approximately \$8M. Combined with the existing Tomizone business, these acquisitions have resulted in a customer base of over 4,000.

### Revenue Targets Exceeded



The table on the following page demonstrates the turnaround in progress at Tomizone. Removing almost \$1m in one-off restructuring costs, it can be seen that a significant improvement in top line revenue and also EBITDA has occurred.

Further, although only a small win, we saw the company achieve positive cashflow in June this year – the first time this has occurred since Tomizone listed.

In July, Tomizone obtained shareholder approval to acquire 2 additional businesses (Sweep and Lighthouse) that add further synergistic products to our existing customer base, including a partnership license with global communications player, Avaya, to resell their product and provide support to Avaya customers in both New Zealand and Australia. Combined with our expanding ICT division, which includes a managed VoIP service, we anticipate the company will continue to grow over the 2019 year.

The combination of the current Tomizone business together with Sweep and Lighthouse should generate revenues in excess of \$10M for the next financial year on an annualised basis.

We are also pursuing a balance sheet restructure which will involve amongst other things, a refinancing of our current funding facilities which will result in significantly lower finance costs, an expanded business and increase in revenues and profitability. We anticipate this transaction should be completed within the 2019 calendar year and will make further detailed announcement as the restructure progresses.

As to the future beyond the restructure, we continue to look for a suitable acquisition in the Australian market and grow our existing base with staff now in Brisbane, Sydney and Melbourne. Australia is an important market for Tomizone and we consider all avenues to grow in that jurisdiction.

Our medium term target is to grow the revenues to circa \$20M with an emphasis on profitable, recurring revenues which not only benefit near term revenue but also underpin the long term future of the business.

In closing I would firstly like to thank Tomizone's key stakeholders – its staff, shareholders, customers and funders. Progressing through a restructure like Tomizone is currently undertaking is never easy. However, the support of all of the above parties has been, and still is, essential to the success of that restructure and all parties should be confident in the amount of work that is going into Tomizone's turnaround.

**Matt Adams**  
Managing Director  
Tomizone Limited

## Performance Turnaround FY16 - FY18

Comparison	2016	2017	2018
Revenues	2,720,240	2,181,126	5,172,061
Direct Costs	(1,165,421)	(770,699)	(2,396,892)
<b>Gross Margin</b>	<b>1,554,819</b>	<b>1,410,427</b>	<b>2,775,169</b>
<b>Margin</b>	<b>57%</b>	<b>65%</b>	<b>54%</b>
Other operating income (expense)	11,414	(29,137)	(21,457)
Employee benefits expense	(2,477,857)	(1,370,307)	(2,209,043)
Other expenses	(1,876,801)	(1,333,488)	(2,444,919)
Share Based Payment	(600,758)	(355,363)	(111,578)
<b>EBITDA</b>	<b>(3,389,183)</b>	<b>(1,677,868)</b>	<b>(2,011,828)</b>
One off restructuring costs	-	-	961,000
<b>EBITDA adjusted</b>	<b>(3,389,183)</b>	<b>(1,677,868)</b>	<b>(1,050,828)</b>

# \$5.17M

**Total Revenues**

FY18

# 238%

**Increase in Revenues**

FY17 - FY18

# 4000+

**Customer Base**

FY18

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# Directors' Report



# Directors' Report

Your Directors submit their report for the year ended 30 June 2018 for Tomizone Limited (the Company).

## Directors

The names and details of the Company's directors in office during the financial year and until the date of this report are set out below. Directors were in office for this entire period unless otherwise stated.

Ian Bailey, Executive Director and Chairman (Appointed: 3 July 2017)

Matt Adams, Executive Director (Appointed: 3 July 2017) – Appointed Managing Director 20 February 2018

Maxim Carling, Non Executive Director (Appointed: 1 September 2017)

Phillip Joe, Executive Director and Chief Commercial Officer (Appointed: 22 May 2015, Resigned 15 December 2017)

Avikashan (Avi) Naidu, Non Executive Director (Appointed: 3 July 2014, Resigned 1 September 2017)

Eric King Wai Chan, Non Executive Director (Appointed: 3 July 2014, Resigned 1 September 2017)

Tarun Kanji, Non Executive Director and Chairman (Appointed: 22 May 2015, Resigned 3 July 2017)

### Ian Bailey

#### (Executive Director and Chairman)

Mr Bailey has a wealth of experience developing small companies into much larger companies that create positive returns for shareholders.

Ian has had extensive experience in both the NZ and Australian markets, particularly in payments (EFTPOS), merchant Point of Sale (POS) technology, both hardware and software, and telecommunications sectors. In addition, Ian has been involved in the listing and management of two companies listed on the New Zealand Securities Exchange.

Ian has a solid background in technology, management, sales and marketing. He holds qualifications which include Diploma in Electronic Computer Servicing, Electronics certificate from Auckland Technical Institute, certificate in Business Management from the Australian Institute of Management and has completed units in Marketing from the University of Auckland. In addition, Ian has completed a wide range of courses from the New Zealand Institute of Directors, including a Certificate in Company Direction, Chairing the Board, Finance Essentials and Governance Essentials

Ian is also a Chartered member of the New Zealand Institute of Directors and an Affiliate of the Australian Institute of Directors. He has held directorships in private and public companies in New Zealand and Australia.

Mr Bailey does not hold any other ASX listed directorships.

### Matt Adams

#### (Managing Director)

Joined the board on the 3 July 2017 as an Independent Director and subsequently appointed Managing Director 20 February 2018. Mr Adams is an experienced finance professional with over 20 years' experience in executive management positions. Mr Adams was a partner in the mid-sized chartered accounting firm Taylor Woodings for over 10 years until its acquisition by FTI Consulting (a NYSE listed consulting firm) upon which Mr Adams was appointed Senior Managing Director of FTI Consulting. In 2014 Mr Adams left FTI Consulting and founded the boutique corporate advisory firm Dynamic Corporate Investments of which he is Managing Director.

Mr Adams brings extensive experience in growth strategies, operational efficiency consulting, corporate governance and capital structuring. Mr Adams is qualified as a Chartered Account and has worked in executive roles in a number of public and private companies. Mr Adams has overseen the restructuring and recapitalization of several listed companies including asset sale and business carve outs, capital and debt re-organisation and operational optimisation. In addition, Mr Adams has strong networks within the private equity, hedge fund and banking sectors.

Mr Adams is also company secretary for Ceramic Fuel Cells Ltd (ASX).

### **Maxim Carling**

#### **(Non Executive Director)**

Mr Carling is a principal of Carling Capital Partners (CCP) and has significant experience in merchant banking and financial advisory services including capital and debt raising for ASX listed entities, as well as extensive experience around mergers and acquisitions. Mr Carling's corporate career includes being a Director/Senior Partner in Standard Chartered Bank, Ramsay Health Care and Prime Media, whilst serving as Financial Director of Paul Ramsay Group, Deloitte Touché Tohmatsu, Asian Capital Partners Australia, ANZ Investment Bank and Terrain Capital.

More recently Mr Carling founded CCP in 2003, which has acted as a principal and advisor to many junior ASX-listed companies and private companies. Mr Carling also served on the Boards of two ASX-listed companies and assisted in their capital raisings.

His qualifications include a Bachelor of Commerce from UNSW, Bachelor of Arts from University of Wollongong and a past associate of the Australian Society of Certified Practising accountants (CPA).

Mr Carling does not hold any other ASX listed directorships.

### **Former Directors**

The names of Directors who held office from 1 July 2017 and resigned prior to the date of this report are:

#### **Phillip Joe**

**(resigned 15 December 2017)**

No Directorships of other listed companies were held in the 3 years prior to the end of the Financial Year.

#### **Avikashan Naidu**

**(resigned 1 September 2017)**

No Directorships of other listed companies in the 3 years prior to the end of the Financial Year.

#### **Eric King Wai Chan**

**(resigned 1 September 2017)**

No Directorships of other listed companies in the 3 years prior to the end of the Financial Year.

#### **Tarun Kanji**

**(resigned 3 July 2017)**

Tarun Kanji is also a Director of N1 Holdings Limited (ASX: N1H).



## Director interests in the shares and options of the Company and related bodies corporate

As at the date of this report, the interests of the Directors in the shares and options of Tomizone Limited were:

	Number of ordinary shares	Number of performance shares	Number of options over ordinary shares
Ian Bailey	45,723,015	-	10,000,000*
Matt Adams	11,666,667*	-	10,000,000*
Maxim Carling	-	-	-
	<b>57,389,682</b>	<b>-</b>	<b>20,000,000</b>

\* The Directors interests in shares and options include those approved at the General Meeting of Shareholders held on 20 July 2018

Mr Tarun Kanji, Mr Avikashan Naidu, Mr Phillip Joe and Mr Eric Chan resigned subsequent to 30 June 2017 and prior to the date of this report.

## Company Secretary

### Mark Ohlsson

Mr Ohlsson was appointed as Company Secretary on 13 February 2018. He has been involved in Venture Capital for over 35 years. His particular expertise is in assessing venture capital and business proposals, all aspects of contractual negotiations and Board consultation.

### He has been Company Secretary and or Director of a number of ASX listed companies

### Eryn Kestel

Ms Kestel was appointed as Company Secretary on 21 August 2017 and retired on 13 February 2018.

### Anand Sundaraj

Mr Sundaraj finished in the position of Company Secretary on 21 August 2017.

## Principal activities

Tomizone offers an extensive suite of managed services, encompassing WiFi & Analytics, Business Cloud Applications, VoIP, Data Redundancy, Business Security and Point of Sale. A monthly subscription model for all services gives SME through to multi-site enterprise clients a predictable, consolidated fee for all hardware, software, email, backup, telephony and security requirements, along with best-in-class priority support. As a managed service provider, the Company's strategy is simple: increase a client's bottom line, reduce their ICT burden, and harness their competitive edge by facilitating a stronger connection with their customers.

## Review of Operations

Revenue from operations for the year ending 30 June 2018 was \$5,172,061, an increase of 137% from the previous year. This is reflective of the strategy being implemented.

The consolidated entity's comprehensive loss attributable to the equity holders of the Company, after providing for income tax, amounted to \$6,297,840 (2017 loss: \$4,233,269).

The earnings before interest expense, income tax, depreciation, amortisation and impairment (EBITDAI) amounted to a loss of \$2,011,830 (2017 loss: \$1,677,868)

Total Assets are \$4,218,925 (2017: \$1,258,736) and Net Assets are (\$6,497,363) (2017: (\$4,740,603)).

## Significant changes in the state of affairs

The following significant changes in the state of affairs of the Company occurred during the financial year:

### Issue of Share Capital

During the financial year the Company issued 298,738,835 ordinary shares raising \$4,597,812.

Funds raised were used for working capital, redemption of subscription bonds, extinguishing debt and acquisition consideration.

Each share issued has the same terms and conditions as the existing ordinary shares.

### Customer Focus

Tomizone has enhanced its product offering, from providing solely WiFi and Analytics to delivering an extensive suite of ICT managed services, including ICT services, POS systems, payments terminals, CCTV, Security systems and VOIP, to meet its customers' needs as well as generating sustainable positive returns to its shareholders.

## Significant events after the balance date

### General meeting

A General Meeting of Shareholders was held on 20 July 2018 to consider a number of Resolutions.

Resolutions passed at the meeting included

- Approval of prior issues of shares
  - Approval of the issue of shares for the acquisition of Sweep Internet NZ (still to be issued)
  - Approval of the issue of shares for the acquisition from Lighthouse Digital Limited (still to be issued)
  - Approval of the issue of shares to Directors - now issued
  - Adoption of the Managing Director's Share Plan
  - Grant of options to Directors - now issued
  - Adoption of Employee Share Option Plan
  - Approval of SPP, February Placement of SPP Shortfall Options - Short Form Prospectus to be issued
- There have been no other significant events since the end of the financial year.

## Dividends

No dividends have been paid or declared since the start of the financial year by the Company.

The Directors have recommended that no dividend be paid by the Company in respect of the year ended 30 June 2018.

### Likely developments and expected results

The company continues with its strategy of grow via acquisitions as well as organic growth. With 2 acquisitions having been completed in the last 14 months and another 2 in the final stages, there will be a period of consolidation, however it is expected that the company will continue to look for suitable and value accretive acquisitions, particularly in the Australian market.

### Environmental regulation and performance

The Group is not subject to any particular or significant environmental regulation under laws of the Commonwealth of Australia or of a State or Territory.

### Indemnification and insurance of directors and officers

During the year, Tomizone paid a premium to insure officers of the Group. The officers of the Group covered by the insurance policy include all Directors & Officers.

The liabilities insured are legal costs that may be incurred in defending civil or criminal proceedings that may be brought against the officers in their capacity as officers of the Group, and any other payments arising from liabilities incurred by the officers in connection with such proceedings, other than where such liabilities arise out of conduct involving a wilful breach of duty by the officers or the improper use by the officers of their position or of information to gain advantage for themselves or someone else to cause detriment to the Group.

Details of the amount of the premium paid in respect of insurance policies are not disclosed as such disclosure is prohibited under the terms of the contract.

To the extent permitted by law, the Company has agreed to indemnify its Directors against claims by third parties from liabilities or actions arising as a Director of the Group (for an unspecified amount) unless that claim or proceeding arises out of misconduct involving a lack of good faith.

### Indemnification of auditors

To the extent permitted by law, the Company has agreed to indemnify its auditors, Crowe Horwath, as part of the terms of its audit engagement agreement against claims by third parties arising from the audit (for an unspecified amount). No payment has been made to indemnify Crowe Horwath during or since the financial year.

### Directors' meetings

The number of meetings of Directors (including meetings of committees of directors) held during the year and the number of meetings attended by each Director were as follows:

	Directors Meetings	Directors meeting held while a Director
<b>Number of meetings attended:</b>		
Tarun Kanji	1	1
Avikashan Naidu	4	4
Eric King Wai Chan	3	4
Phillip Joe	6	6
Ian Bailey	11	11
Matt Adams	11	11
Maxim Carling	8	8

### Committee membership

Due to the Company's size, the Board considered that it is not appropriate to have separate committees.

As the Company's activities develop in size, nature and scope, the size of the Board and the implementation of additional corporate governance structures will be given further consideration.

### Rounding

The amounts contained in the financial report have been rounded to the nearest \$1 (where rounding is applicable) where noted (\$) under the option available to the Company under ASIC CO 98/0100. The Company is an entity to which the class order applies.

### Auditor independence and non-audit services

The Directors have received a declaration from the auditor of Tomizone Limited. This has been included on page 61. During the year the Company's auditors performed certain other services in addition to their audit responsibilities.

The Board has considered the non-audit services provided during the year by the auditor and is satisfied that the provision of those non-audit services during the year is compatible with, and did not compromise, the auditor independence requirements of the Corporations Act 2001.

## Remuneration report (audited)

The Directors of the Group present the Remuneration Report for the year ended 30 June 2018 for Non Executive Directors, Executive Directors and other Key Management Personnel, collectively referred to as "KMP". This remuneration report outlines the remuneration arrangements of the Group in accordance with the requirements of the Corporations Act 2001, as amended (the **Act**) and its regulations. This information has been audited as required by section 308(3C) of the Act.

### Key Management Personnel

The remuneration report details the remuneration arrangements for KMP who are defined as those persons having authority and responsibility for planning, directing and controlling the major activities of the Group, directly or indirectly, including any director (whether executive or otherwise) of the parent.

The table below outlines the KMP of the Group during the financial year ended 30 June 2018. Unless otherwise indicated, the individuals were KMP for the entire financial year.

For the purposes of this report, the term "KMP" includes all currently serving Non Executive and Executive Directors and Senior Executives of the Group.

