

**Appen Holdings Pty Limited
& its controlled entities**

ABN 60 138 878 298

Special Purpose Financial Report

For the 18 months ended 31 December 2011

Appen Holdings Pty Limited & its controlled entities

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Appen Holdings Pty Limited & its controlled entities

Directors' report

For the period ended 31 December 2011

The directors present their report together with the special purpose financial report of the Group being Appen Holdings Pty Limited ("the Company") and its controlled entities for the period 1 July 2010 to 31 December 2011 and the auditor's report thereon.

1 Directors

The directors of the Company at any time during or since the end of the financial year are:

Director	Appointed
Julia Patricia Vonwiller	14 August 2009
Christopher Charles Vonwiller	14 August 2009
Jeremy Samuel	23 October 2009
William Pulver	13 April 2010
Jonathan Shein	24 June 2010
Lisa Braden-Harder	10 March 2011

2 Principal activities

The principal activities of the Group during the course of the financial period were the development and sale of speech & language technology products & services.

During the financial period, the Group acquired the business of the Butler Hill Group LLC, allowing the group to expand its service offerings to include additional services such as web based search relevance evaluation. During the year, the Company changed its financial year end from 30 June to 31 December to coincide with the operation year end of its US operations. This is the first year that the company is required to prepare statutory financial statements.

Other than the matter noted above, there were no significant changes in the nature of the activities of the Group during the year.

3 Operating and financial review

Review of operations

Profit for the period before tax for the Group is \$3,364,423 (2010: \$2,318,037). The Group generated a profit before interest, tax, depreciation and amortisation for the period ended 31 December 2011 of \$4,962,672 on turnover of \$31,620,893 (2010: \$2,837,190 on turnover of \$10,719,823).

4 Significant changes in the state of affairs

Appen Butler Hill Inc (formerly Appen Speech and Language Technology Inc), a controlled entity of the Company, acquired the business of Butler Hill Group LLC on 10 March 2011.

On 20 December 2011, the Company set up a new controlled entity, Appen Hong Kong; the entity had not commenced trading as at year end.

Other than the matters noted above, in the opinion of the directors, there were no significant changes in the state of affairs of the Group that occurred during the financial year under review.

5 Environmental regulation

The Group's operations are not subject to any significant environmental regulations under either Commonwealth or State legislation.

Appen Holdings Pty Limited & its controlled entities

Directors' report

For the period ended 31 December 2011

6 Dividends

Dividends paid or declared by the Company to members since the end of the previous financial period were:

<i>In AUD</i>	Cents per share	Total amount	Franked/unfranked	Date of payment
Declared and paid during the year 2011				
Interim ordinary	1.35	64,911	Franked	14 October 2010
Interim ordinary	7.55	277,001	Franked	31 March 2011
Total amount		<u>341,912</u>		

Franked dividends declared as paid during the year were franked at the rate of 30 per cent.

Declared after end of year

After the balance sheet date the following dividends were proposed by the directors. The dividends have not been provided and there are no income tax consequences.

	Cents per share	Total amount	Franked/unfranked	Date of payment
Interim ordinary	8.86	332,602	Franked	31 March 2012
Interim ordinary	5.61	210,831	Franked	29 June 2012
Total amount		<u>543,433</u>		

The financial effect of these dividends has not been brought to account in the consolidated financial statements for the period ended 31 December 2011 and will be recognised in subsequent financial reports.

Preference shares are classified as a liability and distributions paid are recognised as interest expense.

Dividends have been dealt with in the financial report as:

	Note	Total amount
- Dividends	20	341,912
- Interest expense	8	552,978
- Noted as a subsequent event	20	543,433

7 Events subsequent to reporting date

On 27 July 2012, the Company converted all preference shares classified as a liability to ordinary shares.

Other than the matter noted above, there has not arisen in the interval between the end of the financial year and the date of this report any item, transaction or event of a material and unusual nature which likely, in the opinion of the directors of the Company, to affect significantly the operations of the Group, the results of those operations, or the state of affairs of the Group, in future financial years.

Appen Holdings Pty Limited & its controlled entities

Directors' report

For the period ended 31 December 2011

8 Likely developments

The Group will continue to pursue its policy of profitable growth based upon satisfactory margins and increasing market share during the next financial year.

Further information about likely developments in the operations of the Group and the expected results of those operations in future financial years has not been included in this report because disclosure of the information would be likely to result in unreasonable prejudice to the Group.

9 Indemnification and insurance of officers and auditors

Indemnification

The Company has agreed to indemnify the current directors of the Company against all liabilities to another person (other than the Company or a related body corporate) that may arise from their position as directors of the company and its controlled entities, except where the liability arises out of conduct involving a lack of good faith. The agreement stipulates that the Company will meet the full amount of any such liabilities, including costs and expenses.

Insurance premiums


During the financial year the Group paid premiums on behalf of the Company in respect of directors' and officers' liability and legal expenses insurance contracts for the period ended 31 December 2011 and since the end of financial year, the Group has paid or agreed to pay on behalf of the Company, premiums in respect of such insurance contracts for the year ending 31 December 2012. Such insurance contracts insure against certain liability (subject to specific exclusions) persons who are or have been directors or executive officers of the Company.

The directors have not included details of the nature of the liabilities covered or the amount of the premium paid in respect of the directors' and officers' liability and legal expenses' insurance contracts, as such disclosure is prohibited under the terms of the contract.

10 Lead auditor's independence declaration

The Lead auditor's independence declaration is set out on page 5 and forms part of the directors' report for the financial year ended 31 December 2011.

Signed in accordance with a resolution of the directors:



William Pulver
Director

Dated at Sydney this 8th day of August 2012.



Lead Auditor's Independence Declaration under Section 307C of the Corporations Act 2001

To: the directors of Appen Holdings Pty Ltd

I declare that, to the best of my knowledge and belief, in relation to the audit for the financial period ended 31 December 2011, 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.

KPMG

Carlo Pasqualini
Partner

Sydney

8 August 2012

Appen Holdings Pty Limited & its controlled entities

Consolidated statement of comprehensive income

For the period ended 31 December 2011

<i>In AUD</i>	Note	Consolidated 18 months to December 2011	12 months to June 2010
Revenue	4	31,620,893	10,719,823
Services purchased - data collection		(10,774,463)	(1,731,533)
Gross profit		<u>20,846,430</u>	<u>8,988,290</u>
Other income	5	339,381	426,462
Rental expense		(585,018)	(461,972)
Communication expenses		(139,490)	(110,711)
Travel expenses		(686,640)	(206,239)
Loss on disposal of fixed assets		(32,852)	(1,123)
Audit & other professional fees		(283,606)	(81,997)
Employee expenses	7	(13,477,510)	(5,376,490)
Other expenses		(1,018,023)	(339,030)
Earnings before interest, tax, depreciation and amortisation (EBITDA)		<u>4,962,672</u>	<u>2,837,190</u>
Finance income	8	110,775	57,312
Finance costs	8	(587,636)	(296,000)
Net finance income/(costs)		<u>(476,861)</u>	<u>(238,688)</u>
Depreciation and amortisation expenses		(1,121,388)	(280,465)
Profit before income tax		<u>3,364,423</u>	<u>2,318,037</u>
Income tax expense	9	(1,137,825)	(790,532)
Profit for the year		<u>2,226,598</u>	<u>1,527,505</u>
Other comprehensive income			
Foreign currency translation differences		16,748	1,468
Other comprehensive income for the year		<u>16,748</u>	<u>1,468</u>
Total comprehensive income for the year		<u>2,243,346</u>	<u>1,528,973</u>

The notes on pages 11 to 30 are an integral part of these consolidated financial statements.

