

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

ABN 60 138 878 298

Special Purpose Financial Report

For the period from 1 January 2014 to 30 June 2014

Appen Holdings Pty Limited and its controlled entities

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Appen Holdings Pty Limited and its controlled entities

Consolidated statement of profit or loss and other comprehensive income

For the 6 month period ended 30 June 2014

In AUD

	Note	1 January 2014 to 30 June 2014
Revenue	4	26,901,786
Services purchased - data collection		(11,789,689)
Gross profit		<u>15,112,097</u>
Other income	5	32,133
Employee expenses	6	(9,323,716)
Travel expense		(406,329)
Professional fees		(237,771)
Rental expense		(211,857)
Communication expense		(138,512)
Impairment loss on receivables		(80,160)
Other expenses		(860,634)
Operating profit before interest, tax, depreciation, amortisation, fair value adjustments and share based payments		<u>3,885,251</u>
Finance income		68,809
Finance costs		(60,195)
Net finance income	7	<u>8,614</u>
Change in fair value of contingent consideration		(444,624)
Share based payments expense		(133,461)
Depreciation and amortisation expenses		(463,457)
Profit before income tax		<u>2,852,323</u>
Income tax expense		(764,452)
Profit for the period		<u>2,087,871</u>
Other comprehensive income		
Items that are or may be reclassified to profit or loss		
Foreign currency translation differences - foreign operations		(441,479)
Other comprehensive income for the period, net of tax		<u>(441,479)</u>
Total comprehensive income for the period		<u>1,646,392</u>
Profit attributable to:		
Owners of the Company		2,087,871
Profit for the period		<u>2,087,871</u>
Total comprehensive income attributable to:		
Owners of the Company		1,646,392
Total comprehensive income for the period		<u>1,646,392</u>

The notes on pages 6 to 21 are an integral part of these consolidated financial statements.

Appen Holdings Pty Limited and its controlled entities

Consolidated statement of financial position

As at 30 June 2014

<i>In AUD</i>	Note	2014
Assets		
Cash and cash equivalents	8	3,626,434
Trade and other receivables	9	12,457,574
Current tax assets		708,632
Total current assets		<u>16,792,640</u>
Property, plant and equipment	10	365,864
Intangible assets and goodwill	11	9,564,974
Total non-current assets		<u>9,930,838</u>
Total assets		<u>26,723,478</u>
Liabilities		
Trade and other payables	12	11,099,991
Loans and borrowings	13	4,747,643
Employee benefits	14	738,956
Unearned income		19,192
Total current liabilities		<u>16,605,782</u>
Employee benefits	14	94,832
Deferred tax liabilities		854,266
Total non-current liabilities		<u>949,098</u>
Total liabilities		<u>17,554,880</u>
Net assets		<u>9,168,598</u>
Equity		
Share capital	15	8,562,159
Foreign currency translation reserve	15	832,190
Common control reserve	15	(1,416,429)
Share based payment reserve	15	966,157
Other equity	15	2,333,657
Accumulated losses		(2,109,136)
Total equity		<u>9,168,598</u>

The notes on pages 6 to 21 are an integral part of these consolidated financial statements.

Appen Holdings Pty Limited and its controlled entities

Consolidated statement of changes in equity
For the period ended 30 June 2014

	Attributable to owners of the Company						Total
	Share capital	Foreign currency translation reserve	Common control reserve	Share based payment reserve	Other equity	Accumulated losses	
Balance at 1 January 2014	8,123,684	1,273,669	(1,416,429)	832,696	2,333,657	(3,008,727)	8,138,550
Total comprehensive income for the year	-	-	-	-	-	2,087,871	2,087,871
Profit for the period	-	-	-	-	-	-	-
<i>Other comprehensive income</i>	-	(441,479)	-	-	-	-	(441,479)
Foreign currency translation differences for foreign operations	-	(441,479)	-	-	-	-	(441,479)
Total other comprehensive income	-	(441,479)	-	-	-	-	(441,479)
Total comprehensive income for the year	-	(441,479)	-	-	-	2,087,871	1,646,392
Transactions with owners of the Company, recorded directly in equity							
<i>Contributions by and distributions to owners of the Company</i>							
Issue of management shares	438,475	-	-	-	-	-	438,475
Dividends to owners of the Company	-	-	-	-	-	(1,188,280)	(1,188,280)
Share based payment transactions	-	-	-	133,461	-	-	133,461
Total transactions with owners of the Company	438,475	-	-	133,461	-	(1,188,280)	(616,344)
Balance at 30 June 2014	8,562,159	832,190	(1,416,429)	966,157	2,333,657	(2,109,136)	9,168,598

The notes on pages 6 to 21 are an integral part of these consolidated financial statements.