### Independent and Non Executive Directors

Name	Date of appointment to Tomizone Limited
Tarun Kanji	Independent Chair - appointed 22 May 2015, ceased 3 July 2017
Avikashan Naidu	Non- Executive Director - appointed 3 July 2014, ceased 1 Sept 2017
Eric King Wai Chan	Non- Executive Director - appointed 3 July 2014, ceased 1 Sept 2017
Maxim Carling	Non- Executive Director - appointed 1 September 2017

### Executive Directors

Name	Date of appointment to Tomizone Limited
Phillip Joe	Chief Commercial Officer & Executive Director - appointed 22 May 2015, ceased 15 December 2017
Ian Bailey	Chairman & Executive Director - appointed 3 July 2017
Matt Adams *	Executive Director - appointed 3 July 2017

\* Matt Adams was appointed Managing Director 20 February 2018

### Other Key Management Personnel

Name	Date of appointment to Tomizone Limited
Geoffrey Wanless	Chief Executive Officer - appointed 27 October 2015, ceased 14 July 2017
Saurabh Madan	Head of Sales APAC - appointed 31 October 2016, ceased 13 October 2017

### Remuneration governance, policy and principles

The principles of the Group's executive strategy and supporting incentive programs and frameworks are:

- to align rewards to business outcomes that deliver value to shareholders
- to drive a high performance culture by setting challenging objectives and rewarding high performing individuals; and
- to ensure remuneration is competitive in the relevant employment market place to support the attraction, motivation and retention of executive talent in the interests of delivering value to shareholders.

### Executive director and other key management personnel remuneration policy

Tomizone has structured a remuneration framework that is market competitive and complementary to the reward strategy of the Group.

The Board as a whole is responsible for determining and reviewing compensation arrangements for the Directors and the Executive Team.

The remuneration structure that has been adopted by the Group consists of the following components:

- fixed remuneration being annual salary; and
- short term incentives, being employee share awards and bonuses.

There were no short term incentives issued during the year.

The Board assess the appropriateness of the nature and amount of remuneration on a periodic basis by reference to recent employment market conditions with the overall objective of ensuring maximum stakeholder benefit from the retention of a high quality Board and Executive Team.

### **Executive and Executive Director remuneration**

Fixed remuneration consists of base remuneration (which is calculated on a total cost basis and includes any fringe benefits tax charges related to employee benefits, as well as employer contributions to superannuation funds).

Matt Adams was appointed Managing Director on 20 February 2018 and operates via his private company Dynamic Corporate Investments Pty Limited. His remuneration is a combination of cash and shares. The terms of his package are as follows, with the share component approved at the Shareholder meeting on 20 July 2018. The terms and structure of his remuneration are as follows:

Total remuneration \$300,000

Cash component - \$120,000

Share component – Tomizone Shares to the value of \$180,000. Approval was given at the General meeting held on 20 July 2018.

The agreement contains a termination clause whereby 6 months' notice must be given.

Post restructuring of the KMP, Ian Bailey provided additional services to the company, above those duties normally expected of the Chairman. The amount of those additional services was \$210,000. These relate to the need to provide management of the business whilst the search was made for a new CEO/Managing Director.

### **Non Executive Director remuneration**

Fees and payments to Non Executive Directors reflect the demands and risks which are made of the Directors in fulfilling their responsibilities. Non Executive Directors fees are reviewed annually by the Board. The constitution of the Company provides that the Non Executive Directors of the Company are entitled to such remuneration, as determined by the Board, which must not exceed in aggregate the maximum amount determined by the Company in a general meeting.

The most recent determination of total maximum aggregate Non Executive Director remuneration was at a general meeting held on 28 April 2015 where the shareholders approved a maximum aggregate remuneration of \$750,000.



## KMP remuneration outcomes for 2018 (including link to performance)

### Executive remuneration for the years ended 30 June 2018 and 30 June 2017

Name	Year	Short - term benefits				Post Employment		Other long-term benefits		Share-based payments		Total	Performance related	
		Directors fees	Salary & fees	Cash bonus	Non monetary benefits	Super-annuation	Retirement benefits	Cash incentives	Long service leave	Share options	Shares			
		\$	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$	%
<b>Non-Executive Independent Director</b>														
Tarun Kanji *	2018	-	-	-	-	-	-	-	-	-	-	-	-	0%
	2017	24,000	46,000	-	-	-	-	-	-	38,234	-	108,234	38,234	35%
Maxim Carling	2018	75,000	-	-	-	-	-	-	-	-	-	75,000	-	0%
	2017	-	-	-	-	-	-	-	-	-	-	-	-	0%
<b>Non-Executive Directors</b>														
Avikashan Naidu***	2018	-	-	-	-	-	-	-	-	-	-	-	-	0%
	2017	24,000	-	-	-	-	-	-	-	38,234	-	62,234	38,234	61%
Eric Chan***	2018	-	-	-	-	-	-	-	-	-	-	-	-	0%
	2017	24,000	-	-	-	-	-	-	-	38,234	-	62,234	38,234	61%
Januario J Atencio **	2018	-	-	-	-	-	-	-	-	-	-	-	-	0%
	2017	8,000	-	-	-	-	-	-	-	-	-	8,000	-	0%
<b>Total 2018</b>		<b>75,000</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>75,000</b>	<b>-</b>	<b>0%</b>
<b>Total 2017</b>		<b>80,000</b>	<b>46,000</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>114,702</b>	<b>-</b>	<b>240,702</b>	<b>114,702</b>	<b>48%</b>

The value of share options granted to key management personnel as part of their remuneration is calculated as at grant date using the Black-Scholes pricing model. The amounts disclosed as part of remuneration for the year have been determined by allocating the grant date value on a straight-line basis over the period from the grant date to vesting date.

\* Tarun Kanji resigned 3 July 2017 as Non Executive Director and Chairman

\*\* Januario J Atencio appointed 1 March 2017, resigned 27 June 2017 as Non Executive Director

\*\*\* Avikashan Naidu and Eric Chan resigned 1 September 2017 as Non Executive Directors

Name	Year	Short - term benefits				Post Employment		Other long-term benefits		Share-based payments		Total	Performance related	
		Directors fees	Salary & fees	Cash bonus	Non monetary benefits	Super-annuation	Retirement benefits	Cash incentives	Long service leave	Share options	Shares			
		\$	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$	%
<b>Executive Directors</b>														
Phillip Joe***	2018	-	159,585	-	-	-	-	-	-	-	-	159,585	-	0%
	2017	-	79,563	-	-	-	-	-	-	-	-	79,563	-	0%
Ian Bailey	2018	90,000	210,000	-	-	-	-	-	-	-	-	300,000	-	0%
	2017	-	-	-	-	-	-	-	-	-	-	-	-	0%
Matt Adams	2018	-	300,000	-	-	-	-	-	-	-	-	300,000	-	0%
	2017	-	-	-	-	-	-	-	-	-	-	-	-	0%
<b>Total 2018</b>		<b>90,000</b>	<b>669,585</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>759,585</b>	<b>-</b>	<b>0%</b>
<b>Total 2017</b>		<b>-</b>	<b>79,563</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>79,563</b>	<b>-</b>	<b>0%</b>
<b>Other Key Management Personnel</b>														
Geoffrey Wanless ^	2018	-	-	-	-	-	-	-	-	-	-	-	-	0%
	2017	-	256,250	-	-	14,198	-	-	-	127,259	-	397,707	16,270	4%
Saurabh Madan ^	2018	-	52,293	-	-	-	-	-	-	-	1,648	53,941	-	0%
	2017	-	94,233	-	-	8,373	-	-	-	3,728	-	106,334	-	0%
David McAllansmith *	2018	-	-	-	-	-	-	-	-	-	-	-	-	0%
	2017	-	50,445	-	-	1,065	-	-	-	-	-	51,510	-	0%
Sally Wu **	2018	-	-	-	-	-	-	-	-	-	-	-	-	0%
	2017	-	37,518	-	-	3,974	-	-	-	-	-	41,492	-	0%
<b>Total 2018</b>		<b>-</b>	<b>52,293</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>1,648</b>	<b>53,941</b>	<b>-</b>	<b>0%</b>
<b>Total 2017</b>		<b>-</b>	<b>438,446</b>	<b>-</b>	<b>-</b>	<b>27,610</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>130,987</b>	<b>-</b>	<b>597,043</b>	<b>16,270</b>	<b>3%</b>

The value of share options granted to key management personnel as part of their remuneration is calculated as at grant date using the Black-Scholes pricing model. The amounts disclosed as part of remuneration for the year have been determined by allocating the grant date value on a straight-line basis over the period from the grant date to vesting date.

^ Saurabh Madan appointed as KMP 31 October 2016 and resigned 13 October 2017

^^ Geoff Wanless ceased as Chief Executive Officer and KMP 14 July 2017

\* David McAllansmith ceased as Chief Financial Officer and KMP 3 October 2016

\*\* Sally Wu ceased as KMP on 5 May 2016, but was kept on as an employee until 15 August 2016

\*\*\* Phillip Joe resigned as Chief Operating Officer & Executive Director on 15 December 2017

## Executive contracts

Key terms of services agreements

### Chief Executive Officer

- Geoff Wanless left the company on 14 July 2017.
- Restraint of trade period being up to 6 months.

### Chief Commercial Officer

- Phillip Joe, the company's COO resigned 15 December 2017. Under the terms of his contract he was paid a 6 months termination payment of \$56,250.
- Restraint of trade period being up to 6 months.

### Head of Sales - Asia & Pacific

- Saurabh Madan, The Head of Sales – APAC resigned effective 13 October 2017. He received a payment in shares, approved at the AGM of 125,000 shares being a Salary Sacrifice.
- Restraint of trade period being up to 6 months.

### Appointment of Matt Adams as Managing Director

Matt Adams was appointed Managing Director as of 20 February 2018 and is now an Executive Director of the Company. Refer to page 14, Executive and Executive Director remuneration, for details.

## Non Executive Director remuneration arrangements

### Determination of fees and maximum aggregate NED fee pool

The Shareholders approved a maximum Director fee pool being no more than \$750,000 on April 2015. The Board has therefore approved NED fees of up to \$60,000 per annum and Chairman Fees of up to \$90,000 per annum in the year to 30 June 2018.

Importantly, the Directors have not, as at the end of the Financial year, taken payment for outstanding fees and have accrued these. The fees reflect the higher risk and significant work needed by the Company to recover value for the shareholders

## Additional disclosures relating to option and share awards

### Options awarded, exercised and lapsed during the year.

The table below discloses the number of share options lapsed during the year ended 30 June 2018.

There were no share options granted or exercised during the year.

Share options do not carry any voting or dividend rights, and can only be exercised once the vesting conditions have been met, until their expiry date.

## Share options lapsed

The following table summarises the number of options lapsed during the financial year, in relation to the options granted to key management personnel as part of their remuneration:

30 June 2018	Financial year in which the options were granted	No. of options lapsed during the current year
<b>Non-Executive Independent Director</b>		
Tarun Kanji	30/06/2015	597,012
<b>Non-Executive Directors</b>		
Avikashan Naidu	30/06/2015	597,012
Eric King Wai Chan	30/06/2015	597,012
<b>Other Key Management Personnel</b>		
Saurabh Madan	30/06/2017	300,000
<b>FY18 Total</b>		<b>2,091,036</b>

There were no alterations to the terms and conditions of options awarded as remuneration since their award date.

## Shareholdings of KMP

Details of ordinary shares in the Company held directly, indirectly or beneficially, by key management personnel (KMP), including their related parties, is as follows:

	Balance 1 July 2017	Received as part of remuneration	Purchase of shares	Balance on resignation	Sale of shares	Balance 30 June 2018
<b>Non-Executive Independent Director</b>						
Tarun Kanji *	2,439,895	-	479,413	(2,919,308)	-	-
<b>Non-Executive Directors</b>						
Avikashan Naidu **	2,080,260	-	-	(2,080,260)	-	-
Eric King Wai Chan **	5,006,813	-	-	(5,006,813)	-	-
<b>Executive Directors</b>						
Ian Bailey	-	-	47,323,015	-	-	47,323,015
Phillip Joe ^	3,236,555	-	-	-	(3,236,555)	-
<b>Other Key Management Personnel</b>						
Geoffrey Wanless ^^	4,733,752	-	-	(2,030,893)	(2,702,859)	-
Saurabh Madan ^^	1,426,369	125,000	-	(1,551,369)	-	-
<b>Total</b>	<b>18,923,644</b>	<b>125,000</b>	<b>47,802,428</b>	<b>(13,588,643)</b>	<b>(5,939,414)</b>	<b>47,323,015</b>

\* Tarun Kanji resigned 3 July 2017 as Non Executive Director and Chairman

\*\* Avikashan Naidu and Eric Chan resigned 1 September 2017 as Non Executive Directors

^ Phillip Joe resigned as Chief Operating Officer and Executive Director 15 December 2017

^^ Geoff Wanless ceased as Chief Executive Officer and KMP 14 July 2017

^^^ Saurabh Madan resigned 13 October 2017

## Non-use of remuneration consultants

The Group has not engaged consultants to provide recommendations on setting the remuneration for executives.

## Shares under option

Unissued ordinary shares of the Company under option at the date of this report are as follows:

Grant date	Expiry Date	Exercise Price \$	Number under option
4/07/2014	30/09/2018	0.4000	750,000
22/05/2015	28/05/2019	0.2200	1,791,036
22/05/2015	28/05/2019	0.2200	1,410,598
26/10/2015	1/07/2019	0.2200	666,667
26/10/2015	1/07/2019	0.2400	666,667
26/10/2015	31/12/2019	0.2700	666,667
26/10/2015	1/07/2019	0.1120	2,000,000
19/10/2017	19/12/2020	0.1000	28,000,000

No person entitled to exercise the options had or has any right by virtue of the option to participate in any share issue of the Company.

## Proceedings on behalf of the Company

No person has applied to the Court under section 237 of the Corporations Act 2001 for leave to bring proceedings on behalf of the Company, or to intervene in any proceedings to which the Company is a party for the purpose of taking responsibility on behalf of the Company for all or part of those proceedings.

**This concludes the remuneration report, which has been audited.**

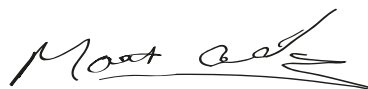
Signed in accordance with a resolution of the Directors.

A handwritten signature in black ink, appearing to read 'Ian Bailey'.

**Ian Bailey**

Chairman

Executive Director

A handwritten signature in black ink, appearing to read 'Matt Adams'.

**Matt Adams**

Managing Director

12 September 2018

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# Financial Statements

# Financial Statements

## Consolidated statement of profit or loss and other comprehensive income

For the year ended 30 June 2018

	Notes	2018 \$	2017 \$
Revenue		5,172,061	2,181,126
Direct Costs		(2,396,892)	(770,699)
<b>Gross Profit</b>		<b>2,775,169</b>	<b>1,410,427</b>
Other operating income (expense)	6.1	(21,457)	(29,137)
Employee benefits expense		(2,209,043)	(1,370,307)
Other expenses		(2,444,919)	(1,333,488)
Depreciation and amortisation expense		(261,847)	(474,192)
Impairment		(2,917,296)	(1,447,073)
Share Based Payment		(111,578)	(355,363)
<b>Loss before income tax and finance costs</b>		<b>(5,190,971)</b>	<b>(3,599,133)</b>
Finance costs	6.3	(1,064,169)	(687,785)
Finance income		1,633	5,464
<b>Loss before tax from continuing operations</b>		<b>(6,253,507)</b>	<b>(4,281,454)</b>
Income tax benefit/(expense)	7	26,374	51,027
<b>Loss for the year from continuing operations</b>		<b>(6,227,133)</b>	<b>(4,230,427)</b>
<b>LOSS FOR THE YEAR</b>		<b>(6,227,133)</b>	<b>(4,230,427)</b>
<b>Other comprehensive income</b>			
Exchange differences on translation of foreign operations		(70,707)	(2,842)
Income tax effect		-	-
<b>Other comprehensive income(loss) for the year, net of tax</b>		<b>(70,707)</b>	<b>(2,842)</b>
<b>TOTAL COMPREHENSIVE LOSS FOR THE YEAR, NET OF TAX</b>		<b>(6,297,840)</b>	<b>(4,233,269)</b>
<b>Attributable to:</b>			
<b>Equity holders of the Parent</b>		<b>(6,297,840)</b>	<b>(4,233,269)</b>
<b>Earnings per share</b>			
Basic, profit for the year attributable to ordinary equity holders of the Parent	8	(\$0.0209)	(\$0.0411)
Diluted, profit for the year attributable to ordinary equity holders of the Parent	8	(\$0.0209)	(\$0.0411)

The above consolidated statement of profit or loss and other comprehensive income should be read in conjunction with the accompanying notes.