Appen Holdings Pty Limited & its controlled entities

Consolidated statement of financial position

As at 31 December 2011

<i>In AUD</i>	Note	Consolidated	
		2011	2010
Assets			
Cash and cash equivalents	11	3,033,854	2,868,314
Trade and other receivables	12	7,351,968	2,137,045
Other investments including derivatives	13	163,072	-
Total current assets		<u>10,548,894</u>	<u>5,005,359</u>
Property, plant and equipment	15	492,084	374,000
Deferred tax assets	14	237,370	260,190
Intangible assets	16	8,379,087	552,354
Total non-current assets		<u>9,108,541</u>	<u>1,186,544</u>
Total assets		<u>19,657,435</u>	<u>6,191,903</u>
Liabilities			
Trade and other payables	17	3,295,693	1,500,562
Other payables	17	3,479,621	16,375
Current income tax payable	14	250,046	547,212
Employee Benefits	18	368,811	170,227
Loans and borrowings	19	6,203,193	3,700,000
Total current liabilities		<u>13,597,364</u>	<u>5,934,376</u>
Other payables	17	1,193,529	-
Employee Benefits	18	110,105	133,375
Loans and borrowings	19	628,900	-
Total non-current liabilities		<u>1,932,534</u>	<u>133,375</u>
Total liabilities		<u>15,529,898</u>	<u>6,067,751</u>
Net assets		<u>4,127,536</u>	<u>124,152</u>
Equity			
Issued capital	20	2,169,174	680,490
Retained earnings		735,909	858,623
Common control reserve	20	(1,416,429)	(1,416,429)
Foreign currency translation reserve	20	18,216	1,468
Share-based payment reserve	20	287,009	-
Other equity		2,333,657	-
Total equity		<u>4,127,536</u>	<u>124,152</u>

The notes on pages 11 to 30 are an integral part of these consolidated financial statements.

Appen Holdings Pty Limited & its controlled entities

Consolidated statement of changes in equity
For the period ended 31 December 2011

Appen Holdings Pty Limited Consolidated

<i>In AUD</i>	Share capital	Foreign translation reserve	Common control reserve	Retained earnings	Share-based payment reserve	Other equity	Total
Balance at 1 July 2009	-	-	-	-	-	-	-
Total comprehensive income for the year	-	-	-	1,527,505	-	-	1,527,505
Profit for the year	-	-	-	1,527,505	-	-	1,527,505
<i>Other comprehensive income</i>	-	1,468	-	-	-	-	1,468
Foreign currency translation differences	-	1,468	-	-	-	-	1,468
Total other comprehensive income	-	1,468	-	-	-	-	1,468
Total comprehensive income for the year	-	1,468	-	1,527,505	-	-	1,528,973

Transactions with owners of the Company, recorded directly in equity

Contributions by and distributions to owners of the Company

Issue/cancellation of shares	680,490	-	-	-	-	-	680,490
Common control transaction	-	-	(1,416,429)	-	-	-	(1,416,429)
Dividends to equity holders	-	-	-	(668,882)	-	-	(668,882)
Total contributions by and distributions to the owners of the company	680,490	-	(1,416,429)	(668,882)	-	-	(1,404,821)
Total transactions with owners	680,490	-	(1,416,429)	(668,882)	-	-	(1,404,821)
Balance at 30 June 2010	680,490	1,468	(1,416,429)	858,623	-	-	124,152

The notes on pages 11 to 30 are an integral part of these consolidated financial statements.

Appen Holdings Pty Limited & its controlled entities

Consolidated statement of changes in equity

For the period ended 31 December 2011

<i>In AUD</i>	Share capital	Foreign translation reserve	Common control reserve	Retained earnings	Share-based payment reserve	Other equity	Total
Balance at 1 July 2010	680,490	1,468	(1,416,429)	858,623	-	-	124,152
Total comprehensive income for the year							
Profit for the period	-	-	-	2,226,598	-	-	2,226,598
<i>Other comprehensive income</i>							
Foreign currency translation differences	-	16,748	-	-	-	-	16,748
Total other comprehensive income	-	16,748	-	-	-	-	16,748
Total comprehensive income for the period	-	16,748	-	2,226,598	-	-	2,243,346
Transactions with owners, recorded directly in equity							
<i>Contributions by and distributions to owners</i>							
Issue of shares	1,508,884	-	-	-	-	-	1,508,884
Repurchase/cancellation of shares	(20,200)	-	-	(2,007,400)	-	-	(2,027,600)
Dividends to equity holders	-	-	-	(341,912)	-	-	(341,912)
Contingent consideration - equity settled	-	-	-	-	-	2,333,657	2,333,657
Share-based payments - equity settled	-	-	-	-	287,009	-	287,009
Total contributions by and distributions to the owners of the company	1,488,684	-	-	(2,349,312)	287,009	2,333,657	1,760,038
Total transactions with the owners	1,488,684	-	-	(2,349,312)	287,009	2,333,657	1,760,038
Balance at 31 December 2011	2,169,174	18,216	(1,416,429)	735,909	287,009	2,333,657	4,127,536

The notes on pages 11 to 30 are an integral part of these consolidated financial statements.