Appen Holdings Pty Limited and its controlled entities

Consolidated statement of cash flows

For the period ended 30 June 2014

<i>In AUD</i>	Note	1 January 2014 to 30 June 2014
Cash flows from operating activities		
Cash receipts from customers		28,481,925
Cash paid to suppliers and employees		(27,705,815)
Cash generated from operating activities		<u>776,110</u>
Interest received		6,710
Interest paid		(60,195)
Income tax paid		(594,931)
Net cash from operating activities	8	<u><u>127,694</u></u>
Cash flows from investing activities		
Acquisition of property, plant and equipment		(80,029)
Payment for contingent consideration		(2,887,678)
Net cash used in investing activities		<u><u>(2,967,707)</u></u>
Cash flows from financing activities		
Proceeds from issue of share capital		438,475
Proceeds from borrowings (USD loan)		2,149,152
Repayment of borrowings (USD loan)		(364,395)
Dividends paid		(1,188,280)
Net cash from financing activities		<u><u>1,034,952</u></u>
Net decrease in cash and cash equivalents		(1,805,061)
Cash and cash equivalents at beginning of period		5,771,126
Effect of exchange rate fluctuations on cash held		(339,631)
Cash and cash equivalents at end of period	8	<u><u>3,626,434</u></u>

The notes on pages 6 to 21 are an integral part of these consolidated financial statements.

Appen Holdings Pty Limited and its controlled entities

Notes to the consolidated financial statements

For the period ended 30 June 2014

1 Reporting entity

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 6 month period ended 30 June 2014 comprise the Company and its subsidiaries (together referred to as the Group and individually as Group entities). Appen Holdings Pty Limited is the ultimate Australian parent entity.

The Group is a for-profit entity and is primarily involved in the provision of language, search and social technology services.

In the opinion of the directors, the Company is not publicly accountable nor a reporting entity. The financial statements of the Company have been drawn up as special purpose financial statements for distribution to the directors.

2 Basis of preparation

(a) Statement of compliance

The special purpose financial statements have been prepared in accordance with the requirements of the recognition, measurement and classification aspects of all applicable Australian Accounting Standards (AASBs) adopted by the Australian Accounting Standards Board (AASB). The financial statements are prepared for the 6 month period to 30 June 2014 and do not include comparatives in order to meet the needs of the directors.

The special purpose financial statements include only the disclosure requirements of the following AASBs and those disclosures considered necessary by the directors to meet their needs.

- AASB 108 Accounting Policies, Changes in Accounting Estimates and Errors

The consolidated financial statements were authorised for issue by the Board of Directors on 30 October 2014.

(b) Basis of measurement

The consolidated financial statements have been prepared on the historical cost basis except for derivative financial instruments and contingent consideration, which are measured at fair value.

(c) Functional and presentation currency

These consolidated financial statements are presented in Australian dollars, which is the Company's functional currency.

(d) Use of estimates and judgements

The preparation of the consolidated 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 to accounting estimates are recognised in the period in which the estimate is revised and in any future periods affected.

Appen Holdings Pty Limited and its controlled entities

Notes to the consolidated financial statements (continued)

For the period ended 30 June 2014

3 Significant accounting policies

The accounting policies set out below have been applied consistently to all periods presented in these consolidated financial statements.

(a) Basis of consolidation

(i) *Subsidiaries*

Subsidiaries are entities controlled by the Company. The Company controls an entity when it is exposed to, 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 financial statements of subsidiaries are included in the consolidated financial statements from the date on which control commences until the date on which control ceases.

(ii) *Transactions eliminated on consolidation*

Intra-group balances and transactions, and any unrealised income and expenses arising from intra-group transactions, are eliminated on consolidation.

(b) Foreign currency

(i) *Foreign currency transactions*

Transactions in foreign currencies are translated to the respective functional currencies of Group entities at exchange rates at the dates of the transactions.

Monetary assets and liabilities denominated in foreign currencies are translated to the functional currency at the exchange rate at the reporting date. Non-monetary assets and liabilities that are measured at fair value in a foreign currency are translated to the functional currency at the exchange rate when the fair value was determined. Foreign currency differences are generally recognised in profit or loss. Non-monetary items that are measured based on historical cost in a foreign currency are not translated.

(ii) *Foreign operations*

The assets and liabilities of foreign operations are translated into Australian dollars at the exchange rates at the reporting date. The income and expenses of foreign operations are translated into Australian dollars at exchange rates at the dates of the transactions.

Foreign currency differences arising from the transaction of foreign operations are recognised in other comprehensive income, and presented in the foreign currency translation reserve (translation reserve) in equity. When a foreign operation is disposed of such that control, significant influence or joint control is lost, the cumulative amount in the translation reserve related to that foreign operation is reclassified to profit or loss as part of the gain or loss on disposal.

Appen Holdings Pty Limited and its controlled entities

Notes to the consolidated financial statements (continued)

For the period ended 30 June 2014

3 Significant accounting policies (continued)

(c) Financial instruments

(i) Non-derivative financial assets

The Group initially recognises loans and receivables on the date that they are originated. All other financial assets are recognised initially on the date 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 categories of non-derivative financial assets: loans and receivables.