## Consolidated statement of financial position

As at 30 June 2018

	Notes	2018 \$	2017 \$
<b>ASSETS</b>			
<b>Current assets</b>			
Cash and short-term deposits	9	291,055	228,791
Trade and other receivables	10	1,779,889	453,261
Inventories		30,966	1,230
Current tax receivables		3,188	1,699
<b>Total Current assets</b>		<b>2,105,098</b>	<b>684,981</b>
<b>Non-current assets</b>			
Intangible assets	11	1,124,344	364,896
Property, plant and equipment	12	470,819	164,120
Other receivables	10	476,403	-
Deferred tax assets	7	33,119	7,210
Other receivables		9,142	37,529
<b>Total Non-current assets</b>		<b>2,113,827</b>	<b>573,755</b>
<b>TOTAL ASSETS</b>		<b>4,218,925</b>	<b>1,258,736</b>
<b>LIABILITIES AND EQUITY</b>			
<b>Current liabilities</b>			
Trade and other payables	13	2,951,315	1,626,886
Interest-bearing loans and borrowings	14	1,740,764	4,028,786
Deferred revenue	15	131,006	134,769
Employee benefit liabilities	16	122,831	202,388
Current tax liabilities		7,063	-
<b>Total Current liabilities</b>		<b>4,952,979</b>	<b>5,992,829</b>
<b>Non-current liabilities</b>			
Interest-bearing loans and borrowings	14	5,456,141	-
Deferred tax liabilities	7	307,168	6,510
<b>Total Non-current liabilities</b>		<b>5,763,309</b>	<b>6,510</b>
<b>TOTAL LIABILITIES</b>		<b>10,716,288</b>	<b>5,999,339</b>
<b>NET ASSETS</b>		<b>(6,497,363)</b>	<b>(4,740,603)</b>
<b>Equity</b>			
Contributed equity	18	24,622,135	20,186,318
Other capital reserves	19	1,101,546	996,283
Accumulated losses		(31,704,643)	(25,477,510)
Foreign currency translation reserve	19	(516,401)	(445,694)
<b>TOTAL EQUITY</b>		<b>(6,497,363)</b>	<b>(4,740,603)</b>
<b>TOTAL EQUITY AND LIABILITIES</b>		<b>4,218,925</b>	<b>1,258,736</b>

The above consolidated statement of financial position should be read in conjunction with the accompanying notes.

## Consolidated statement of changes in equity

For the year ended 30 June 2018

	Attributable to the equity holders of the parent				
		Contributed equity	Other capital reserves	Retained earnings	Foreign currency translation reserve
	Note	(Note 18)	(Note 19)		
		\$	\$	\$	\$
<b>As at 1 July 2017</b>		<b>20,186,318</b>	<b>996,283</b>	<b>(25,477,510)</b>	<b>(445,694)</b>
Loss for the period		-	-	(6,227,133)	-
Other comprehensive income		-	-	-	(70,707)
<b>Total comprehensive income</b>		<b>-</b>	<b>-</b>	<b>(6,227,133)</b>	<b>(70,707)</b>
Issue of share capital - private placements	18	4,429,501	-	-	-
Recognition of prior period issued options		-	(14,527)	-	-
Share-based payments	17	6,316	119,790	-	-
Equity component - convertible note		-	-	-	-
<b>At 30 June 2018</b>		<b>24,622,135</b>	<b>1,101,546</b>	<b>(31,704,643)</b>	<b>(516,401)</b>

For the year ended 30 June 2017

	Attributable to the equity holders of the parent				
		Contributed equity	Other capital reserves	Retained earnings	Foreign currency translation reserve
	Note	(Note 18)	(Note 19)		
		\$	\$	\$	\$
<b>As at 1 July 2016</b>		<b>19,041,318</b>	<b>636,521</b>	<b>(21,247,083)</b>	<b>(442,852)</b>
Loss for the period		-	-	(4,230,427)	-
Other comprehensive income		-	-	-	(2,842)
<b>Total comprehensive income</b>		<b>-</b>	<b>-</b>	<b>(4,230,427)</b>	<b>(2,842)</b>
Issue of share capital - private placements	18	1,145,000	-	-	-
Recognition of prior period issued options		-	213,999	-	-
Share-based payments	17	-	141,364	-	-
Equity component - convertible note		-	4,399	-	-
<b>At 30 June 2017</b>		<b>20,186,318</b>	<b>996,283</b>	<b>(25,477,510)</b>	<b>(445,694)</b>

The above consolidated statement of changes in equity should be read in conjunction with the accompanying notes.

## Consolidated statement of cash flows

For the year ended 30 June 2018

	Notes	2018 \$	2017 \$
<b>Operating activities</b>			
Receipts from customers		4,840,136	2,439,130
Payments to suppliers and employees		(6,737,820)	(3,907,449)
Interest received		4,847	4,904
Interest paid		(697,780)	(595,720)
<b>Net cash flows used in operating activities</b>	<b>9</b>	<b>(2,590,617)</b>	<b>(2,059,135)</b>
<b>Investing activities</b>			
Receipts from sale of property, plant and equipment		61,547	10,000
Purchase of property, plant and equipment		(212,123)	-
Investment of Subsidiaries	22	(197,037)	-
Loans to other entities	10	(272,204)	-
<b>Net cash flows used in investing activities</b>		<b>(619,817)</b>	<b>10,000</b>
<b>Financing activities</b>			
Proceeds from issue of shares and exercise of share options	18	3,699,304	960,000
Transaction costs on issue of shares/convertible notes	18	(76,231)	(201,588)
Proceeds from borrowings		444,660	35,184
Repayment of borrowings		(699,832)	(178,415)
<b>Net cash flows from financing activities</b>		<b>3,367,901</b>	<b>615,181</b>
Net increase/(decrease) in cash and cash equivalents		157,467	(1,433,954)
Net foreign exchange difference		(44,500)	(14,186)
Cash and cash equivalents at 1 July		146,203	1,594,343
<b>CASH AND CASH EQUIVALENTS AT 30 JUNE</b>	<b>9</b>	<b>259,170</b>	<b>146,203</b>

The above consolidated statement of cash flows should be read in conjunction with the accompanying notes.

# Notes to the consolidated financial statements

For the year ended 30 June 2018

## 1. Corporate information

The consolidated financial statements of Tomizone Limited (Tomizone) and its subsidiaries (collectively, the Group) for the year ended 30 June 2018 were authorised for issue in accordance with a resolution of the Directors on 10 September 2018.

Tomizone Limited is a for profit company limited by shares incorporated in Australia whose shares are publicly traded on the Australian Stock Exchange (ASX: TOM).

The separate financial statements of the parent entity, Tomizone Limited, have not been presented within this report as permitted by the Corporations Act 2001.

## 2. Summary of significant accounting policies

### 2.1. Basis of preparation

The financial report is a general purpose financial report, which has been prepared in accordance with the requirements of the Corporations Act 2001, Australian Accounting Standards and other authoritative pronouncements of the Australian Accounting Standards Board. The financial report has also been prepared on a historical cost basis, except for derivative financial instruments, which have been measured at fair value.

The financial report is presented in Australian dollars.

### Going Concern

The financial statements of the Group have been prepared on a going concern basis, which contemplates the continuation of normal business operations and the realisation of assets and settlement of liabilities in the normal course of business. The Group incurred a net loss for the 12 months ended 30 June 2018 of \$6.2 million. Continuation of these losses will be unable to be funded from the current cash position of the Group. However, it is noted the following relevant matters:

- Of the total loss, \$2.9 million was in regard to the one off impairment of intangible assets – a non-cash item
- Within the loss are significant one off restructuring costs which will not occur in future periods
- The Group has been restructured and that restructure has removed in excess of \$2 million of costs from the Group
- The Group has acquired two businesses (Bluesky and Ironman Group) which adds significant revenue to the Group and is in the final stages of acquiring another 2 businesses (Sweep and Lighthouse) which will add further scale to the Group
- The Group raised in excess of \$3.5 million during the twelve month period
- The Group is currently exploring options to recapitalise the business including a full debt restructure and equity raise. It is expected further announcements will be made in regard to this initiative in coming months
- It is forecast that the Group will become cashflow positive and profitable during the next accounting period

The Directors of the Group consider that the cash flow projections and assumptions will be achieved and, together with other initiatives, the Group will be able to continue as a going concern. In the event that the Group cannot continue as a going concern it may not be able to realise its assets and settle its liabilities in the normal course of operations and at the amounts stated in the financial statements.

### 2.2. Compliance with International Financial Reporting Standards (IFRS)

These general purpose financial statements have been prepared in accordance with the Corporations Act 2001, Australian Accounting Standards and Interpretations of the Australian Accounting Standards Board and



International Financial Reporting Standards as issued by the International Accounting Standards Board. Material accounting policies adopted in the preparation of these financial statements are presented below and have been consistently applied unless stated otherwise.

## 2.3. Changes in accounting policies, disclosures, standards and interpretations

### Accounting Standards and Interpretations issued but not yet effective

Accounting Standards and Interpretations issued by the AASB that are not yet mandatorily applicable to the Group, together with an assessment of the potential impact of such pronouncements on the Group when adopted in future periods, are discussed below:

**AASB 9: Financial Instruments and associated Amending Standards** - (applicable to annual reporting periods beginning on or after 1 January 2018).

The Standard will be applicable retrospectively (subject to the provisions on hedge accounting outlined below) and includes revised requirements for the classification and measurement of financial instruments, revised recognition and derecognition requirements for financial instruments and simplified requirements for hedge accounting.

The key changes that may affect the Group on initial application include certain simplifications to the classification of financial assets, simplifications to the accounting of embedded derivatives, upfront accounting for expected credit loss, and the irrevocable election to recognise gains and losses on investments in equity instruments that are not held for trading in other comprehensive income. AASB 9 also introduces a new model for hedge accounting that will allow greater flexibility in the ability to hedge risk, particularly with respect to hedges of non-financial items. Should the entity elect to change its hedge policies in line with the new hedge accounting requirements of the Standard, the application of such accounting would be largely prospective.

The Directors anticipate that the adoption of AASB 9 does not have a significant impact on the Group's financial statements.

**AASB 15: Revenue from Contracts with Customers** - (applicable to annual reporting periods commencing on or after 1 January 2018).

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

**AASB 16: Leases** - (applicable to annual reporting periods commencing on or after 1 January 2019).

The Standard will result in all leases being recognised on the balance sheet, except for short-term leases and leases of low value assets. Under the new standard, an asset (the right to use the leased item) and a financial liability to pay rentals are recognised.

The Directors anticipate that the adoption of AASB16 will have an impact on the Group's financial statements. The assessment is still being undertaken to provide a reasonable estimate of such impact. The main impact is recognising a "right to use" asset for operating leases, with a liability recognised for future payments of operating leases.

**2.4. Significant accounting policies****(a) Basis of consolidation**

The consolidated financial statements comprise the financial statements of the Group and its subsidiaries as at 30 June 2018. Control is achieved when the Group is exposed, or has rights, to variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity.

The Group re-assesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control. Consolidation of a subsidiary begins when the Group obtains control over the subsidiary and ceases when the Group loses control of the subsidiary. Assets, liabilities, income and expenses of a subsidiary acquired or disposed of during the year are included in the consolidated financial statements from the date the Group gains control until the date the Group ceases to control the subsidiary.

Profit or loss and each component of other comprehensive income (OCI) are attributed to the equity holders of the parent of the Group and to the non-controlling interests, even if this results in the non-controlling interests having a deficit balance. When necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies into line with the Group's accounting policies. All intra-group assets and liabilities, equity, income, expenses and cash flows relating to transactions between members of the Group are eliminated in full on consolidation.

A change in the ownership interest of a subsidiary, without a loss of control, is accounted for as an equity transaction. If the Group loses control over a subsidiary, it derecognises the related assets (including goodwill), liabilities, non-controlling interest and other components of equity while any resultant gain or loss is recognised in profit or loss. Any investment retained is recognised at fair value.

**(b) Business combinations and goodwill**

Business combinations are accounted for using the acquisition method. The cost of an acquisition is measured as the aggregate of the consideration transferred, measured at acquisition date fair value and the amount of any non-controlling interest in the acquiree. For each business combination, the Group elects whether to measure the non-controlling interest in the acquiree at fair value or at the proportionate share of the acquiree's identifiable net assets.

Acquisition related costs are expensed as incurred and included in administrative expenses.

When the Group acquires a business, it assesses the financial assets and liabilities assumed for appropriate classification and designation in accordance with the contractual terms, economic circumstances and pertinent conditions as at the acquisition date.

If the business combination is achieved in stages, the previously held equity interest is remeasured at its acquisition date fair value and any resulting gain or loss is recognised in profit or loss.

Goodwill is initially measured at cost, being the excess of the aggregate of the consideration transferred and the amount recognised for non-controlling interests, and any previous interest held, over the net identifiable assets acquired and liabilities assumed. If the fair value of the net assets acquired is in excess of the aggregate consideration transferred, the Group re-assesses whether it has correctly identified all of the assets acquired and all of the liabilities assumed and reviews the procedures used to measure the amounts to be

recognised at the acquisition date. If the re-assessment still results in an excess of the fair value of net assets acquired over the aggregate consideration transferred, then the gain is recognised in profit or loss.

After initial recognition, goodwill is measured at cost less any accumulated impairment losses. For the purpose of impairment testing, goodwill acquired in a business combination is, from the acquisition date, allocated to each of the Group's cash-generating units that are expected to benefit from the combination, irrespective of whether other assets or liabilities of the acquiree are assigned to those units.

Where goodwill has been allocated to a cash-generating unit and part of the operation within that unit is disposed of, the goodwill associated with the disposed operation is included in the carrying amount of the operation when determining the gain or loss on disposal. Goodwill disposed in these circumstances is measured based on the relative values of the disposed operation and the portion of the cash-generating unit retained.

### (c) Current versus non-current classification

The Group presents assets and liabilities in the statement of financial position based on current/ non-current classification. An asset is current when it is:

- Expected to be realised or intended to be sold or consumed in the Group's normal operating cycle; and
- Held primarily for the purpose of trading; and
- Expected to be realised within twelve months after the reporting period

Or

- Cash or cash equivalent unless restricted from being exchanged or used to settle a liability for at least twelve months after the reporting period

The Group classifies all other assets as non-current.

A liability is current when:

- It is expected to be settled in the Group's normal operating cycle; and
- It is held primarily for the purpose of trading; and
- It is due to be settled within twelve months after the reporting period

Or

- There is no unconditional right to defer the settlement of the liability for at least twelve months after the reporting period

The Group classifies all other liabilities as non-current.

Deferred tax assets and liabilities are classified as non-current assets and liabilities.

### (d) Foreign currency translation

The Group's consolidated financial statements are presented in Australian dollars (\$), which is also the parent's functional currency. For each entity the Group determines the functional currency and items included in the financial statements of each entity are measured using that functional currency. The Group uses the direct method of consolidation and on disposal of a foreign operation, the gain or loss that is reclassified to profit or loss reflects the amount that arises from using this method.

### Transactions and balances

Transactions in foreign currencies are initially recorded by the Group's entities at their respective functional currency spot rates at the date the transaction first qualifies for recognition.

Monetary assets and liabilities denominated in foreign currencies are translated at the functional currency spot rate of exchange at the reporting date.