Appen Holdings Pty Limited & its controlled entities

Consolidated statement of cash flows

For the period ended 31 December 2011

		Consolidated	
		18 months to December 2011	12 months to June 2010
<i>In AUD</i>	Note		
Cash flows from operating activities			
Cash receipts from customers		33,937,776	9,891,678
Cash paid to suppliers and employees		(29,809,297)	(6,732,025)
Cash generated from operations		<u>4,128,479</u>	<u>3,159,653</u>
Interest received		110,775	57,312
Interest paid		(34,660)	-
Income taxes paid		(1,412,171)	(395,390)
Net cash from operating activities	21	<u><u>2,792,423</u></u>	<u><u>2,821,575</u></u>
Cash flows from investing activities			
Proceeds from the sale of property, plant and equipment		-	23,790
Acquisition of subsidiary		(3,439,804)	-
Acquisition of property, plant and equipment		(413,682)	(83,670)
Payment for intangible assets		-	(496,636)
Net cash (used in) / from investing activities		<u><u>(3,853,486)</u></u>	<u><u>(556,516)</u></u>
Cash flows from financing activities			
Proceeds from issue of shares		996,800	680,388
Proceeds from issue of preference shares		2,000,000	3,700,000
Proceeds from borrowings (USD loan)		1,445,716	-
Repayment of borrowings (USD loan)		(313,623)	-
Repayment of borrowings from directors		-	(5,299,948)
Repurchase of own shares		(2,007,400)	-
Interest paid to preference shareholders		(552,978)	(296,000)
Dividends paid		(341,912)	(668,882)
Net cash (used in) / from financing activities		<u><u>1,226,603</u></u>	<u><u>(1,884,442)</u></u>
Net increase in cash and cash equivalents		165,540	380,617
Cash and cash equivalents at beginning of period		2,868,314	2,487,697
Cash and cash equivalents at 31 December 2011	11	<u><u>3,033,854</u></u>	<u><u>2,868,314</u></u>

The notes on pages 11 to 30 are an integral part of these consolidated financial statements.

Appen Holdings Pty Limited & its controlled entities

Notes to the consolidated financial statements

For the period ended 31 December 2011

1 Company Details

Appen Holdings Pty Limited ("the Company") is a company domiciled in Australia. The address of the Company's registered office is Level 6, 9 Help Street, Chatswood NSW 2067.

The consolidated financial statements of the Company as at and for the period 1 July 2010 to 31 December 2011 comprise the Company and its subsidiaries (together referred to as the "Group" and individually as "group entities").

Comparative information reflects the consolidated financial statements of the Group for the year ended 30 June 2010, as if the Company was in operation for the entire year and not only from its date of incorporation on 14 August 2009.

The financial statements were authorised for issue by the board members on July 2012.

2 Basis of preparation

(a) Statement of compliance

In the opinion of the directors, the Group is not a reporting entity. The financial report of the Group has been drawn up as a special purpose financial report for distribution to the members.

The special purpose financial report has been prepared in accordance with the recognition and measurement aspects of all applicable Australian Accounting Standards ("AASBs") adopted by the Australian Accounting Standards Board ("AASB") and the Corporations Act 2001.

The financial report does not include the disclosure requirements of all AASBs except for the following minimum requirements:

- AASB 101 Presentation of Financial Statements
- AASB 107 Statement of Cash Flows
- AASB 108 Accounting Policies, Changes in Accounting Estimates and Errors
- AASB 1031 Materiality
- AASB 1048 Interpretation and Application of Standards

(b) Basis of measurement

The financial statements have been prepared on the historical cost basis.

(c) Functional and presentation currency

The financial statements are prepared in Australian Dollars, which is the Group's functional currency.

(d) Use of estimates and judgements

The preparation of financial statements requires management to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions of accounting estimates are recognised in the period in which the estimates is revised and in any future periods affected.

(e) Changes in accounting policies

Accounting for licence and data base intangibles

The Group changed its accounting policy with respect to the method of amortisation used. Previously licence and database intangibles were amortised on a straight-line basis. Licence and database intangibles recognised during the period ended 31 December 2011 have commenced amortisation on a diminishing value basis as this better reflects the use of the asset.

Appen Holdings Pty Limited & its controlled entities

Notes to the consolidated financial statements (continued)

For the period ended 31 December 2011

3 Significant accounting policies

The accounting policies set out below have been applied consistently to all periods presented in these financial statements, except as explained in notes 2(e) which address changes in accounting policies.

(a) Basis of consolidation

(i) Business combinations

Business combinations are accounted for using the acquisition method as at acquisition date, which is the date on which control is transferred to the group. Control is the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities.

The Group measures goodwill at the acquisition date as:

- the fair value of consideration transferred; plus
- the net recognised amount (generally fair value) of the identifiable net assets acquired and liabilities assumed.

The consideration does not include amounts related to the settlement of pre-existing relationships. Such amounts are generally recognised in profit or loss.

Transaction costs, other than those associated with the issue of debt or equity securities, that the Group incurs in connection with a business combination are expensed as incurred.

Any contingent consideration payable is recognised at fair value at the acquisition date. If the contingent consideration is classified as equity, it is not remeasured and settlement is accounted for in equity. Otherwise, subsequent changes to the fair value of the contingent consideration are recognised in profit or loss.

(ii) Subsidiaries

Subsidiaries are entities controlled by the Company. Control exists when the Company has the power, directly or indirectly, to govern the financial and operating policies of an entity so as to obtain benefits from its activities. In assessing control, potential voting rights that presently are exercisable or convertible are taken into account. The financial statements of subsidiaries are included in the consolidated financial statements from the date that control commences until the date that control ceases.

Investments in subsidiaries are carried at their cost of acquisition in the Company's financial statements.

Intra-group balances and any unrealised gains and losses or income and expenses arising from intra-group transactions, are eliminated in preparing the consolidated financial statements.

Appen Holdings Pty Limited & its controlled entities

Notes to the consolidated financial statements (continued)

For the period ended 31 December 2011

3 Significant accounting policies (continued)

(b) Income tax

Income tax expense comprises current and deferred tax. Income tax is recognised in profit or loss except to the extent that it relates to items recognised directly in equity, in which case it is recognised in equity.

Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantially enacted at the reporting date, and any adjustment to tax payable in respect of previous years.

Deferred tax is provided using the statement of financial position liability method, providing for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. The following temporary differences are not provided for: initial recognition of goodwill, the initial recognition of assets or liabilities that affect neither accounting nor taxable profit, and differences relating to investments in subsidiaries to the extent that they will probably not reverse in the foreseeable future. The amount of deferred tax provided is based on the expected manner of realisation or settlement of the carrying amount of assets and liabilities, using tax rates enacted or substantively enacted at the reporting date.

A deferred tax asset is recognised only to the extent that it is probable that future taxable profits will be available against which the asset can be utilised. Deferred tax assets are reduced to the extent that it is no longer probable that the related tax benefit will be realised.

Additional income taxes that arise from the distribution of dividends are recognised at the same time as the liability to pay the related dividend.

Tax consolidation

The Company and its wholly-owned Australian resident entities are part of a tax consolidated group which was formed on 23 September 2009. As a consequence, all members of the tax-consolidated group are taxed as a single entity. The head entity within the tax consolidated group is Appen Holdings Pty Limited.

(c) Foreign currency

Transactions

Transactions in foreign currencies are translated at the foreign exchange rate ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies at the reporting date are translated to Australian dollars at the foreign exchange rate ruling at that date. Foreign exchange differences arising on translation are recognised in the statement of comprehensive income. Non-monetary assets and liabilities that are measured in terms of historical cost in a foreign currency are translated using the exchange rate at the date of the transaction.