Differences arising on settlement or translation of monetary items are recognised in profit or loss.

Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates at the dates of the initial transactions. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value is determined. The gain or loss arising on translation of non-monetary items measured at fair value is treated in line with the recognition of gain or loss on change in fair value of the item (i.e., translation differences on items whose fair value gain or loss is recognised in other comprehensive income or profit or loss are also recognised in other comprehensive income or profit or loss, respectively).

### **Group companies**

On consolidation, the assets and liabilities of foreign operations are translated into Australian dollars at the rate of exchange prevailing at the reporting date and their statements of profit or loss are translated at exchange rates prevailing at the dates of the transactions. The exchange differences arising on translation for consolidation purpose are recognised in other comprehensive income and reflected in the foreign currency translation reserve in the statement of financial position. On disposal of a foreign operation, the component of other comprehensive income relating to that particular foreign operation is recognised in profit or loss.

Any goodwill arising on the acquisition of a foreign operation and any fair value adjustments to the carrying amounts of assets and liabilities arising on the acquisition are treated as assets and liabilities of the foreign operation and translated at the spot rate of exchange at the reporting date.

### **(e) Revenue recognition**

Revenue is recognised to the extent that it is probable that the economic benefits will flow to the Group and the revenue can be reliably measured, regardless of when the payment is received. Revenue is measured at the fair value of the consideration received or receivable, taking into account contractually defined terms of payment and excluding taxes or duty. The Group has concluded that it is acting as a principal in all of its revenue arrangements since it is the primary obligor in all the revenue arrangements, has pricing latitude and is also exposed to inventory and credit risks. The specific recognition criteria described below must also be met before revenue is recognised.

#### **Sale of goods**

Revenue from the sale of goods is recognised when the significant risks and rewards of ownership of the goods have passed to the buyer, usually on delivery of the goods. Revenue from the sale of goods is measured at the fair value of the consideration received or receivable, net of returns and allowances, trade discounts and volume rebates. The Group does not provide any extended warranties or maintenance contracts to its customers.

#### **Sale of services**

Revenue from the sale of services is recognised in the accounting period in which the services are rendered by reference to completion of the specific transaction assessed on the basis of the actual services provided as a proportion of the total services to be provided. When the contract outcome cannot be measured reliably, revenue is recognised only to the extent that the expenses incurred are eligible to be recovered.

#### **Sale of subscriptions**

Revenue is generated from subscription sales and once the customer has taken undisputed delivery of the services. The revenue from the subscription agreement is recognised on a monthly basis at equal amounts for each month of the subscription agreement. In recognising subscription sales revenues, the Group considers the nature of the tenure of the agreement and the useful life of the services being provided under the subscription agreement.

#### **Interest income**

Interest income is recorded using the effective interest rate (EIR). Interest income is included in finance income in the statement of profit or loss.

## (f) Taxes

### Current income tax

Current income tax assets and liabilities for the current period are measured at the amount expected to be recovered from or paid to the taxation authorities. The tax rates and tax laws used to compute the amount are those that are enacted or substantively enacted, at the reporting date in the countries where the Group operates and generates taxable income.

Current income tax relating to items recognised directly in equity is recognised in equity and not in the statement of profit or loss. Management periodically evaluates positions taken in the tax returns with respect to situations in which applicable tax regulations are subject to interpretation and establishes provisions where appropriate.

### Deferred tax

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

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

- When the deferred income tax liability arises from the initial recognition of goodwill or of an asset or liability in a transaction that is not a business combination and that, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss.
- In respect of taxable temporary differences associated with investments in subsidiaries, associates and interests in joint arrangements, when 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 tax assets are recognised for all deductible temporary differences, the carry forward of unused tax credits and any unused tax losses. Deferred tax assets are recognised 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 credits and unused tax losses can be utilised, except:

- When the deferred 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.
- In respect of deductible temporary differences associated with investments in subsidiaries, associates and interests in joint arrangements, deferred tax assets are recognised only 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 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 tax asset to be utilised. Unrecognised deferred tax assets are reassessed at each reporting date and are recognised to the extent that it has become probable that future taxable profits will allow the deferred tax asset to be recovered.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in 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.

Deferred tax relating to items recognised outside profit or loss is recognised outside profit or loss. Deferred tax items are recognised in correlation to the underlying transaction either in other comprehensive income or directly in equity.

Deferred tax assets and deferred tax liabilities are offset if a legally enforceable right exists to set off current tax assets against current tax liabilities and the deferred taxes relate to the same taxable entity and the same taxation authority.

Tax benefits acquired as part of a business combination, but not satisfying the criteria for separate recognition at that date, are recognised subsequently if new information about facts and circumstances change. The adjustment is either treated as a reduction to goodwill (as long as it does not exceed goodwill) if it was incurred during the measurement period or recognised in profit or loss.

### **Goods and services tax (GST)**

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

- When the GST incurred on a sale or purchase of assets or services is not payable to or recoverable from the taxation authority, in which case the GST is recognised as part of the revenue or the expense item or as part of the cost of acquisition of the asset, as applicable
- When 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. Commitments and contingencies are disclosed net of the amount of GST recoverable from, or payable to, the taxation authority.

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 is classified as part of operating cash flows.

### **(g) Property, plant and equipment**

Property, plant and equipment are stated at cost, net of accumulated depreciation and accumulated impairment losses, if any. All repair and maintenance costs are recognised in profit or loss as incurred.

Property, plant and equipment transferred from customers is initially measured at the fair value at the date on which control is obtained.

Depreciation is calculated over the estimated useful lives of the assets as follows:

Plant and equipment	50% (straight-line), 8% - 50% (diminishing value)
Furniture, fittings and equipment	12% - 50% (diminishing value)
Motor vehicles	20%-30% (diminishing value)
Leasehold improvements	20% - 40% (diminishing value)
Leased plant and equipment	20% - 40% (straight line), 20% - 50% (diminishing value)

The residual values, useful lives and methods of depreciation of property, plant and equipment are reviewed at each financial year end and adjusted prospectively, if appropriate.

An item of property, plant and equipment and any significant part initially recognised is derecognised upon disposal or when no future economic benefits are expected from its use or disposal.

Any gain or loss arising on de-recognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is included in the statement of profit or loss when the asset is derecognised.

### **(h) Leases**

The determination of whether an arrangement is, or contains, a lease is based on the substance of the arrangement at the inception of the lease. The arrangement is, or contains, a lease if fulfilment of the arrangement is dependent on the use of a specific asset or assets or the arrangement conveys a right to use the asset or assets, even if that right is not explicitly specified in an arrangement.

#### **Group as a lessee**

A lease is classified at the inception date as a finance lease or an operating lease. A lease that transfers substantially all the risks and rewards incidental to ownership to the Group is classified as a finance lease. An operating lease is a lease other than a finance lease.



Finance leases are capitalised at the commencement of the lease at the inception date fair value of the leased property or, if lower, at the present value of the minimum lease payments.

Lease payments are apportioned between finance charges and reduction of the lease liability so as to achieve a constant rate of interest on the remaining balance of the liability. Finance charges are recognised in finance costs in the statement of profit or loss.

A leased asset is depreciated over the useful life of the asset. However, if there is no reasonable certainty that the Group will obtain ownership by the end of the lease term, the asset is depreciated over the shorter of the estimated useful life of the asset and the lease term.

Operating lease payments are recognised as an operating expense in the statement of profit or loss on a straight-line basis over the lease term.

### (i) Intangible assets

Intangible assets acquired separately are measured on initial recognition at cost. The cost of intangible assets acquired in a business combination is their fair value at the date of acquisition. Following initial recognition, intangible assets are carried at cost less any accumulated amortisation and accumulated impairment losses. Internally generated intangibles, excluding capitalised development costs, are not capitalised and the related expenditure is reflected in the statement of profit or loss in the period in which the expenditure is incurred.

The useful lives of intangible assets are assessed as either finite or indefinite.

Intangible assets with finite lives are amortised over the useful economic life and assessed for impairment whenever there is an indication that the intangible asset may be impaired. The amortisation period and the amortisation method for an intangible asset with a finite useful life are reviewed at least at the end of each reporting period. Changes in the expected useful life or the expected pattern of consumption of future economic benefits embodied in the asset are considered to modify the amortisation period or method, as appropriate, and are treated as changes in accounting estimates and adjusted on a prospective basis. The amortisation expense on intangible assets with finite lives is recognised in the statement of profit or loss as the expense category that is consistent with the function of the intangible assets.

Intangible assets with indefinite useful lives are not amortised, but are tested for impairment annually, either individually or at the cash-generating unit level. The assessment of indefinite life is reviewed annually to determine whether the indefinite life continues to be supportable. If not, the change in useful life from indefinite to finite is made on a prospective basis.

Gains or losses arising from de-recognition of an intangible asset are measured as the difference between the net disposal proceeds and the carrying amount of the asset and are recognised in the statement of profit or loss when the asset is derecognised.

### Research and development costs

Research costs are expensed as incurred. Development expenditures on an individual project are recognised as an intangible asset when the Group can demonstrate:

- The technical feasibility of completing the intangible asset so that the asset be available for use or sale;
- Its intention to complete and its ability to use or sell the asset;
- How the asset will generate future economic benefits;
- The availability of resources to complete the asset;
- The ability to measure reliably the expenditure during development; and
- The ability to use the intangible asset generated

Following initial recognition of the development expenditure as an asset, the asset is carried at cost less any accumulated amortisation and accumulated impairment losses. Amortisation is calculated on a systematic basis based on the future economic benefits over the useful life of the project. During the period of development, the asset is tested for impairment at a minimum annually, and as indicators arise.

A summary of the policies applied to the Group's intangible assets is as follows:

	Software	Customer Contracts	Development Costs
<b>Useful lives</b>	Finite (5 years)	Finite (10 years)	Finite (7 years)
<b>Amortisation method used</b>	Amortised on a straight-line basis over the period of expected future	Amortised on a straight-line basis over the period of the expected future value of customers	Amortised on a straight line basis over the period of expected future sales from the related project
<b>Internally generated or acquired</b>	Acquired	Acquired	Internally generated
<b>Remaining estimated life</b>	5 years	10 years	0 years

## (j) Financial instruments - initial recognition and subsequent measurement

A financial instrument is any contract that gives rise to a financial asset of one entity and a financial liability or equity instrument of another entity.

### (i) Financial assets

#### Initial recognition and measurement

Financial assets are classified, at initial recognition, as financial assets at fair value through profit or loss, loans and receivables, held-to-maturity investments, AFS financial assets, or as derivatives designated as hedging instruments in an effective hedge, as appropriate.

All financial assets are recognised initially at fair value plus, in the case of financial assets not subsequently measured at fair value through profit or loss, transaction costs that are attributable to the acquisition of the financial asset.

#### Subsequent measurement

For purposes of subsequent measurement, financial assets are classified in two categories:

- Financial assets at fair value through profit or loss
- Loans and receivables

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

Financial assets at fair value through profit or loss include financial assets held for trading and financial assets designated upon initial recognition at fair value through profit or loss. Financial assets are classified as held for trading if they are acquired for the purpose of selling or repurchasing in the near term. Derivatives, including separated embedded derivatives are also classified as held for trading unless they are designated as effective hedging instruments as defined by AASB 139.

Financial assets at fair value through profit or loss are carried in the statement of financial position at fair value with net changes in fair value presented as finance costs (negative net changes in fair value) or finance income (positive net changes in fair value) in the statement of profit or loss.

Derivatives embedded in host contracts are accounted for as separate derivatives and recorded at fair value if their economic characteristics and risks are not closely related to those of the host contracts and the host contracts are not held for trading or designated at fair value through profit or loss. These embedded derivatives are measured at fair value with changes in fair value recognised in profit and loss. Re-assessment only occurs if there is either a change in the terms of the contract that significantly modifies the cash flows that would otherwise be required or a reclassification of a financial asset out of the fair value through profit or loss.

#### Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market and are subsequently measured at amortised cost.

## De-recognition

A financial asset (or, where applicable, a part of a financial asset or part of a group of similar financial assets) is primarily de-recognised (i.e. removed from the group's consolidated statement of financial position) when:

- The rights to receive cash flows from the asset have expired; or
- The asset is transferred to another party whereby the entity no longer has any significant continuing involvement in the risks and benefits associated with the asset.

## Impairment of financial assets

The Group assesses, at each reporting date, whether there is objective evidence that a financial asset or a group of financial assets is impaired. An impairment exists if one or more events that has occurred since the initial recognition of the asset (an incurred 'loss event') has an impact on the estimated future cash flows of the financial asset or the group of financial assets that can be reliably estimated. Evidence of impairment may include indications that the debtor or a group of debtors is experiencing significant financial difficulty, default or delinquency in interest or principal payments, the probability that they will enter insolvency or other financial reorganisation and observable data indicating that there is a measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlate with defaults.

## (ii) Financial liabilities

### Initial recognition and measurement

Financial liabilities are classified, at initial recognition, loans and borrowings, payables, or as derivatives designated as hedging instruments in an effective hedge, as appropriate.

All financial liabilities are recognised initially at fair value and, in the case of loans and borrowings and payables, net of directly attributable transaction costs.

The Group's financial liabilities include trade and other payables, loans and borrowings, including bank overdrafts, and derivative financial instruments.

### Subsequent measurement

The measurement of financial liabilities depends on their classification, as described below:

#### Financial liabilities at fair value through profit or loss

Financial liabilities at fair value through profit or loss include financial liabilities held for trading and financial liabilities designated upon initial recognition as at fair value through profit or loss. Financial liabilities are classified as held for trading if they are incurred for the purpose of repurchasing in the near term. This category also includes derivative financial instruments entered into by the Group that are not designated as hedging instruments in hedge relationships as defined by AASB 139. Separated embedded derivatives are also classified as held for trading unless they are designated as effective hedging instruments.

Gains or losses on liabilities held for trading are recognised in the statement of profit or loss as finance costs or finance income.

Financial liabilities designated upon initial recognition at fair value through profit or loss are designated at the initial date of recognition, and only if the criteria in AASB 139 are satisfied. The Group has not designated any financial liability as at fair value through profit or loss.

#### Loans and borrowings

After initial recognition, interest bearing loans and borrowings are subsequently measured at amortised cost using the Effective Interest Rate (EIR) method. Gains and losses are recognised in the profit or loss when the liabilities are derecognised as well as through the EIR amortisation process.

Amortised cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the EIR. The EIR amortisation is included in finance costs in the statement of profit or loss.

This category generally applies to interest-bearing loans and borrowings. For more information refer to Note 14.1.

#### De-recognition

A financial liability is de-recognised when the obligation under the liability is discharged or cancelled, or expires. When an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as the de-recognition of the original liability and the recognition of a new liability. The difference in the respective carrying amounts is recognised in the statement of profit or loss.

#### Offsetting of financial instruments

Financial assets and financial liabilities are offset and the net amount is reported in the consolidated statement of financial position if there is a currently enforceable legal right to offset the recognised amounts and there is an intention to settle on a net basis, to realise the assets and settle the liabilities simultaneously.

#### (k) Inventories

Inventories are valued at the lower of cost and net realisable value. Net realisable value represents the estimated selling price for the inventories less all estimated costs of completion and costs necessary to make the sales.

Work in progress is recognised as the cost incurred in the construction of assets not yet completed.

#### (l) Impairment of non-financial assets

The Group assesses, at each reporting date, whether there is an indication that an asset may be impaired. If any indication exists, or when annual impairment testing for an asset is required, the Group estimates the asset's recoverable amount. An asset's recoverable amount is the higher of an asset's or cash-generating unit's (CGU) fair value less costs of disposal and its value in use. Recoverable amount is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets. When the carrying amount of an asset or CGU exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount.

In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. In determining fair value less costs to sell, recent market transactions are taken into account. If no such transactions can be identified, an appropriate valuation model is used. These calculations are corroborated by valuation multiples, quoted share prices for publicly traded companies or other available fair value indicators.

The Group bases its impairment calculation on budgets and forecast calculations, which are prepared separately for each of the Group's CGUs to which the individual assets are allocated. These budgets and forecast calculations generally cover a period of five to ten years. For longer periods, a long-term growth rate is calculated and applied to project future cash flows after the last forecast year.

Impairment losses of continuing operations, including impairment on inventories, are recognised in the statement of profit or loss in expense categories consistent with the function of the impaired asset.

For assets excluding goodwill, an assessment is made at each reporting date to determine whether there is any indication that previously recognised impairment losses may no longer exist or may have decreased. If such indication exists, the Group estimates the asset's or CGUs recoverable amount. A previously recognized impairment loss is reversed only if there has been a change in the assumptions used to determine the asset's recoverable amount since the last impairment loss was recognised. The reversal is limited so that the carrying amount of the asset does not exceed its recoverable amount, nor exceed the carrying amount that would have been determined, net of depreciation, had no impairment loss been recognised for the asset in prior years. Such reversal is recognised in the statement of profit or loss unless the asset is carried at a revalued amount, in which case, the reversal is treated as a revaluation increase.

Goodwill is tested for impairment annually as at 30 June and when circumstances indicate that the carrying value may be impaired.

Impairment is determined for goodwill by assessing the recoverable amount of each CGU (or group of CGUs) to which the goodwill relates. When the recoverable amount of the CGU is less than its carrying amount, an impairment loss is recognised in the statement of profit or loss. Impairment losses relating to goodwill cannot be reversed in future periods.

Intangible assets with indefinite useful lives are tested for impairment annually as at 30 June at the CGU level, as appropriate, and when circumstances indicate that the carrying value may be impaired.

### **(m) Provisions**

#### **Wages, salaries and annual leave**

Liabilities for wages and salaries, including non-monetary benefits and accumulating annual leave which are expected to be settled within 12 months of the reporting date are recognised as current liabilities 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.

#### **Restructuring**

Liabilities for restructuring are recognised only if a plan for the restructuring has been developed and implemented, or management has at least announced the plan's main features to those affected by it.

### **(n) Share-based payments**

Employees (including senior executives) of the Group receive remuneration in the form of share-based payments, whereby employees render services as consideration for equity instruments (equity-settled transactions).

#### **Equity-settled transactions**

The cost of equity-settled transactions is determined by the fair value at the date when the grant is made using an appropriate valuation model. That cost is recognised, together with a corresponding increase in other capital reserves in equity, over the period in which the performance and/or service conditions are fulfilled in employee benefits expense. The cumulative expense recognised for equity-settled transactions at each reporting date until the vesting date reflects the extent to which the vesting period has expired and the Group's best estimate of the number of equity instruments that will ultimately vest. The statement of profit or loss expense or credit for a period represents the movement in cumulative expense recognised as at the beginning and end of that period and is recognised in employee benefits expense.

No expense is recognised for awards that do not ultimately vest, except for equity-settled transactions for which vesting is conditional upon a market or non-vesting condition. These are treated as vesting irrespective of whether or not the market or non-vesting condition is satisfied, provided that all other performance and/or service conditions are satisfied.

When the terms of an equity-settled transaction award are modified, the minimum expense recognised is the expense as if the terms had not been modified, if the original terms of the award are met. An additional expense is recognised for any modification that increases the total fair value of the share-based payment transaction, or is otherwise beneficial to the employee as measured at the date of modification.

The dilutive effect of outstanding options is reflected as additional share dilution in the computation of diluted earnings per share (further details are given in Note 8).

#### **Cash-settled transactions**

The cost of cash-settled transactions is measured initially at fair value at the grant date using a binomial model, further details of which are given in Note 17. This fair value is expensed over the period until the vesting date with recognition of a corresponding liability. The liability is remeasured to fair value at each

reporting date up to and including the settlement date, with changes in fair value recognised in employee benefits expense.

### (o) Fair value measurement

The Group measures financial instruments such as derivatives and non-financial assets such as investment properties, at fair value at each balance sheet date.

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value measurement is based on the presumption that the transaction to sell the asset or transfer the liability takes place either:

- In the principal market for the asset or liability; or
- In the absence of a principal market, in the most advantageous market for the asset or liability

The principal or the most advantageous market must be accessible by the Group.

The fair value of an asset or a liability is measured using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their economic best interest.

A fair value measurement of a non-financial asset takes into account a market participant's ability to generate economic benefits by using the asset in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use.

The Group uses valuation techniques that are appropriate in the circumstances and for which sufficient data are available to measure fair value, maximising the use of relevant observable inputs and minimising the use of unobservable inputs.

All assets and liabilities for which fair value is measured or disclosed in the financial statements are categorised within the fair value hierarchy, described as follows, based on the lowest level input that is significant to the fair value measurement as a whole:

- Level 1 - Quoted (unadjusted) market prices in active markets for identical assets or liabilities
- Level 2 - Valuation techniques for which the lowest level input that is significant to the fair value measurement is directly or indirectly observable
- Level 3 - Valuation techniques for which the lowest level input that is significant to the fair value measurement is unobservable

For assets and liabilities that are recognised in the financial statements at fair value on a recurring basis, the Group determines whether transfers have occurred between Levels in the hierarchy by re-assessing categorisation (based on the lowest level input that is significant to the fair value measurement as a whole) at the end of each reporting period.

For the purpose of fair value disclosures, the Group has determined classes of assets and liabilities on the basis of the nature, characteristics and risks of the asset or liability and the level of the fair value hierarchy as explained above.

### (p) Trade receivables

Trade receivables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest methods, less provision for impairment. This provision includes amounts that are not considered to be recoverable from debtors and amounts that are expected to be credited to debtors. Trade receivables are generally due for settlement no more than 30 days from the date of recognition. They are presented as current assets unless collection is not expected for more than 12 months after the reporting date.

Collectability of trade receivables is reviewed on an ongoing basis. A provision for impairment of trade receivables is established where there is objective evidence that the Group will not be able to collect all amounts due according to the original terms of the receivables. Significant financial difficulties of the debtor, probability that the debtor will enter bankruptcy or financial reorganisation, and default or delinquency in payments are considered indicators that the trade receivable is impaired. In addition, the trade receivables



balances are considered for credit notes that are expected to be raised against individual and collective balances.

### **(q) Cash and short-term deposits**

Cash and short-term deposits in the statement of financial position comprise cash at banks and on hand.

For the purpose of the consolidated statement of cash flows, cash and cash equivalents consist of cash, as defined above, net of outstanding bank overdrafts as they are considered an integral part of the Group's cash management.

## **3. Significant accounting judgements, estimates and assumptions**

The preparation of the Group's consolidated financial statements requires management to make judgements, estimates and assumptions that affect the reported amounts of revenues, expenses, assets and liabilities, and the accompanying disclosures, and the disclosure of contingent liabilities. Uncertainty about these assumptions and estimates could result in outcomes that require a material adjustment to the carrying amount of assets or liabilities affected in future periods.

Other disclosures relating to the Group's exposure to risks and uncertainties include:

- Financial risk management objectives and policies — Note 14.2
- Capital management — Note 14.3

### **Judgements**

In the process of applying the Group's accounting policies, management has made the following judgements, which have the most significant effect on the amounts recognised in the consolidated financial statements.

### **Estimates and assumptions**

The key assumptions concerning the future and other key sources of estimation uncertainty at the reporting date, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year, are described below. The Group based its assumptions and estimates on parameters available when the consolidated financial statements were prepared. Existing circumstances and assumptions about future developments, however, may change due to market changes or circumstances arising beyond the control of the Group. Such changes are reflected in the assumptions when they occur.

### **Impairment of non-financial assets**

An impairment exists when the carrying value of an asset or cash generating unit (CGU) exceeds its recoverable amount, which is the higher of its fair value less costs of disposal and its value in use. The fair value less costs of disposal calculation is based on available data from binding sales transactions, conducted at arm's length, for similar assets or observable market prices less incremental costs for disposing of the asset. The value in use calculation is based on a DCF model.

The cash flows are derived from the budget for the next year and do not include restructuring activities or significant future investments that will enhance the asset's performance of the CGU being tested. The recoverable amount is sensitive to the discount rate used for the DCF model as well as the expected future cash-inflows and the growth rate used for extrapolation purposes. These estimates are most relevant to goodwill and other intangible assets with indefinite useful lives recognised by the Group. The key assumptions used to determine the recoverable amount are based on cashflow projections derived from financial budgets approved by Management.

## Share-based payments

The Group initially measures the cost of cash-settled transactions with employees using a binomial model to determine the fair value of the liability incurred. The Group initially 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. Estimating fair value for share-based payment transactions requires determination of the most appropriate valuation model, which is dependent on the terms and conditions of the grant. This estimate also requires determination of the most appropriate inputs to the valuation model including the expected life of the share option, volatility and dividend yield and making assumptions about them. For cash-settled share-based payment transactions, the liability needs to be remeasured at the end of each reporting period up to the date of settlement, with any changes in fair value recognised in profit or loss. This requires a reassessment of the estimates used at the end of each reporting period. The assumptions and models used for estimating fair value for share-based payment transactions are disclosed in Note 17.

## Taxes

Deferred tax assets are recognised for all unused tax losses to the extent that it is probable that taxable profit will be available against which the losses can be utilised. Significant management judgement is required to determine the amount of deferred tax assets that can be recognised, based upon the likely timing and the level of future taxable profits together with future tax planning strategies. Management has assessed at this stage not to recognise a deferred tax asset for tax losses on the basis a tax profit has yet to be generated.

## Development costs

The Group capitalises development costs in accordance with the accounting policy. Initial capitalisation of costs is based on management's judgement that technological and economical feasibility is confirmed, usually when a product development project has reached a defined milestone according to an established project management model. In determining the amounts to be capitalised, management makes assumptions regarding the expected future cash generation of the project, discount rates to be applied and the expected period of benefits. At 30 June 2018, the carrying amount of capitalised development costs was \$Nil (2017:\$Nil).

## 4. Information about subsidiaries

The consolidated financial statements of the Group include:

Name	Country of incorporation	% Equity interest	
		2018	2017
Tomizone New Zealand Limited	New Zealand	100.0	100.0
Tomizone Australia Pty Limited	Australia	100.0	100.0
Jimojo Pty Limited	Australia	100.0	100.0
Tomizone Inc	USA	100.0	100.0
Tomizone India Pvt Limited	India	100.0	100.0
Tomizone International Limited	New Zealand	100.0	100.0
Tomizone Licensing Limited	New Zealand	100.0	100.0
Tomizone Consulting Beijing Company Limited	China	100.0	100.0
Tomizone Holdings Limited	New Zealand	100.0	0.0
Ironman Group Limited	New Zealand	100.0	0.0
Bargain Oil Pty Limited	Australia	0.0	100.0

## 5. Segment information

Tomizone's operating segment has been determined based on internal management reporting structure and the nature of the product provided by Tomizone. It reflects the business level at which financial information is provided to management for decision making regarding resource allocation and performance assessment.



On this basis it is concluded that Tomizone is reviewed for management purpose as a single operating segment.

The Group operates in one industry, being the provision of ICT managed service, and other technology related management services, and is based primarily in Australia and New Zealand. The Group has identified its operating segment based on internal reports that are reviewed and used by the Board of Directors (chief operating decision makers) in assessing performance and determining the allocation of resources.

## 6. Other income/expenses

### 6.1. Other operating income/(loss)

	2018	2017
	\$	\$
Net gain/(loss) on disposal of property, plant and equipment	(1,462)	(6,886)
Foreign exchange gains/(loss) - (net)	(19,995)	(22,251)
	<b>(21,457)</b>	<b>(29,137)</b>

### 6.2. Operating lease expenses

	2018	2017
	\$	\$
Operating lease expenses	194,613	77,596
	<b>194,613</b>	<b>77,596</b>

### 6.3. Finance costs

	2018	2017
	\$	\$
Interest on debt and borrowings	(1,064,169)	(687,785)
<b>Total interest expense</b>	<b>(1,064,169)</b>	<b>(687,785)</b>
Net gain/loss on financial instruments at fair value through profit or loss	-	-
<b>Total finance costs</b>	<b>(1,064,169)</b>	<b>(687,785)</b>

## 7. Income tax

The major components of income tax expense for the years ended 30 June 2018 and 2017 are:

### Consolidated statement of profit or loss

	2018	2017
	\$	\$
Prior year adjustments	-	-
Deferred tax / (benefit)	(26,374)	(51,027)
<b>Income tax expense / (benefit) reported in the consolidated statement of profit or loss</b>	<b>(26,374)</b>	<b>(51,027)</b>

Reconciliation between tax expense and the accounting profit multiplied by Australia's domestic tax rate for 2018 and 2017:

	2018 \$	2017 \$
<b>Accounting loss before income tax</b>	<b>(6,253,507)</b>	<b>(4,281,454)</b>
At Australia's statutory income tax rate of 30% (2017: 30%)	(1,876,052)	(1,284,436)
<b>Non-deductible expenses for tax purposes</b>		
Impairment of intangible asset	857,101	378,501
Other non-deductible expenses	65,765	60,433
Deferred tax assets not recognised	870,989	753,648
Effect of lower tax rate in NZ of 28% (2017: 28%)	55,823	40,828
<b>Income tax expense / (benefit) reported in the statement of profit or loss</b>	<b>(26,374)</b>	<b>(51,027)</b>

### Deferred tax / (benefit)

Deferred tax relates to the following:

	Consolidated statement of financial position		Consolidated statement of profit or loss	
	2018 \$	2017 \$	2018 \$	2017 \$
Alternative depreciation for tax purposes	(7,912)	(26,649)	(18,737)	(35,845)
Intangibles in Jimojo acquisition	-	(6,035)	(6,035)	(23,965)
Intangibles in Ironman Group acquisition	(307,168)	-	-	-
Employee liabilities	41,031	33,384	(6,780)	8,783
<b>Deferred tax expense/(income)</b>	<b>-</b>	<b>-</b>	<b>(31,552)</b>	<b>(51,027)</b>
<b>Net deferred tax (liabilities)/assets</b>	<b>(274,049)</b>	<b>700</b>		

Reflected in the statement of financial position as follows:

Deferred tax assets	33,119	7,210
Deferred tax liabilities	(307,168)	(6,510)
<b>Deferred tax liabilities, net</b>	<b>(274,049)</b>	<b>700</b>

The Group offsets tax assets and liabilities if and only if it has a legally enforceable right to set off current tax assets and current tax liabilities and the deferred tax assets and deferred tax liabilities relate to income taxes levied by the same tax authority.

The Group has recognised no deferred tax assets for temporary differences or unused tax losses. The benefits of the temporary differences and unused tax losses will only be realized if the conditions for deductibility set out in Note 2.4 (f) occur.

## 8. Earnings per share (EPS)

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

Diluted EPS amounts are calculated by dividing the net profit attributable to ordinary equity holders of the parent (after adjusting for interest on the convertible preference shares) by the weighted average number of ordinary shares outstanding during the year plus the weighted average number of ordinary shares that would be issued on conversion of all the dilutive potential ordinary shares into ordinary shares.

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

	2018	2017
	\$	\$
<b>(Loss) attributable to ordinary equity holders of the parent</b>		
(Loss) attributable to ordinary equity holders of the Parent for basic earnings & dilution	(6,297,840)	(4,233,269)
<b>(Loss) attributable to ordinary equity holders of the Parent adjusted for the effect of dilution</b>	<b>(6,297,840)</b>	<b>(4,233,269)</b>
	'000	'000
Weighted average number of ordinary shares for basic EPS	301,977	102,330
<b>Effect of dilution:</b>		
Performance shares & options	31,267	31,267
<b>Weighted average number of ordinary shares adjusted for the effect of dilution</b>	<b>333,243</b>	<b>133,597</b>

Refer to the Directors report for details of the shares and options issued to Directors upon approval from the General Meeting of Shareholders held on 20 July 2018

There have been no other transactions involving ordinary shares or potential ordinary shares between the reporting date and the date of authorisation of these financial statements.