Financial statements of foreign operations

The assets and liabilities of foreign operations, including goodwill and fair value adjustments arising on consolidation, are translated to Australian dollars at foreign exchange rates ruling at the reporting date. The revenues and expenses of foreign operations are translated to Australian dollars at rates approximating to the foreign exchange rates ruling at the dates of the transactions. Foreign exchange differences arising on retranslation are recognised directly in a separate component of equity.

Appen Holdings Pty Limited & its controlled entities

Notes to the consolidated financial statements (continued)

For the period ended 31 December 2011

3 Significant accounting policies (continued)

(d) Revenue

Contract service income and licence/database income

Revenue from the sale of contract service or licence is recognised in the statement of comprehensive income progressively as the projects are completed and validated or approved by the customers. No revenue is recognised if there are significant uncertainties regarding recovery of the consideration due, the costs incurred or to be incurred cannot be measured reliably, there is a risk of disputes on service quality or there is continuing management involvement with the products.

Work-in-progress

Work-in-progress includes those projects fully completed or significantly completed by year-end, but invoices have been issued after year-end, due to customers' approval procedure delayed. Revenue from services rendered is recognised in the statement of comprehensive income in proportion to the stage of completion of the transaction at the reporting date.

(e) Financial instruments

(i) *Non derivative financial assets*

The Group initially recognises loans and receivables and deposits on the date that they are originated. All other financial assets (including assets designated at fair value through profit or loss) are recognised initially on the trade date at which the Group becomes a party to the contractual provisions of the instrument.

The Group derecognises a financial asset when the contractual rights to the cash flows from the asset expire, or it transfers the rights to receive the contractual cash flows on the financial asset in a transaction in which substantially all the risks and rewards of ownership of the financial asset are transferred. Any interest in transferred financial assets that is created or retained by the Group is recognised as a separate asset or liability.

Financial assets and liabilities are offset and the net amount presented in the statement of financial position when, and only when, the Group has a legal right to offset the amounts and intends either to settle on a net basis or to realise the asset and settle the liability simultaneously.

The Group has the following non-derivative financial assets: loans and receivables, cash and cash equivalents.

Loans and receivables

Loans and receivables are financial assets with fixed or determinable payments that are not quoted in an active market. Such assets are recognised initially at fair value plus any directly attributable transaction costs.

Subsequent to initial recognition loans and receivables are measured at amortised cost using the effective interest method, less any impairment losses.

Appen Holdings Pty Limited & its controlled entities

Notes to the consolidated financial statements (continued)

For the period ended 31 December 2011

3 Significant accounting policies (continued)

(e) Financial instruments (continued)

Loans and receivables (continued)

Loans and receivables comprise trade and other receivables.

Cash and cash equivalents comprise cash balances and call deposits with original maturities of three months or less. Bank overdrafts that are repayable on demand and form an integral part of the Group's cash management are included as a component of cash and cash equivalents for the purpose of the statement of cash flows.

(ii) *Non-derivative financial liabilities*

The Group initially recognises debt securities issued and subordinated liabilities on the date that they are originated. All other financial liabilities (including liabilities designated at fair value through profit or loss) are recognised initially on the trade date at which the Group becomes a party to the contractual provisions of the instrument. The Group derecognises a financial liability when its contractual obligations are discharged or cancelled or expire. Financial assets and liabilities are offset and the net amount presented in the statement of financial position when, and only when, the Group has a legal right to offset the amounts and intends either to settle on a net basis or to realise the asset and settle the liability simultaneously.

The Group has the following non-derivative financial liabilities: trade and other payables, loans and borrowings. Such financial liabilities are recognised initially at fair value plus any directly attributable transaction costs. Subsequent to initial recognition these financial liabilities are measured at amortised cost using the effective interest rate method.

(iii) *Share capital*

Ordinary shares

Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of ordinary shares and share options are recognised as a deduction from equity, net of any tax effects.

Preference share capital

Preference share capital is classified as equity if it is non redeemable, or redeemable only at the Group's option, and any dividends are discretionary. Dividends thereon are recognised as distributions within equity upon declaration by the directors.

Preference share capital is classified as a liability if it is redeemable on a specific date or at the option of the shareholders, or if dividend payments are not discretionary. Dividends thereon are recognised as interest expense in profit or loss as accrued.

Repurchase of share capital

When share capital recognised as equity is repurchased, the amount of the consideration paid, which includes directly attributable costs, net of any tax effects, is recognised as a deduction from equity. Any premium or discount to par value is shown as an adjustment to retained earnings.

(iv) *Derivative financial instruments*

The Group holds derivative financial instruments to hedge its foreign currency exposures. Derivatives are recognised initially at fair value; attributable transaction costs are recognised in profit or loss as incurred.

Hedge accounting is not applied to derivative instruments that economically hedge monetary assets and liabilities denominated in foreign currencies. Subsequent to initial recognition, derivatives are measured at fair value. Changes in the fair value of such derivatives are recognised in profit or loss as part of foreign currency gains and losses.

Appen Holdings Pty Limited & its controlled entities

Notes to the consolidated financial statements (continued)

For the period ended 31 December 2011

3 Significant accounting policies (continued)

(f) Intangible assets

Licence & database products

Licence & database products are capitalised at the direct cost or net realisable value. Net realisable value is the estimated selling price in the ordinary course of business, less the estimated costs of maintenance (re-packaging or additional data) and selling expenses.

The capitalised costs of licence & database products include direct costs of internal staff, services purchased from overseas' field partners, and supporting software acquired from a third party supplier.

The intangible assets are amortised on a diminishing value basis, based on the useful life of the asset.

(g) Impairment

The carrying amounts of the Group's assets, other than deferred tax assets (see accounting policy (b)), are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists, the asset's recoverable amount is estimated.

An impairment loss is recognised whenever the carrying amount of an asset or its cash-generating unit exceeds its recoverable amount. Impairment losses are recognised in the statement of comprehensive income, unless an asset has previously been revalued, in which case the impairment loss is recognised as a reversal to the extent of that previous revaluation with any excess recognised through profit or loss.

Impairment losses recognised in respect of cash-generating units are allocated first to reduce the carrying amount of any goodwill allocated to cash-generating units (group of units) and then, to reduce the carrying amount of the other assets in the unit (group of units) on a pro rata basis.

(i) *Calculation of recoverable amount*

The recoverable amount of the Group's receivables carried at amortised cost is calculated as the present value of estimated future cash flows, discounted at the original effective interest rate (i.e., the effective interest rate computed at initial recognition of these financial assets). Receivables with a short duration are not discounted.