## 9. Cash and short-term deposits

For the purpose of the consolidated statement of cash flows, cash and cash equivalents comprise the following at 30 June:

	2018	2017
	\$	\$
Cash at banks and on hand	291,055	228,791
Bank overdrafts	(31,885)	(82,588)
<b>Cash and cash equivalents</b>	<b>259,170</b>	<b>146,203</b>

Cash at banks earns interest at floating rates based on daily bank deposit rates. The Group has pledged a part of its short-term deposits to fulfil collateral requirements. Refer to Note 14.1 for details of bank overdrafts.

## 9.1. Reconciliation of cash flows from operating activities

	2018	2017
	\$	\$
<b>Reconciliation of net profit / (loss) after tax to net cash flows from operations:</b>		
Loss after tax from continuing operations	(6,227,133)	(4,230,427)
<b>Adjustments to reconcile profit / (loss) after tax to net cash flows:</b>		
Depreciation and impairment of property, plant and equipment	217,875	191,765
Amortisation and impairment of intangible assets	2,961,266	1,729,500
Share based payment expense	111,578	355,363
Transaction costs on issue of shares/convertible notes	-	201,588
Gain / (Loss) on disposal of property, plant and equipment	(1,462)	(6,886)
Deferred tax movements	(26,374)	(51,027)
Movements in provisions	-	7,654
Amortised Loan Fees	279,093	97,440
<b>Working capital adjustments</b>		
(Increase)/ decrease in trade and other receivables and prepayments	(819,937)	570,578
(Decrease)/ increase in trade and other payables	944,213	(923,454)
Decrease/ (increase) in inventories	(29,736)	(1,230)
<b>Net cash flows used in operating activities</b>	<b>(2,590,617)</b>	<b>(2,059,135)</b>

## 9.2. Non-cash investing and financing activities

	2018
	\$
Property, plant and equipment on acquisition of IMG	299,066
Capital raising costs issued in shares	(53,565)
Shares issued from conversion of convertible note	420,000
Shares issued on acquisition of IMG	184,000
Shares issued on acquisition of Bluesky	133,333
Shares issued in return for capital raising and underwriting services	154,860
Shares issued under employee share plan	6,315
	<b>1,144,010</b>

## 10. Trade and other receivables

	2018	2017
	\$	\$
<b>Current trade and other receivables</b>		
Trade receivables	1,197,073	117,188
Other receivables	562,087	199,121
Prepayments	20,729	136,952
<b>Total current</b>	<b>1,779,889</b>	<b>453,261</b>
<b>Non-current trade and other receivables</b>		
Other receivables	476,403	-
<b>Total non-current</b>	<b>476,403</b>	<b>-</b>
<b>Total trade &amp; other receivables</b>	<b>2,256,292</b>	<b>453,261</b>

Trade receivables are non-interest bearing and are generally on terms of 30 days.

As at 30 June, the ageing analysis of trade receivables is as follows:

	Total	Neither past due nor impaired	< 30 days	30-60 days	61-90 days	> 90 days
	\$	\$	\$	\$		\$
<b>2018</b>	1,197,073	447,216	229,546	438,191	14,838	67,282
<b>2017</b>	119,710	71,588	25,177	1,300	2,235	19,411

Non-current other receivables represent an unsecured loan to a third party with an interest rate of 15% and a repayment date of 22 December 2021

## 11. Intangible assets

	Development costs	Patents and licences with definite useful life	Software	Customer contracts	Goodwill	Total
	\$	\$	\$	\$	\$	\$
<b>Cost</b>						
<b>At 1 June 2016</b>	<b>4,655,063</b>	<b>27,985</b>	<b>804,376</b>	<b>263,000</b>	<b>1,544,884</b>	<b>7,295,308</b>
Additions	-	-	-	-	-	-
Disposals	-	(27,985)	(16,623)	-	-	(44,608)
Exchange differences	(20,963)	-	(753)	-	-	(21,716)
<b>At 30 June/1 June 2017</b>	<b>4,634,100</b>	<b>-</b>	<b>787,000</b>	<b>263,000</b>	<b>1,544,884</b>	<b>7,228,984</b>
Additions	-	-	22,942	-	-	22,942
Acquisitions	-	-	24,822	1,097,027	2,578,401	3,700,249
Disposals	-	-	-	-	-	-
Exchange differences	-	-	-	-	-	-
<b>At 30 June 2018</b>	<b>4,634,100</b>	<b>-</b>	<b>834,764</b>	<b>1,360,027</b>	<b>4,123,285</b>	<b>10,952,175</b>
<b>Amortisation and impairment</b>						
<b>At 1 June 2016</b>	<b>2,991,775</b>	<b>27,985</b>	<b>803,366</b>	<b>162,000</b>	<b>1,205,988</b>	<b>5,191,114</b>
Amortisation	253,173	-	254	29,000	-	282,427
Disposals	-	(27,985)	(15,900)	-	-	(43,885)
Impairment	1,401,073	-	-	46,000	-	1,447,073
Exchange differences	(11,921)	-	(720)	-	-	(12,641)
<b>At 30 June/1 June 2017</b>	<b>4,634,100</b>	<b>-</b>	<b>787,000</b>	<b>237,000</b>	<b>1,205,988</b>	<b>6,864,088</b>
Amortisation	-	-	18,325	26,000	-	44,325
Acquisition	-	-	2,216	-	-	2,216
Disposals	-	-	-	-	-	-
Impairment	-	-	-	-	2,917,296	2,917,296
Exchange differences	-	-	(94)	-	-	(94)
<b>At 30 June 2018</b>	<b>4,634,100</b>	<b>-</b>	<b>807,447</b>	<b>263,000</b>	<b>4,123,284</b>	<b>9,827,831</b>
<b>Net book value</b>						
<b>As 30 June 2017</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>26,000</b>	<b>338,896</b>	<b>364,896</b>
<b>As 30 June 2018</b>	<b>-</b>	<b>-</b>	<b>27,317</b>	<b>1,097,027</b>	<b>-</b>	<b>1,124,344</b>

### Development Costs

The revenue assumptions are fundamental assumptions in the value-in-use assessments. An impairment loss of \$1,401,073 was recognised in the FY17 year for the internally developed software product. The impairment was determined by management's expectation, based on current evidence that the market was shifting considerably towards other lower cost, feature rich alternative WiFi software products within Tomizone's current product set.

The migration of customers to other Tomizone products was significantly reducing future revenues and profits from Lightswitch, and as such, management fully impaired the software. The carrying amount of the Lightswitch software as at 30 June 2018 is \$Nil (2017: \$Nil).

### Goodwill and Customer Contracts

The carrying value of intangible assets, including goodwill and customer contracts is dependent upon the revenue stream generated by the current customer base and the achievement of the value-in-use assessment assumptions.

The Company tests whether goodwill has incurred any impairment on an annual basis. The recoverable amount of a cash generating unit (CGU), including the intangibles, is determined on value-in-use calculations.

The calculation uses cash flow projections based on financial budgets approved by Management.

The goodwill recognised in the FY18 year of \$2,578,401 (FY17: \$Nil) was part of a business combination.

At purchase date, consideration was given to the allocation of goodwill to cash generating units. At the time of purchase the rationale for the acquisitions was to increase the footprint of the *Tomizone* brand through both increased products and increased customers, create cross-selling opportunities and protect the existing future cash flows of the Tomizone businesses. Based on how management review the business no additional CGU's were identified.

The impairment charge of \$2,917,296 (2017: \$Nil) arose following a decision to reduce goodwill at a subsidiary level. This was a result of the Company's rationale that the expected future benefit of the underlying cash flows will flow to the Tomizone CGU as a result of the acquisitions through the redefinition of the Company's future strategic direction around the enhanced product offering and increased customer base.

The business' enhanced product offering will enable cross selling of products and accordingly protect the future value.

### Customer Contracts

The Customer contracts were acquired as part of a business combination. They are recognised at their fair value at the date of acquisition. The fair value has been based on the Income Valuation Approach and a discounted cashflow of future contract revenue. The key assumptions were, a churn rate of 8%, discount rate of 13%, and assumed roll of 2.5 times for contracts. Customer lists are not indefinite and as such are amortised over the life of the contracts. The useful life has been assessed as 10 years.

## 12. Property, plant and equipment

	Plant and equipment \$	Furniture, fittings, and equipment \$	Motor Vehicles \$	Leasehold improvements \$	Leased plant and equipment \$	Total \$
<b>Cost</b>						
<b>At 30 June/1 July 2016</b>	<b>560,525</b>	<b>47,762</b>	<b>50,995</b>	<b>12,567</b>	<b>1,067,488</b>	<b>1,739,337</b>
Additions	3,286	-	-	-	-	3,286
Acquisitions	-	-	-	-	-	-
Disposals	(221,382)	(30,609)	(18,002)	(8,288)	-	(278,281)
Reclassification	1,067,488	-	-	-	(1,067,488)	-
Exchange differences	(13,731)	(2,005)	-	(393)	-	(16,129)
<b>At 30 June 2017</b>	<b>1,396,186</b>	<b>15,148</b>	<b>32,993</b>	<b>3,886</b>	<b>-</b>	<b>1,448,213</b>
Additions	146,961	793	58,054	7,262	-	213,070
Acquisitions	209,154	8,981	195,343	48,442	-	461,920
Disposals	(29,738)	(3,028)	(70,334)	-	-	(103,100)
Reclassification	-	-	-	-	-	-
Exchange differences	(54,848)	(563)	(1,461)	(410)	-	(57,282)
<b>At 30 June 2018</b>	<b>1,667,716</b>	<b>21,331</b>	<b>214,596</b>	<b>59,179</b>	<b>-</b>	<b>1,962,821</b>
<b>Depreciation</b>						
<b>At 30 June/1 July 2016</b>	<b>452,944</b>	<b>35,146</b>	<b>25,347</b>	<b>8,000</b>	<b>844,657</b>	<b>1,366,094</b>
Depreciation charged for the year	181,572	1,825	7,564	804	-	191,765
Acquisitions	-	-	-	-	-	-
Disposals	(222,158)	(24,720)	(10,200)	(5,516)	-	(262,594)
Reclassification	844,657	-	-	-	(844,657)	-
Exchange differences	(9,990)	(925)	-	(257)	-	(11,172)
<b>At 30 June 2017</b>	<b>1,247,025</b>	<b>11,326</b>	<b>22,711</b>	<b>3,031</b>	<b>-</b>	<b>1,284,093</b>
Depreciation charged for the year	166,675	1,599	41,268	7,975	-	217,517
Acquisitions	28,185	1,115	37,160	5,562	-	72,021
Disposals	(13,143)	(2,232)	(16,448)	-	-	(31,823)
Reclassification	-	-	-	-	-	-
Exchange differences	(48,713)	(392)	(510)	(190)	-	(49,805)
<b>At 30 June 2018</b>	<b>1,380,028</b>	<b>11,416</b>	<b>84,181</b>	<b>16,378</b>	<b>-</b>	<b>1,492,003</b>
<b>Net book value</b>						
<b>As 30 June 2017</b>	<b>149,161</b>	<b>3,822</b>	<b>10,282</b>	<b>855</b>	<b>-</b>	<b>164,120</b>
<b>As 30 June 2018</b>	<b>287,687</b>	<b>9,915</b>	<b>130,415</b>	<b>42,801</b>	<b>-</b>	<b>470,819</b>



## 13. Trade and other payables

	2018	2017
	\$	\$
Trade payables	1,279,784	615,083
Other payables	635,561	571,457
Accrued expenses	910,779	272,516
Payroll tax and other statutory liabilities	125,191	167,830
	<b>2,951,315</b>	<b>1,626,886</b>

## 14. Financial assets and financial liabilities

### 14.1. Financial liabilities, Interest-bearing loans and borrowings

	Interest Rate	2018	2017
	%	\$	\$
<b>Current interest-bearing loans and borrowings</b>			
Bank overdrafts	18%	31,885	82,588
Credit cards	21%	28,257	25,291
Loans	11- 15%	1,680,622	-
Convertible Notes	12.5%	-	3,920,907
<b>Total current</b>		<b>1,740,764</b>	<b>4,028,786</b>
<b>Non-current interest-bearing loans and borrowings</b>			
Convertible Notes	12.5%	3,360,000	-
Loans	11- 15%	2,096,141	-
<b>Total non-current</b>		<b>5,456,141</b>	<b>-</b>
<b>Total interest-bearing loans and borrowings</b>		<b>7,196,905</b>	<b>4,028,786</b>

#### Bank overdrafts

The Group operates overdrafts with mainstream commercial banks. The approved limit is NZD \$40,000.

#### Convertible Notes

	2018	2017
	\$	\$
Proceeds from issue of convertible notes (28,000,000 notes at 0.15 par value)	4,200,000	4,200,000
Transaction costs	(194,885)	(194,885)
<b>Net proceeds</b>	<b>4,005,115</b>	<b>4,005,115</b>
Amount classified as equity (net of transaction costs)	-	(185,384)
Redemption	(840,000)	-
Amortised transaction costs	194,885	101,176
<b>Carrying amount of liability as at 30 June</b>	<b>3,360,000</b>	<b>3,920,907</b>

These notes were issued on 14 June 2016 and are convertible into 28,000,000 ordinary shares at any time up to 14 August 2019. The convertible notes have a face value of \$4,200,000 and a carrying amount of \$3,360,000 as at 30 June 2018 (2017: \$3,920,907). The convertible notes are secured by first ranking general security interest over all assets of the Company and all its wholly owned subsidiaries.

## Loans terms and maturity

	Interest rate	Maturity	2018
	%	Year	\$
Secured loan	11%	Renewal date 2018 Final repayment 2022	789,876
Secured loan	11%	2018	410,678
Secured loan	11%	2026	1,461,971
Secured loan	13%	2020	107,521
Secured loan	11%	2018	4,060
Secured loan	13%	2021	20,597
Secured loan	13%	2022	32,355
Secured loan	13%	2022	35,320
Secured loan	15%	2020	145,712
Unsecured loan	15%	2020	62,119
Unsecured loan	15%	2020	91,418
Unsecured loan	15%	2020	91,418
Unsecured loan	20%	2019	301,378
Unsecured loan	20%	2019	119,171
Unsecured loan	14%	2019	95,989
Unsecured loan	15%	2020	7,179
			<b>3,776,763</b>

## 14.2. Financial risk management objectives and policies

The Group's principal financial assets include loans, trade and other receivables, and cash and short-term deposits that derive directly from its operations. The Group's principal financial liabilities, other than derivatives, comprise of loans and borrowings, and trade and other payables. The main purpose of these financial liabilities is to finance and support the Group's operations.

The Group is exposed to market risk, credit risk and liquidity risk. Senior management oversee the management of these risks. Senior management is supported by the Board that advises on financial risks and the appropriate financial risk governance framework for the Group. The Board provides assurance to the Senior management that the financial risk activities are governed by appropriate policies and procedures and that financial risks are identified, measured and managed in accordance with the Group's policies and risk objectives. It is the Group's policy that no trading in derivatives for speculative purposes may be undertaken. The Board of Directors reviews and agrees policies for managing each of these risks which are summarised below.

### Market risk

Market risk is the risk that the fair value of future cash flows of a financial instrument will fluctuate because of changes in market prices. Market risk comprise three types of risk: interest rate risk, foreign currency risk and other price risk.

### Interest rate risk

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates. The Group's exposure to the risk of changes in market interest rates is limited due primarily to the Group's long-term debt obligations that have fixed interest rates. Refer to Note 14.1.

## Foreign currency risk

Foreign currency risk is the risk that the fair value or future cash flows of an exposure will fluctuate because of changes in foreign exchange rates. The Group's exposure to the risk of changes in foreign exchange rates relates primarily to the Group's operating activities (when revenue or expense is denominated in a foreign currency) and the Group's net investments in foreign subsidiaries. The main exposure is to New Zealand dollars.