Impairment of receivables is not recognised until objective evidence is available that a loss event has occurred. Significant receivables are individually assessed for impairment. Impairment testing of significant receivables that are not assessed as impaired individually is performed by placing them into portfolios of significant receivables with similar risk profiles and undertaking a collective assessment of impairment. Non-significant receivables are not individually assessed. Instead, impairment testing is performed by placing non-significant receivables in portfolios of similar risk profiles, based on objective evidence from historical experience adjusted for any effects of conditions existing at each balance date.

The recoverable amount of other assets is the greater of their fair value less costs to sell and value in use. 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. For an asset that does not generate largely independent cash inflows, the recoverable amount is determined for the cash-generating unit to which the asset belongs.

Appen Holdings Pty Limited & its controlled entities

Notes to the consolidated financial statements (continued)

For the period ended 31 December 2011

3 Significant accounting policies (continued)

(g) Impairment (continued)

(ii) Reversal of impairment

Impairment losses, other than in respect of goodwill, are reversed when there is an indication that the impairment loss may no longer exist and there has been a change in the estimate used to determine the recoverable amount.

An impairment loss in respect of goodwill is not reversed.

An impairment loss in respect of a receivable carried at amortised cost is reversed if the subsequent increase in recoverable amount can be related objectively to an event occurring after the impairment loss was recognised.

An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised.

(h) Property, plant and equipment

(i) Owned assets

Items of property, plant and equipment are stated at cost or deemed cost less accumulated depreciation (see below) and impairment losses (see accounting policy (g)).

Where parts of an item of property, plant and equipment have different useful lives, they are accounted for as separate items of property, plant and equipment.

(ii) Subsequent costs

The Group recognises in the carrying amount of an item of property, plant and equipment the cost of replacing part of such an item when that cost is incurred if it is probable that the future economic benefits embodied within the item will flow to the Group and the cost of the item can be measured reliably. All other costs are recognised in the statement of comprehensive income as an expense as incurred.

(iii) Depreciation

Depreciation is charged to the statement of comprehensive income on straight-line or diminishing value basis over the estimated useful lives of each part of an item of property, plant and equipment.

The estimated useful lives for the current and comparative years are as follows:

• IT & Audio Equipments	1 - 4 years
• Fixtures and fittings	3 - 13 years
• Leasehold improvements	7 - 10 years
• Motor vehicles	8 years

The residual value, the useful life and the depreciation method applied to an asset are reassessed at least annually.

(i) Provisions

A provision is recognised in the statement of financial position when the Group has a present legal or constructive obligation as a result of a past event, and it is probable that an outflow of economic benefits will be required to settle the obligation. If the effect is material, provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and, where appropriate, the risks specific to the liability.

Appen Holdings Pty Limited & its controlled entities

Notes to the consolidated financial statements (continued)

For the period ended 31 December 2011

3 Significant accounting policies (continued)

(j) Lease payments

Payments made under operating leases are recognised in profit or loss on a straight line basis over the term of the lease. Lease incentives received are recognised as an integral part of the total lease expense, over the term of the lease.

(k) Employee benefits

(i) Defined contribution plans

Obligations for contributions to defined contribution pension plans are recognised as an expense in the statement of comprehensive income as incurred.

(ii) Long-term service benefits

The Group's net obligation in respect of long-term service benefits, other than pension plans, is the amount of future benefit that employees have earned in return for their service in the current and prior periods including related on-costs.

(iii) Wages, salaries, annual leave and non-monetary benefits

Liabilities for employee benefits for wages, salaries and annual leave that are expected to be settled within 12 months of the reporting date represent present obligations resulting from employees' services provided to reporting date, are calculated at undiscounted amounts based on remuneration wage and salary rates that the Group expects to pay as at reporting date including related on-costs, such as superannuation, workers compensation insurance and payroll tax. Non-accumulating non-monetary benefits, are expensed based on the net marginal cost to the Group as the benefits are taken by the employees.

(iv) Share-based payments

The grant-date fair value of share-based payment awards granted to employees is recognised as an employee expense, with a corresponding increase in equity, over the period that the employees unconditionally become entitled to the awards.

The fair value of the amount payable to employees in respect of share-based payments that are settled in cash, is recognised as an expense with a corresponding increase in liabilities, over the period that the employees unconditionally become entitled to payment. The liability is remeasured at each reporting date and at settlement date. Any changes in the fair value of the liability are recognised as personnel expense in profit or loss.

(l) Goods and services tax

Revenue, expenses and assets are recognised net of the amount of goods and services tax (GST), except where the amount of GST incurred is not recoverable from the taxation authority. In these circumstances, the GST is recognised as part of the cost of acquisition of the asset or as part of the expense.

Receivables and payables are stated with the amount of GST included. The net amount of GST recoverable from, or payable to, the ATO is included as a current asset or liability in the statement of financial position.

Cash flows are included in the statement of cash flows on a gross basis. The GST components of cash flows arising from investing and financing activities which are recoverable from, or payable to, the ATO are classified as operating cash flows.

Appen Holdings Pty Limited & its controlled entities

Notes to the consolidated financial statements (continued)

For the period ended 31 December 2011

3 Significant accounting policies (continued)

(m) Expenses

Net financing costs

Net financing costs comprise interest paid to bank & preference shareholders recognised in the statement of comprehensive income.

Interest income is recognised in the statement of comprehensive income as it accrues, using the effective interest method.

(n) New standards and interpretations not yet adopted

The following standards, amendments to standards and interpretations have been identified as those which may impact the entity in the period of initial application. They are available for early adoption at 31 December 2011, but have not been applied in preparing this financial report.

- AASB 9 Financial Instruments includes requirements for the classification and measurement of financial assets resulting from the first part of Phase 1 of the project to replace AASB 139 Financial Instruments: Recognition and Measurement. AASB 9 will become mandatory for the Group's 30 June 2014 financial statements. Retrospective application is generally required, although there are exceptions, particularly if the entity adopts the standard for the year ended 30 June 2012 or earlier. The Group has not yet determined the potential effect of the standard.

(o) Comparative information

Comparative information reflects the consolidated financial statements of Appen Holdings Pty Limited for the year ended 30 June 2010, as if Appen Holdings Pty Limited had been incorporated for the full year. Appen Holdings Pty Limited was incorporated on 14 August 2009.