## Foreign currency sensitivity

The following tables demonstrate the sensitivity to a reasonably possible change in the NZD exchange rate, with all other variables held constant. The impact on the Group's profit before tax is due to changes in the fair value of monetary assets and liabilities. The Group's exposure to foreign currency changes for all other currencies is not material.

	Change in NZD rate	Effect on profit before tax \$	Effect on equity \$
2018	-5.00%	139,557	91,071
2017	-5.00%	100,716	9,531

The movement in the pre-tax effect is a result of a change in the fair value of monetary assets and liabilities denominated in AU dollars, where the functional currency of the entity is a currency other than AU dollars.

## Credit risk

Credit risk is the risk of financial loss to the Group if a customer or counterparty to a financial instrument fails to meet its contractual obligations, and arises principally from the Group's receivables from customers.

Other credit risk arises from cash and cash equivalents, deposits with reputable banks and security deposits with landlords.

The maximum exposure to credit risk at the reporting date is the carrying amount, net of any provisions for impairment of those assets, as disclosed in the statement of financial position and notes to the financial statements. The Group does not hold any collateral. The single largest receivable is \$421,017, with the average per entity being \$2,270.

Credit risk is managed by a risk assessment process for all customers and counterparties, which takes into account past experience. There have been no impairment losses recognised during the year (2017: \$Nil).

## Trade receivables

Customer credit risk is managed to the Group's established policies, procedures and control relating to customer credit risk management. Credit quality of the customer is assessed at the time of customer acquisition. Outstanding customer receivables are regularly monitored.

## Liquidity risk

Liquidity risk is the risk that the Group will not be able to meet its financial obligations as they fall due. The Group's approach to managing liquidity is to ensure, where possible, that it will always have sufficient liquidity to meet its liabilities when due and aligns its revenues with its expenses.

Ultimate responsibility for liquidity management rests with the Directors. The Group ensures that, where possible, it has sufficient cash on demand to meet expected net cash outflows, including the servicing of financial obligations; this excludes the potential impact of extreme circumstances that cannot reasonably be predicted, such as natural disasters.

There is a continuous monitoring of actual and forecast cash flows, matching the maturity profiles of financial assets and liabilities.

## Maturities of financial liabilities

The following table details the Group's remaining contractual maturity for its financial instrument liabilities. The table has been drawn up based on the undiscounted cash flows of financial liabilities based on the earliest date on which the financial liabilities are required to be paid. The tables include both interest and principal cash flows disclosed as remaining contractual maturities and therefore these totals may differ from their carrying amount in the statement of financial position.

The table below summarises the maturity profile of the Group's financial liabilities based on contractual undiscounted payments.

### Year ended 30 June 2018

		1 year or less	1 to 2 years	2 to 5 years	Over 5 years	Total
	Notes	\$	\$	\$	\$	\$
Interest bearing loans and borrowings	14.1	1,740,764	3,925,079	434,538	1,096,524	7,196,905
Trade and other payables	13	2,951,315	-	-	-	2,951,315
		4,692,079	3,925,079	434,538	1,096,524	10,148,220

### Year ended 30 June 2017

		1 year or less	1 to 2 years	2 to 5 years	Over 5 years	Total
	Notes	\$	\$	\$	\$	\$
Interest bearing loans and borrowings	14.1	4,028,786	-	-	-	4,028,786
Trade and other payables	13	1,626,886	-	-	-	1,626,886
		5,655,672	-	-	-	5,655,672

## 14.3. Capital management

For the purpose of the Group's capital management, capital includes issued capital and all other equity reserves attributable to the equity holders of the parent. The primary objective of the Group's capital management is to maximise the shareholder value.

The Board ensures the Group has sufficient capital as required for working capital purposes. There were no changes to the Group's approach to capital management during the year. The Group is not subject to externally imposed capital requirements.

## 15. Deferred revenue

	2018	2017
	\$	\$
Closing Balance at 30 June	134,769	520,434
Deferred during the year	498,290	217,148
Recognised during the year	(502,053)	(602,813)
Closing Balance at 30 June	131,006	134,769

The deferred revenue reflects revenue invoiced where the service has not been provided.

## 16. Employee benefit liabilities

### Annual leave and accrued salaries

	2018	2017
	\$	\$
<b>Current</b>		
Annual leave	110,379	61,907
Accrued salaries	12,452	140,481
<b>At 30 June</b>	<b>122,831</b>	<b>202,388</b>

## 17. Share-based payments

Director and executive service agreements awards are made to directors, executives, and other key talent who have an impact on the Group's performance. Awards are delivered in the form of options over shares which vest over a period of one to three years subject to meeting performance measures.

In addition, there was a shared-based payment in relation to the extension of the convertible notes.

### Options movements during the year

	2018	WAEP	2017	WAEP
<b>Outstanding at the beginning of the year</b>	<b>11,869,228</b>	<b>0.2054</b>	<b>10,354,902</b>	<b>0.2330</b>
<b>Granted during the year</b>				
Executive & Employee Options - FY16	-	-	10,000,001	0.1383
Executive & Employee Options - FY17	-	-	715,959	0.0258
Convertible note holder Options - FY18	28,000,000	0.1000	-	-
<b>Exercised during the year</b>				
Executive & Employee Options - FY17	(202,778)	0.0296	-	-
<b>Expired during the year</b>				
Executive & Employee Options - FY16	-	-	(6,000,000)	0.1120
Executive & Employee Options - FY17	(513,181)	0.0243	-	-
Director C Options	-	-	(1,791,036)	0.2200
Director D Options	(1,791,036)	0.2200	-	-
Global Advisor Options	(1,410,598)	0.2200	(1,410,598)	0.2200
<b>Outstanding at the end of the year</b>	<b>35,951,635</b>	<b>0.1256</b>	<b>11,869,228</b>	<b>0.2054</b>

### Exercisable at closing date

Incentive B & C Options	750,000	0.4000	750,000	0.4000
Director D Options	-	-	1,791,036	0.2200
Director E Options	1,791,036	0.2200	1,791,036	0.2200
Global Advisor options	1,410,598	0.2200	2,821,196	0.2200
Executive & Employee options - FY16	4,000,001	0.1777	4,000,001	0.1777
Executive & Employee options - FY17	-	-	715,959	0.0258
Convertible note holder Options - FY18	28,000,000	0.1000	-	-

The weighted average remaining contractual life for the share options outstanding as at 30 June 2018 was 2.134 years.

With respect to options granted during the current financial year the fair value at grant date was independently determined using the Black Scholes Model that takes into account the exercise price, the term of the option, the impact of dilution (where material), the share price at grant date and expected price

volatility of the underlying share, the expected dividend yield, the risk-free interest rate for the term of the option and the correlations and volatilities of the peer group companies.

## 18. Contributed equity

### Authorised shares

The share capital of Tomizone Limited consists of fully paid ordinary shares which entitle the holder to participate in dividends, and to share in the proceeds of winding up the company in proportion to the number of and amounts paid on the shares held.

On a show of hands every holder of ordinary shares present at a meeting in person or by proxy, is entitled to one vote, and upon a poll each share is entitled to one vote.

Ordinary shares have no par value and the company does not have a limited amount of authorised capital.

	2018	2017
	'000	'000
Ordinary shares	407,614	108,875
	<b>407,614</b>	<b>108,875</b>

### Ordinary shares issued and fully paid

	'000	\$
<b>At 30 June/1 July 2016</b>	<b>96,153</b>	<b>19,041,318</b>
Issue of share capital - private placement 24 Oct 2016	2,056	185,000
Issue of share capital - private placement 10 Jan 2017	10,667	960,000
<b>At 30 June 2017</b>	<b>108,875</b>	<b>20,186,318</b>
Issue of Share Capital - Jul 17	13,778	240,000
Issue of Share Capital - 28 July 17	23,022	345,327
Issue of Share Capital - 11 Aug 17	99,631	1,494,467
Issue of Share Capital - 12 Sept 17	1,411	24,667
Issue of Share Capital 9 Oct 17	6,667	133,333
Issue of Share Capital - 30 Nov 17	35,167	527,500
Issue of Share Capital - 20 Dec 17	19,758	342,148
Issue of Share Capital - 19 Feb 18	33,933	509,000
Issue of Shar Capital - 31 Mar 18	65,372	981,370
Capital Raising Costs		(161,995)
<b>At 30 June 2018</b>	<b>407,614</b>	<b>24,622,135</b>

In addition to options issued for remuneration as referenced in Note 17 the Company has the following options outstanding:

	Number of Options	Expiry Date
Listed Class B Options	6,349,934	30/09/2018
Unlisted Class B Options	3,356,154	30/09/2018
Incentive A Options	375,000	01/10/2018

## 19. Equity - reserves

### Other capital reserves

The share-based payment reserve is used to recognise the value of equity-settled share-based payment transactions provided to employees, including key management personnel, as part of their remuneration. Refer to Note 17 for further details of these plans.

### Foreign currency translation reserve

The foreign currency translation reserve records exchange differences arising on the translation of foreign controlled subsidiaries.

## 20. Related party disclosures

### The ultimate parent

Tomizone Limited (ASX: TOM) is the Group's ultimate parent company. Tomizone Limited is a Public Company incorporated and domiciled in Australia.

### Compensation of key management personnel of the Group

	2018	2017
	\$	\$
Short-term employee benefits	886,878	644,010
Post-employment benefits	-	27,611
Share-based payment	1,648	245,688
<b>Total compensation paid to key management personnel</b>	<b>888,526</b>	<b>917,309</b>

The amounts disclosed in the table are the amounts recognised as an expense during the reporting period related to key management personnel.

### Security Interests held by Key Management Personnel at 30 June:

Issue date	2018 Number outstanding	2017 Number outstanding
Tarun Kanji *	-	2,439,895
Avikashan Naidu *	-	2,080,260
Eric King Wai Chan *	-	5,006,813
Ian Bailey	47,323,015	-
Phillip Joe *	-	3,236,555
Geoffrey Wanless *	-	4,733,752
Saurabh Madan *	-	1,426,369
<b>Total</b>	<b>47,323,015</b>	<b>18,923,644</b>

\* Ceased being a Key Management Personnel during the financial year.

**Key Management Personnel related party participation in Convertible Notes at 30 June:**

	2018 Number of Notes	\$	2017 Number of Notes	\$
Tarun Kanji *	-	-	317,893	47,684
Avikashan Naidu *	-	-	283,000	42,500
Eric King Wai Chan *	-	-	6,750,000	1,012,500
Phillip Joe	-	-	1,500,000	225,000
Geoffrey Wanless *	-	-	666,667	100,000
	-	-	9,517,560	1,427,684

\* Refer to Directors Report for details of changes to Key Management Personnel.

Convertible notes issued to related parties are on the same terms as that of third party, with exception to notes issued to Phillip Joe which are non-convertible.

Total interests in convertible notes listed above are a combination of direct and in-direct, via related party, participation. Related parties are attributed where a Key Management Individual has control, family association, or is a KMP of the participating entity.

**Amounts owing to Key Management Personnel at 30 June:**

Name of Related Party	Relationship	Nature of Transaction	2018 \$
Ian Bailey	Director	Payable	69,129
		Accrual	90,000
		Accrual	210,000
Matt Adams	Director	Accrual	10,000
		Accrual	240,000
Maxim Carling	Director	Accrual	50,000
			669,129

## 21. Commitments and contingencies

### Operating lease commitments - Group as lessee

The Group has entered into a commercial lease on office property. Rentals paid under operating leases are charged to the income statement on a straight-line basis over the period of the lease.

Future minimum rentals payable under non-cancellable operating leases as at 30 June are as follows:

	2018 \$	2017 \$
Within one year	54,512	7,740
After one year but not more than five years	23,694	-
	78,206	7,740

### Contingent assets and liabilities

The acquisition of the shares in Ironman Group Limited and the business of Bluesky, undertaken in October 2017, by Tomizone Holdings Limited resulted in Tomizone Holdings Limited (a subsidiary formed to hold those acquisitions) being required to enter into an all obligations guarantee for debt facilities provided to EFTPOS Warehouse Limited. EFTPOS Warehouse Limited was the original owner of Ironman and, prior to the acquisition, had a cross guarantee with Ironman to FE Investment Limited which continued post acquisition. EFTPOS Warehouse Limited has a customer base of circa 3,500 customers and a rental book of circa \$6M, with



a future renewable cashflow of up to NZ\$14M. The guarantee is therefore underpinned by the value relating to the rental book and the value of the potential future contracted cashflows that the rental book can provide. The guarantee is limited by a first ranking GSA over Tomizone Holdings Limited. Total contingent liability is circa \$6M on the rental book and term loans of circa \$2M.

## 22. Business Acquisitions

### Bluesky Acquisition

On 1<sup>st</sup> October 2017, the Group completed the acquisition of the Bluesky business being certain assets owned and liabilities owed by Bluesky Online Services Ltd. The Bluesky brand name is well established in New Zealand in the ICT sector (specifically in medical centres), with considerable scope to expand its distribution channels. As part of the acquisition, the Group continues to own and operate the Bluesky brand and has absorbed the Bluesky sales and technical teams in the Group.

#### Identifiable assets acquired and liabilities assumed

	\$
Fixed Assets	92,070
Loans Assumed	(174,933)
<b>Net Identifiable Assets Acquired</b>	<b>(82,863)</b>
Consideration Paid	303,366
Intangible on Acquisition	386,229

### Ironman Group Acquisition

On 1 October 2017, the Group completed the acquisition of 100% of the issued capital of Ironman Group Ltd which was previously owned by Eftpos Warehouse Ltd. Ironman operates in the security, payment technology, digital signage and venue technology sectors. It has a customer base of in excess of 3,000 clients.

#### Identifiable assets acquired and liabilities assumed

	\$
<b>Identifiable assets</b>	
Cash	22,102
Trade debtors	186,456
Other debtors	322,503
WIP	15,255
Inventory	4,282
Fixed assets	299,065
Contract Book	1,104,840
Brand names (potential new)	24,998
<b>Identifiable liabilities</b>	
Trade creditors	256,826
Loans	3,252,052
Sundry Creditors	19,945
GST	73,601
Provision for Employees	42,160
<b>Net Identifiable Assets Acquired</b>	<b>(1,665,083)</b>
Consideration Paid	184,000
Intangible on Acquisition	1,849,083

## 23. Events after the reporting period

### General meeting

A General Meeting of Shareholders was held on 20 July 2018 to consider a number of Resolutions.

Resolutions passed at the meeting included

- Approval of prior issues of shares
- Approval of the issue of shares for the acquisition of Sweep Internet NZ (still to be issued)
- Approval of the issue of shares for the acquisition from Lighthouse Digital Limited (still to be issued)
- Approval of the issue of shares to Directors - now issued
- Adoption of the Managing Director's Share Plan
- Grant of options to Directors - now issued
- Adoption of Employee Share Option Plan
- Approval of SPP, February Placement of SPP Shortfall Options - Short Form Prospectus to be issued

There have been no other significant events since the end of the financial year.

## 24. Auditor's remuneration

	2018	2017
	\$	\$
<b>Amounts received or due and receivable by auditors for:</b>		
An audit or review of the financial report of the entity and any other entity in the consolidated group - Crowe Horwath	62,000	80,000
	<b>62,000</b>	<b>80,000</b>
<b>Amounts received or due and receivable for other services for:</b>		
Taxation compliance - Crowe Horwath	13,200	10,000
	<b>13,200</b>	<b>10,000</b>

## 25. Information relating to the Tomizone Limited (the parent)

	2018	2017
	\$	\$
Current assets	226,093	268,962
Total assets	426,093	468,962
Current liabilities	734,440	4,434,479
Total liabilities	4,094,440	4,434,479
Issued capital	60,068,702	55,632,885
Retained earnings	(64,864,096)	(60,620,186)
Other capital reserves	1,127,047	1,021,783
	<b>(3,668,347)</b>	<b>(3,965,518)</b>
Profit or loss of the Parent entity	(1,475,007)	(1,586,429)
Total comprehensive income of the Parent entity	(1,475,007)	(1,586,429)

### **Guarantees entered into by the parent entity in relation to the debts of its subsidiaries**

The parent entity has not provided any guarantees to third parties in relation to the debts of its subsidiaries as at 30 June 2018.

### **Contingent assets and liabilities**

The parent entity had no contingent assets or liabilities as at 30 June 2018.

### **Significant accounting policies**

The accounting policies of the parent entity are consistent with those of the consolidated entity, as disclosed in note 1, except for the following:

- Investment in subsidiaries are accounted for at cost, less any impairment, in the parent entity.

## Directors' Declaration



**In accordance with a resolution of the directors of Tomizone Limited, I state that:**

1. In the opinion of the directors:
  - a. the consolidated financial statements and notes of Tomizone Limited for the financial year ended 30 June 2018 are in accordance with the Corporations Act 2001, including:
    - i. giving a true and fair view of the consolidated entity's financial position as at 30 June 2018 and of its performance for the year ended on that date; and
    - ii. complying with Accounting Standards and the Corporations Regulations 2001;
  - b. the consolidated financial statements and notes also comply with International Financial Reporting Standards as disclosed in Note 2.2; and
  - c. there are reasonable grounds to believe that the Company will be able to pay its debts as and when they become due and payable.
2. This declaration has been made after receiving the declarations required to be made to the directors by the Chairman and Chairman of the Audit and Finance Committee in accordance with section 295A of the Corporations Act 2001 for the financial year ended 30 June 2018.

On behalf of the board

A handwritten signature in black ink, appearing to be "Ian Bailey".

**Ian Bailey**  
Chairman & Executive Director

A handwritten signature in black ink, appearing to be "Matt Adams".

**Matt Adams**  
Managing Director

12 September 2018

# Independent Auditor's Declaration

**Crowe Horwath Sydney**

ABN 97 895 683 573  
Member Crowe Horwath International

**Audit and Assurance Services**

Level 15 1 O'Connell Street  
Sydney NSW 2000  
Australia

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[www.crowehorwath.com.au](http://www.crowehorwath.com.au)

## Auditor's Independence Declaration

As auditor of Tomizone Limited and its subsidiaries for the year ended 30 June 2018, I declare that, to the best of my knowledge and belief, there have been:

- i. no contraventions of the auditor independence requirements as set out in the *Corporations Act 2001* in relation to the audit; and
- ii. no contraventions of any applicable code of professional conduct in relation to the audit.

This declaration is in respect of Tomizone Limited and its subsidiaries during the year.

*Crowe Horwath Sydney*

**CROWE HORWATH SYDNEY**

*L Russell*

**LEAH RUSSELL**

Senior Partner

Dated at Sydney this 12th day of September 2018

# Independent Auditor's Report



**Crowe Horwath Sydney**  
ABN 97 895 683 573  
Member Crowe Horwath International

Audit and Assurance Services

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## Independent Auditor's Report to the Members of Tomizone Limited

### Report on the Audit of the Financial Report

#### Opinion

We have audited the financial report of Tomizone Limited (the Company and its subsidiaries (the Group)), which comprises the consolidated statement of financial position as at 30 June 2018, the consolidated statement of profit and 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 statements, including a summary of significant accounting policies, and the directors' declaration.

In our opinion, the accompanying financial report of the Group is in accordance with the *Corporations Act 2001*, including:

- (a) giving a true and fair view of the Group's financial position as at 30 June 2018 and of its financial performance for the year then ended,
- (b) complying with Australian Accounting Standards and the *Corporations Regulations 2001*, and,

#### 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 auditor independence requirements of 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 believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.



### Material uncertainty related to going concern

Without modifying our audit opinion, we draw attention to Note 2.1 in the financial report, which indicates that the Group incurred a net loss after tax of \$6,227,133 during the year ended 30 June 2018 and, as of that date, the Group's current liabilities exceeded its current assets by \$2,847,881. As stated in Note 2.1, these events or conditions, along with other matters as set forth in Note 2.1, indicate that a material uncertainty exists that may cast significant doubt on the Group's ability to continue as a going concern and therefore, the Group may not be able to realise its assets and discharge its liabilities in the normal course of business.

### Key Audit Matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the financial report of the current period. These matters were addressed in the context of our audit of the financial report as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Key Audit Matter	How we addressed the Key Audit Matter
<b>Valuation of goodwill and intangible assets through business combination – Note 11</b>	
<p>During the year, the Group completed several acquisitions and has determined these acquisitions to be business combinations. In accordance with its accounting policy on business combinations and goodwill outlined in Note 2.4(b), the purchase price was allocated between the net identifiable assets acquired and liabilities assumed, leading to the recognition of goodwill.</p> <p>The key asset requiring valuation was customer contracts. The approach and key assumptions utilised in the valuation of customer contracts are detailed in Note 11. The identification of assets and liabilities and their measurement is highly judgemental and for this reason we considered this area to be a key audit matter.</p>	<p>Our procedures included, but were not limited to:</p> <ul style="list-style-type: none"> <li>Assessing key assumptions used by management for determining fair value of the identifiable assets and liabilities against supporting documentation.</li> <li>Obtaining a list of contracts used to assess the fair value and compared to contracts and sales information.</li> <li>Assessing management's determination of the expected term that revenue will be generated from contracts.</li> <li>Reviewed the key assumptions in the value in use model and challenged the source and determination of the values assigned to churn rate and discount rates.</li> </ul>



Key Audit Matter	How we addressed the Key Audit Matter
<b>Impairment assessment of intangibles – goodwill</b>	
<p>The Group had significant intangible assets in the form of goodwill that was assessed on acquisition and at least annually for impairment by the directors.</p> <p>As outlined in note 11, the impairment assessment of Goodwill involves significant judgement in respect of factors such as:</p> <ul style="list-style-type: none"> <li>▪ The determination of Cash Generating Units (CGU's);</li> <li>▪ Budgeted revenue and costs;</li> <li>▪ Discount rates; and</li> <li>▪ Long-term growth rate.</li> </ul> <p>We focused on this area as a key audit matter due to the high degree of estimation and judgement required by the directors to assess whether impairment is required for the specified intangible assets and the sensitivity of the impairment assessment to changing variables as outlined in note 11.</p>	<p>We challenged the directors' assumptions that support its position on impairment as follows:</p> <ul style="list-style-type: none"> <li>▪ Assessed management's determination of the CGU's based on our understanding of the nature of the Group's business units and by comparing to the Group's internal reporting systems, in particular in relation to how earnings are monitored and reported;</li> <li>▪ Obtained the Group's value in use models and agreed amounts to the most recent budget approved by the Board and compared for consistency against the Group's future business plan;</li> <li>▪ Assessed the accuracy of the previous Group forecasting to inform our evaluation of the forecast amounts included in the value in use model;</li> <li>▪ Reviewed the key assumptions in the value in use model and challenged the source and determination of the values assigned to long term revenue growth and the discount rates; and</li> <li>▪ Assessed the Group's disclosures of the quantitative and qualitative considerations in relation to the valuation of goodwill, by comparing these disclosures to our understanding of the matter.</li> </ul>





Key Audit Matter	How we addressed the Key Audit Matter
<b>Impairment assessment of intangibles – customer contracts</b>	
<p>As outlined in note 11, the impairment assessment of customer contracts involves significant judgement in respect of factors such as:</p> <ul style="list-style-type: none"> <li>▪ Fair value less cost to sell or value in use</li> <li>▪ Amortisation over the expected term that revenue is generated from those contracts.</li> </ul> <p>We focused on this area as a key audit matter due to the high degree of estimation and judgement required by the directors to assess fair value and whether impairment is required for the specified intangible assets as outlined in note 11.</p>	<p>We challenged the directors' assumptions that support its position on impairment as follows:</p> <ul style="list-style-type: none"> <li>▪ Obtained a list of contracts used to assess the fair value on acquisition and compared to contracts and sales information at year end;</li> <li>▪ Assessed management's determination of the expected term that revenue is generated from contracts; and</li> <li>▪ Reviewed the key assumptions in the value in use model and challenged the source and determination of the values assigned to churn rate and discount rates.</li> </ul> <p>We challenged management on the useful life assessment.</p>

### Other Information

The directors are responsible for the other information. The other information comprises the information included in the Group's annual report for the year ended 30 June 2018, 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, 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, IFRS 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 have 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.

As part of an audit in accordance with the Australian Auditing Standards, we exercise professional judgement and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial report, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.
- Conclude on the appropriateness of the directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial report or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial report, including the disclosures, and whether the financial report represents the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the group financial report. The auditor is responsible for the direction, supervision and performance of the group audit. The auditor remains solely responsible for the audit opinion.

We communicate with the directors regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during the audit.



We also provide the directors with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with the directors, we determine those matters that were of most significance in the audit of the financial report of the current period and are therefore the key audit matters. We describe these matters in the auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in the auditor's report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

#### **Report on the Remuneration Report**

##### *Opinion on the Remuneration Report*

We have audited the Remuneration Report included in pages 13 to 20 of the directors' report for the year ended 30 June 2018.

In our opinion, the Remuneration Report of Tomizone Limited, for the year ended 30 June 2018, complies with section 300A of the Corporations Act 2001.

##### *Responsibilities*

The directors of the Company are responsible for the preparation and presentation of the Remuneration Report in accordance with section 300A of the Corporations Act 2001. Our responsibility is to express an opinion on the Remuneration Report, based on our audit conducted in accordance with Australian Auditing Standards.

*Crowe Horwath Sydney*

**CROWE HORWATH SYDNEY**

*L Russell*

**LEAH RUSSELL**

Senior Partner

Dated at Sydney this 12th day of September 2018

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# **ASX Additional Information**

## ASX Additional Information

Additional information required by the Australian Securities Exchange Ltd and not shown elsewhere in this report is as follows. The information is current as at 7 August 2018.

### (a) Substantial holders

Substantial holders	Fully Paid Ordinary Shares	%
Dulyne Pty Ltd - <THE ATLANTIS SUPER FUND A/C>	47,549,999	11.93%
Hippo Trustee Limited	47,323,015	11.88%
Citicorp Nominees Pty Limited	27,103,586	6.80%
Copper Limited	22,183,030	5.57%
	<b>144,159,630</b>	<b>36.18%</b>

### (b) Distribution of equity securities

#### Ordinary share capital

-407,614,010 fully paid ordinary shares are held by 832 shareholders.

All issued ordinary shares carry one vote per share and carry the rights to dividends.

#### Performance shares

-31,352,492 performance shares are held by 28 shareholders. The performance revenue targets were not achieved by the Company and therefore the performance shares will not be issued and will be cancelled. They will be formally cancelled in the 2019 Financial year.

#### Options

The company has the following classes of options on issue:

- 6,349,934 listed options exercisable at \$0.40 and expiring on 30 September 2018 are held by 69 holders
- 3,356,154 unlisted options exercisable at \$0.40 and expiring on 30 September 2018 are held by 20 holders
- 1,791,036 unlisted director options exercisable at \$0.22 and expiring on various dates specified in Schedule 8 of the Company's notice of meeting dated 25 March 2015 are held by the following 3 holders

Holders	Number
Mr Tarun Parbhu Kanji	597,012
Mr Avikashan Naidu	597,012
Mr Eric King Wai Chan	597,012

2,821,197 unlisted adviser options exercisable at \$0.22, with 1/2 vesting on 28 May 2017 and 1/2 vesting on 28 May 2018 (options expire 12 months from their respective vesting) are held by the following 3 holders

Holders	Number
Jonathan Hannam	940,399
Simon Pearce	940,399
Shadi Mahassel	940,399

– 375,000 unlisted Class A incentive options are held by the following 2 holders

Holders	Number
Mr Avikashan Naidu	125,000
Mr Eric King Wai Chan	250,000

– 375,000 unlisted Class B incentive options are held by the following 2 holders

Holders	Number
Mr Avikashan Naidu	125,000
Mr Eric King Wai Chan	250,000

– 375,000 unlisted Class C incentive options are held by the following 2 holders

Holders	Number
Mr Avikashan Naidu	125,000
Mr Eric King Wai Chan	250,000

Options do not carry a right to vote.

### (c) Distribution schedule

The number of shareholders, by size of holding, in each class are:

	Fully Paid Ordinary Shares	Performance Shares	Options
1- 1,000	269	-	1
1,001- 5,000	82	-	105
5,001- 10,000	60	-	55
10,001- 100,000	193	1	97
100,001 and over	228	27	27
	<b>832</b>	<b>28</b>	<b>285</b>

### (d) Unmarketable parcels

The number of shareholders holding less than a marketable parcel of the Company's main class of securities (being fully paid ordinary shares) is 507.

**(e) Twenty largest holders of quoted fully paid ordinary shares**

Ordinary share holders	Fully Paid Ordinary Shares	%
DULYNE PTY LTD	47,549,999	11.93%
HIPPO TRUSTEE LIMITED	47,323,015	11.88%
CITICORP NOMINEES PTY LIMITED	27,103,586	6.80%
COPPER LIMITED	22,183,030	5.57%
KINGFISHER CORPORATE TRUSTEE LIMITED	17,714,463	4.45%
SEQUOIA GROUP HOLDINGS PTY LTD	13,333,333	3.35%
MR DAVID ARTHUR PAGANIN	8,009,614	2.01%
GOLDEN SPIDER ENTERTAINMENT PTY LTD	7,668,592	1.92%
MR ROGER STEINEPREIS & MRS JACQUELINE STEINEPREIS	6,700,000	1.68%
DUO TRUSTEE LIMITED	6,000,000	1.51%
ONE MANAGED INVESTMENT FUNDS LIMITED	5,919,549	1.49%
RODRIGO B LIBUNAO JR	5,850,000	1.47%
MR ANDREW FREDERICK TROWSE	5,111,142	1.28%
SW11 CONSULTING PTY LTD	5,000,000	1.25%
MR YUNPENG ZHANG	4,864,794	1.22%
MR ADRIAN CHRISTOPHER WELCH	4,333,333	1.09%
JANUARIUS HOLDINGS INC	4,333,333	1.09%
AWAROA LANDS LIMITED	4,333,333	1.09%
ONE MANAGED INVESTMENT FUNDS LTD	3,796,875	0.95%
MILRAY CONSULTING PTY LTD	3,666,666	0.92%
	<b>250,794,657</b>	<b>62.95%</b>

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# Corporate Information



# Corporate Information

**ABN 99 000 094 995**

## Directors

**IAN BAILEY**, Executive Director and Chairman

**MATT ADAMS**, Executive Director

Appointed Managing Director 20<sup>th</sup> February 2018

**MAXIM CARLING**, Non Executive Director

## Company Secretary

**MARK OHLSSON**, Company Secretary

## Registered Office

Level 32, 101 Millar Street  
Sydney NSW 2001  
Australia  
Phone: +61 9025 3995

## Principal place of business

Level 1 – 110 Wairau Valley Road  
Wairau Valley  
New Zealand

## Share register

### Link Market Services

Level 12, 680 George Street  
Sydney NSW 2000  
Australia  
Phone: +61 1300 554 474

Tomizone Limited shares are listed on the Australian Securities Exchange (ASX: TOM)

## Solicitors

### Claymore Partners

63 Fort Street  
Auckland 1010  
New Zealand

### Macpherson Kelley

Level 21  
20 Bond Street  
Sydney NSW 2000  
Australia

## Bankers

### ASB Bank Limited

12 Jellicoe Street  
North Wharf  
Auckland 1010  
New Zealand

### Commonwealth Bank Limited

83 Market Street  
Sydney NSW 2000  
Australia

## Auditors

### Crowe Horwath Sydney

1 O'Connell Street  
Sydney NSW 2000  
Australia

## Website

[www.tomizone.com](http://www.tomizone.com)

## Corporate Governance Statement

[www.tomizone.com/investor-relations/](http://www.tomizone.com/investor-relations/)