Appen Holdings Pty Limited & its controlled entities

Notes to the consolidated financial statements (continued)

For the period ended 31 December 2011

4 Revenue

<i>In AUD</i>	Consolidated	
	18 months to December 2011	12 months to June 2010
Contract service income	29,252,803	7,824,624
Contract service income - work in progress	-	226,367
Licence & database income	2,368,090	2,668,832
	<u>31,620,893</u>	<u>10,719,823</u>

5 Other income

<i>In AUD</i>	Consolidated	
	18 months to December 2011	12 months to June 2010
Export development grant	24,405	80,794
Rental income	52,387	44,701
Net foreign exchange gains	229,896	300,967
Other income	32,693	-
	<u>339,381</u>	<u>426,462</u>

6 Auditor's remuneration and other professional fees

<i>In AUD</i>	Consolidated	
	18 months to December 2011	12 months to June 2010
<i>Auditor:</i>		
Auditors of the Group: KPMG Australia		
Audit and review of financial reports	60,000	26,000
Due diligence services	35,000	-
Taxation compliance and advisory services	25,170	-

7 Employee expenses

<i>In AUD</i>	Consolidated	
	18 months to December 2011	12 months to June 2010
Wages and salaries	10,535,709	4,424,934
Contributions to defined contribution superannuation funds	770,817	397,390
Increase / (decrease) in liability for annual leave	131,435	5,925
Increase / (decrease) in liability for long service leave	23,270	51,736
Directors' salaries	833,443	122,132
Directors' superannuation	41,454	8,889
Payroll tax	665,186	263,626
Share-based payment expense	287,009	-
Other personnel expenses	189,187	101,858
	<u>13,477,510</u>	<u>5,376,490</u>

Appen Holdings Pty Limited & its controlled entities

Notes to the consolidated financial statements (continued)

For the period ended 31 December 2011

8 Net financing income / (costs)

<i>In AUD</i>	Consolidated	
	18 months to December 2011	12 months to June 2010
Interest income	110,775	57,312
Financial income	<u>110,775</u>	<u>57,312</u>
Interest expense	(587,637)	(296,000)
Financial expenses	<u>(587,637)</u>	<u>(296,000)</u>
Net Financing income / (costs)	<u>(476,862)</u>	<u>(238,688)</u>

9 Income tax

<i>In AUD</i>	Consolidated	
	18 months to December 2011	12 months to June 2010

(a) Income tax expense

Recognised in the statement of comprehensive income

Current tax expense

Current year	<u>1,639,341</u>	<u>891,090</u>
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Deferred tax expense

Origination and reversal of temporary differences	(501,516)	(100,558)
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Total income tax expense in statement of comprehensive income	<u>1,137,825</u>	<u>790,532</u>
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Numerical reconciliation between tax expense and pre-tax net profit

Profit before tax	3,364,423	2,318,037
Prima facie income tax expense/(benefit) calculated at 30% on the profit from ordinary activities	1,009,327	695,411
Increase / (decrease) in income tax expense due to:		
Effect of tax rate in foreign jurisdiction	66,760	(2,667)
Non-deductible expenses	449,183	140,014
Other deductible expenses	(130,382)	-
R & D tax concession	(257,063)	(42,226)
Income tax expense on pre-tax net profit	<u>1,137,825</u>	<u>790,532</u>

Appen Holdings Pty Limited & its controlled entities

Notes to the consolidated financial statements (continued)

For the period ended 31 December 2011

10 Acquisition of subsidiary

On 10 March 2011, Appen Butler Hill Inc (formerly Appen Speech and Language Technology Inc) purchased the business of Butler Hill Group LLC.

The following summarises the major classes of consideration transferred, and the recognised amounts of assets acquired and liabilities assumed at the acquisition date:

Consideration transferred	AUD
Cash	3,439,804
Equity instruments issued	491,401
Contingent consideration - cash settled	4,673,154
Contingent consideration - equity settled	2,333,657
	<u>10,938,016</u>

Equity instruments issued

The fair value of the ordinary shares issued was based on the share price of the Company as at 10 March 2011 of \$2.23 per share.

Contingent consideration

The Group has agreed to pay the selling shareholder additional consideration of \$US7,500,000 over the next five years if the EBITDA in respect of revenue derived from certain customers over each of the next five years exceeds \$USD 4,000,000. The Group has included \$AUD 1,574,997 as contingent consideration related to the additional consideration, which represents its fair value at the acquisition date, using a discount rate of 17.3 percent.

Goodwill

Goodwill was recognised as a result of the acquisition as follows:

Total consideration transferred	10,938,016
Fair value of identifiable net assets	4,749,631
	<u>6,188,385</u>

Acquisition related costs

The Group incurred acquisition related costs related to external legal fees and due diligence costs. The legal fees and due diligence costs have been included in administrative expenses in the Group's consolidated statement of comprehensive income.

11 Cash and cash equivalents

<i>In AUD</i>	Consolidated	
	2011	2010
Bank balances	1,507,202	278,023
Deposits at call	1,526,353	2,586,728
Cash on hand	299	3,563
Cash and cash equivalents in the statements of cash flows	<u>3,033,854</u>	<u>2,868,314</u>

Appen Holdings Pty Limited & its controlled entities

Notes to the consolidated financial statements (continued)

For the period ended 31 December 2011

12 Trade and other receivables

<i>In AUD</i>	Consolidated	
	2011	2010
Current		
Trade receivables	5,488,838	1,807,899
Work-in-progress	1,761,303	224,031
Deferred government grants - EMDG	-	50,000
GST receivable	22,488	23,034
Other receivables and prepayments	79,339	32,081
	<u>7,351,968</u>	<u>2,137,045</u>

Trade receivables are shown net of impairment losses of \$891 (2010: \$22,819)

13 Other investments

<i>In AUD</i>	Consolidated	
	2011	2010
Derivatives - foreign exchange contracts	<u>163,072</u>	<u>-</u>
	<u>163,072</u>	<u>-</u>

14 Current tax and deferred tax assets and liabilities

Current tax asset / liability

The current tax payable for the Group of \$250,046 (2010: \$547,212) represents the amount of income tax to be paid in respect of the current period.

Deferred tax assets and liabilities

Recognised deferred tax assets and liabilities

Deferred tax assets and liabilities are attributable to the following:

	Consolidated			
	2011		2010	
	Assets	Liabilities	Assets	Liabilities
Debtors	-	-	6,846	-
Deferred government grants - EMDG	-	-	-	(15,000)
Property, plant and equipment	-	(16,499)	40,511	-
Intangible assets	347,346	-	57,796	(32,175)
Work in progress	-	(528,391)	-	-
Foreign currency accounts revaluation	15,124	-	4,913	-
Employee entitlements	267,619	-	91,081	-
Accruals	86,387	-	13,787	-
Commission - EMDG	-	-	1,125	-
Audit and other professional fees	29,682	-	16,200	-
Borrowing costs	1,389	-	-	-
Share transaction costs - Zurich project	34,713	-	75,106	-
Total:	<u>782,260</u>	<u>(544,890)</u>	<u>307,365</u>	<u>(47,175)</u>
Net tax Assets / (Liabilities)	237,370		260,190	

Appen Holdings Pty Limited & its controlled entities

Notes to the consolidated financial statements (continued)

For the period ended 31 December 2011

15 Property, plant and equipment

<i>In AUD</i>	Consolidated	
	2011	2010
<i>IT equipment</i>		
At cost	599,776	675,877
Accumulated depreciation	(496,166)	(583,810)
Net book value	<u>103,610</u>	<u>92,067</u>
<i>Audio Equipment</i>		
At cost	232,235	168,818
Accumulated depreciation	(146,386)	(120,200)
Net book value	<u>85,849</u>	<u>48,618</u>
<i>Furniture & fixtures</i>		
At cost	132,147	261,907
Accumulated depreciation	(66,846)	(129,559)
Net book value	<u>65,301</u>	<u>132,348</u>
<i>Leasehold improvements</i>		
At cost	206,810	324,862
Accumulated depreciation	(34,436)	(223,895)
Net book value	<u>172,374</u>	<u>100,967</u>
<i>Make Good</i>		
At cost	77,940	-
Accumulated depreciation	(12,990)	-
Net book value	<u>64,950</u>	<u>-</u>
Total net book value	<u>492,084</u>	<u>374,000</u>

Appen Holdings Pty Limited & its controlled entities

Notes to the consolidated financial statements (continued)

For the period ended 31 December 2011

16 Intangible assets

<i>In AUD</i>	Consolidated	
	2011	2010
<i>Goodwill</i>		
At cost	6,188,385	-
<i>Contracts</i>		
At cost	2,026,297	-
Accumulated amortisation	(328,649)	-
Net book value	1,697,648	-
<i>Licence & database</i>		
At cost	2,177,546	1,899,278
Accumulated amortisation	(1,800,506)	(1,410,092)
Net book value	377,040	489,186
<i>Patents</i>		
At cost	243,415	232,246
Accumulated amortisation	(221,682)	(220,572)
Net book value	21,733	11,674
<i>Internal software</i>		
At cost	76,124	21,726
Accumulated amortisation	(14,163)	(3,254)
Net book value	61,961	18,472
<i>Appen Holdings start-up</i>		
At cost	50,834	31,800
Accumulated amortisation	(22,427)	(3,555)
Net book value	28,407	28,245
<i>Appen Inc. Formation costs</i>		
At cost	5,441	16,880
Accumulated amortisation	(1,528)	(12,103)
Net book value	3,913	4,777
Total net book value	8,379,087	552,354

Appen Holdings Pty Limited & its controlled entities

Notes to the consolidated financial statements (continued)

For the period ended 31 December 2011

17 Trade and other payables

<i>In AUD</i>	Consolidated	
	2011	2010
Trade payables		
Trade payables	1,188,590	184,855
Unearned income	276,885	500,754
VAT payable	100	70,939
Other payables and accrued expenses	1,830,118	744,014
	<u>3,295,693</u>	<u>1,500,562</u>
Other payables		
<i>Current</i>		
Contingent consideration	3,479,621	-
Derivatives - foreign exchange contracts	-	16,375
	<u>3,479,621</u>	<u>16,375</u>
<i>Non-current</i>		
Contingent consideration	1,193,531	-
	<u>1,193,531</u>	<u>-</u>

18 Employee benefits

	Consolidated	
	2011	2010
Current		
Salaries and wages accrued	-	-
Liability for annual leave	301,662	170,227
Liability for long service leave	67,149	-
	<u>368,811</u>	<u>170,227</u>
Non-current		
Liability for long service leave	110,105	133,375
	<u>110,105</u>	<u>133,375</u>

Appen Holdings Pty Limited & its controlled entities

Notes to the consolidated financial statements (continued)

For the period ended 31 December 2011

19 Loans and borrowings

	Consolidated	
	2011	2010
Current		
Redeemable preference shares	5,700,000	3,700,000
Bank loan	503,193	-
	6,203,193	3,700,000
Non-current		
Bank loan	628,900	-

3,700,000 redeemable preference shares were issued on 23 October 2009. A further 507,843 and 943,137 were issued on 13 January 2011 and 12 October 2010, respectively.

Holders of preference shares are entitled to receive cumulative preference dividends at a rate of 8% per annum and are entitled to voting rights at shareholders meetings.

In the event of winding up of the Company, Preference shareholders rank above all other shareholders and creditors. Preference shares are classified as equity for taxation purposes.

20 Issued capital

<i>In AUD</i>	Consolidated	
	2011	2010
Ordinary shares	491,891	490
Management shares	1,677,283	680,000
	2,169,174	680,490

Holders of Ordinary shares are entitled to receive dividends as declared from time to time and are entitled to voting rights at shareholders meetings.

Holders of Management shares are entitled to receive dividends as declared from time to time but are not entitled to vote at shareholders meetings.

Reserves

Common control reserve	1,416,429	1,416,429
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Share-based payment reserve

The share based payments reserve represents the grant date fair value of share-based payment awards granted to employees of the group, recognised over the period that the employees become unconditionally entitled to the award.

Other equity

Other equity represents the equity settled portion of contingent consideration.

Appen Holdings Pty Limited & its controlled entities
Notes to the consolidated financial statements (continued)
For the period ended 31 December 2011

20 Issued capital (continued)

Dividends

Dividends recognised in the current period by the Company are:

<i>In AUD</i>	Cents per share	Total amount	Franked /	Date of payment
2011				
Interim ordinary	1.35	64,911	Franked	14/10/2010
Interim ordinary	7.55	<u>277,001</u>	Franked	31/03/2011
Total amount		<u>341,912</u>		

Franked dividends declared or paid during the year were 100% franked.

After 31 December 2011 the following dividends were proposed by the directors. The dividends have not been provided for and there are no income tax consequences.

Interim ordinary	8.86	332,602	Franked	31/03/2012
Interim ordinary	5.61	<u>210,831</u>	Franked	29/06/2012
Total amount		<u>543,433</u>		

Dividend franking account

<i>In AUD</i>	Consolidated	
	2011	2010
30 per cent franking credits available to shareholders of	<u>1,732,459</u>	<u>1,623,091</u>

The above available amounts are based on the balance of the dividend franking account at year-end adjusted for franking credits that will arise from the payment of the provision for income tax.

The ability to utilise the franking credits is dependent upon there being sufficient available profits to declare dividends.

Appen Holdings Pty Limited & its controlled entities

Notes to the consolidated financial statements (continued)

For the period ended 31 December 2011

21 Note to the statement of cash flows

<i>In AUD</i>	Consolidated	
	18 months to December 2011	12 months to June 2010
Profit (loss) for the period	2,226,598	1,527,505
<i>Adjustments for:</i>		
Depreciation and amortisation	1,121,388	280,465
Net foreign exchange loss/(gain) - unrealised	198,542	16,375
(Reversal of) Impairment losses	-	(114,952)
Equity settled share-based payment expense	287,009	-
Loss / (gain) on disposal of property, plant and equipment	32,852	1,123
Interest income	(110,775)	(57,312)
Interest expense	34,660	
Income tax expense	1,137,825	790,532
Operating profit before changes in working capital and	4,928,099	2,443,736
(Increase) / decrease in trade and other receivables	(1,161,954)	(628,542)
(Increase) / decrease in investments	(179,447)	-
(Increase) / decrease in deferred tax assets	22,820	(241,293)
Increase / (decrease) in trade and other payables	712,862	972,576
Increase / (decrease) in employee benefits	103,265	(23,117)
Increase / (decrease) in current tax liabilities	(297,166)	636,293
Cash generated from operations	4,128,479	3,159,653
Interest received	110,775	57,312
Interest paid	(34,660)	-
Income taxes paid	(1,412,171)	(395,390)
Net cash from operating activities	2,792,423	2,821,575

22 Consolidated entities

Name	Country of incorporation	Class of share	Ownership interest	
			2011 %	2010 %
<i>Parent entity</i>				
Appen Holdings Pty Ltd	Australia			
<i>Controlled entities</i>				
Appen Butler Hill Pty Limited (formerly Appen Pty Limited)	Australia	Ordinary	100%	100%
Appen Butler Hill Inc (formerly Appen Speech & Language Technology, Inc)	USA	Ordinary	100%	100%
Appen (Europe) Limited	UK	Ordinary	100%	100%
Appen (Hong Kong) Limited	Hong Kong	Ordinary	100%	-

Appen Holdings Pty Limited & its controlled entities

Notes to the consolidated financial statements (continued)

For the period ended 31 December 2011

23 Parent entity

Appen Holdings Pty Limited became the parent entity of the group via a common control transaction on 22 September 2009. Nevertheless, the comparative financial statements have been presented on a consolidated basis had the Company been in operation for the full year.

<i>In AUD</i>	Consolidated	
	2011	2010
Result of the parent entity		
Profit (loss) for the period	(92,427)	2,266,338
Other comprehensive income	-	-
Total comprehensive income for the period	<u>(92,427)</u>	<u>2,266,338</u>
Financial position of parent entity at year end		
Current assets	224,921	649,786
Total assets	11,269,462	5,977,946
Current liabilities	6,675,253	3,700,000
Total liabilities	7,304,153	3,700,000
	3,965,309	
Total equity of the parent entity comprising of:		
Share capital	491,891	490
Issued capital	1,677,283	680,000
Share-based payments reserve	287,009	-
Other equity	2,333,657	-
Retained earnings	(824,531)	1,597,456
Total equity	<u>3,965,309</u>	<u>2,277,946</u>

24 Subsequent events

On 27 July 2012, the Company converted all preference shares classified as a liability to ordinary shares.

Other than the matter noted above, there has not arisen in the interval between the end of the financial year and the date of this report any item, transaction or event of a material and unusual nature which likely, in the opinion of the directors of the Company, to affect significantly the operations of the Group, the results of those operations, or the state of affairs of the Group, in future financial years.

25 Operating leases

Leases as lessee

Non-cancellable operating lease rentals are payable as follows:

<i>In AUD</i>	Consolidated	
	2011	2010
Less than one year	354,522	240,077
Between one and five years	1,596,352	-
	<u>1,950,874</u>	<u>240,077</u>

The Group leases an office premises under an operating lease. The lease runs for a period of 6 years, with an option to renew the lease after that date.

During the period ended 31 December 2011 \$585,018 was recognised as an expense in the income statement in respect of operating leases (2010: \$461,971).

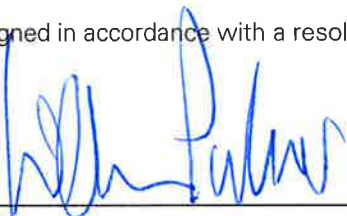
Appen Holdings Pty Limited & its controlled entities

Directors' declaration

In the opinion of the directors of the Company:

- (a) The Company is not a reporting entity;
- (b) The financial statements and notes, set out on pages 6 to 30:
 - (i) give a true and fair view the Group's financial position as at 31 December 2011 and of its performance, for the financial period ended on that date in accordance with the statement of compliance and basis of preparation described in Note 2; and
 - (ii) comply with Australian Accounting Standards and other mandatory financial reporting requirements to the extent described in Note 2.
- (c) There are reasonable grounds to believe that the Company and Group entities identified in Note 22 will be able to pay their debts as and when they become due and payable.

Signed in accordance with a resolution of directors.



William Pulver
Director

Sydney
8th August 2012



Independent audit report to the members of Appen Holdings Pty Limited

Report on the financial report

We have audited the accompanying financial report, being a special purpose financial report, of Appen Holdings Pty Limited (the company), which comprises the consolidated statement of financial position as at 31 December 2011, and the consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the period ended on that date, notes 1 to 25 comprising a summary of significant accounting policies and other explanatory information, and the directors' declaration of the Group comprising the company and the entities it controlled at the year's end or from time to time during the financial period.

Directors' responsibility for the financial report

The directors of the company are responsible for the preparation of the financial report and have determined that the basis of preparation described in Notes 1 to 3 to the financial report is appropriate to meet the requirements of the *Corporations Act 2001* and is appropriate to meet the needs of the members. The directors' responsibility also includes such internal control as the directors determine necessary to enable the preparation of a financial report that is free from material misstatement, whether due to fraud or error.

Auditor's responsibility

Our responsibility is to express an opinion on the financial report based on our audit. We conducted our audit in accordance with Australian Auditing Standards. These Auditing Standards require that we comply with relevant ethical requirements relating to audit engagements and plan and perform the audit to obtain reasonable assurance whether the financial report is free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial report. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial report, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation of the financial report that gives a true and fair view 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 entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the financial report.

These procedures have been undertaken to form an opinion whether, in all material respects, the financial report is presented fairly in accordance with the basis of accounting described in Notes 1 to 3 to the financial statements so as to present a true and fair view which is consistent with our understanding of the Group's financial position, and of its performance.

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



**Independent audit report to the members of Appen Holdings Pty Limited
(continued)**

Report on the financial report (continued)

Independence

In conducting our audit, we have complied with the independence requirements of the *Corporations Act 2001*. We confirm that the independence declaration required by the *Corporations Act 2001*, which has been given to the directors of Appen Holdings Pty Limited on 8 August 2012, would be in the same terms if given to the directors as at the time of this auditor's report.

Auditor's opinion

In our opinion the 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 31 December 2011 and of its performance for the period ended on that date in accordance with the accounting policies described in Notes 1 to 3; and
- (b) complying with Australian Accounting Standards to the extent described in Note 2 and the Corporations Regulations 2001.

Basis of Accounting

Without modifying our opinion, we draw attention to Note 2 to the financial report, which describes the basis of accounting. The financial report has been prepared for the purpose of fulfilling the directors' financial reporting responsibilities under the *Corporations Act 2001*. As a result, the financial report may not be suitable for another purpose.

KPMG

Carlo Pasqualini
Partner

Sydney

10 August 2012