Loans and receivables

Loans and receivables 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.

Loans and receivables comprise of cash and cash equivalents and trade and other receivables (excluding prepayments).

Cash and cash equivalents

Cash and cash equivalents comprise cash balances and call deposits with maturities of three months or less from the acquisition date that are subject to an insignificant risk of changes in their fair value, and are used by the Group in the management of its short-term commitments.

(ii) Non-derivative financial liabilities

Financial liabilities are recognised initially on the date that the Group becomes a party to the contractual provisions of the instrument.

The Group derecognises a financial liability when its contractual obligations are discharged, cancelled or expire.

The Group classifies non-derivative financial liabilities into the other financial liabilities category. 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 method.

Other financial liabilities comprise loans and borrowings and trade and other payables.

(iii) Share capital

Ordinary shares

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

Appen Holdings Pty Limited and its controlled entities

Notes to the consolidated financial statements (continued)

For the period ended 30 June 2014

3 Significant accounting policies (continued)

(c) Financial instruments (continued)

(iv) Derivative financial instruments

The Group holds derivative financial instruments to hedge its foreign currency risk exposures. Derivatives are recognised initially at fair value; any directly attributable transaction costs are recognised in profit or loss as they are incurred. Subsequent to initial recognition, derivatives are measured at fair value, and changes therein are generally recognised in profit or loss.

(d) Property, plant and equipment

(i) Recognition and measurement

Items of property, plant and equipment are measured at cost less accumulated depreciation and accumulated impairment losses. Cost includes expenditure that is directly attributable to the acquisition of the asset.

When parts of an item of property, plant and equipment have different useful lives, they are accounted for as separate items (major components) of property, plant and equipment.

Any gains and losses on disposal of an item of property, plant and equipment (calculated as the difference between the net proceeds from disposal and the carrying amount of the item) is recognised in profit or loss.

(ii) Subsequent expenditure

Subsequent expenditure is capitalised only when it is probable that the future economic benefits associated with the expenditure will flow to the Group.

(iii) Depreciation

Depreciation is based on the cost of an asset less its residual value. Significant components of individual assets are assessed and if a component has a useful life that is different from the remainder of that asset, that component is depreciated separately.

Depreciation is recognised in profit or loss on a straight-line basis over the estimated useful lives of each component of an item of property, plant and equipment.

The estimated useful lives for the current period are as follows:

- | | |
|--------------------------|--------------|
| • IT and audio equipment | 1 - 4 years |
| • Leasehold improvements | 7 - 10 years |
| • Fixtures and fittings | 3 - 13 years |

Depreciation methods, useful lives and residual values are reviewed at each reporting date and adjusted if appropriate.

Appen Holdings Pty Limited and its controlled entities

Notes to the consolidated financial statements (continued)

For the period ended 30 June 2014

3 Significant accounting policies (continued)

(e) Intangible assets and goodwill

(i) Goodwill

Goodwill arising on the acquisition of subsidiaries is measured at cost less accumulated impairment losses.

(ii) Licence and database

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

(iii) Other intangible assets

Other intangible assets that are acquired by the Group and have finite useful lives are measured at cost less accumulated amortisation and any accumulated impairment losses.

(iv) Subsequent expenditure

Subsequent expenditure is capitalised only when it increases the future economic benefits embodied in the specific asset to which it relates. All other expenditure is recognised in profit or loss as incurred.

(v) Amortisation

Amortisation is based on the cost of an asset less its residual value.

Amortisation is calculated to write off the cost of intangible assets less their estimated residual values using the diminishing value method over their estimated useful lives, and is generally recognised in profit or loss. Goodwill is not amortised.

- | | |
|---------------------------------------|---------|
| • contracts (other intangible assets) | 5 years |
| • licence and database products | 3 years |

Amortisation methods, useful lives and residual values are reviewed at each reporting date and adjusted if appropriate.

Appen Holdings Pty Limited and its controlled entities

Notes to the consolidated financial statements (continued)

For the period ended 30 June 2014

3 Significant accounting policies (continued)

(f) Impairment

(i) *Non-derivative financial assets*

Financial assets not classified as at fair value through profit or loss are assessed at each reporting date to determine whether there is objective evidence of impairment.

Objective evidence that financial assets are impaired can include default or delinquency by a debtor, restructuring of an amount due to the Group on terms that the Group would not consider otherwise, indications that a debtor or issuer will enter bankruptcy, adverse changes in the payment status of borrowers or issuers in the Group, and economic conditions that correlate with defaults.

The Group considers evidence of impairment for these assets measured at both an individual asset and a collective level. All individually significant assets are individually assessed for specific impairment. Those found not to be impaired are then collectively assessed for any impairment that has been incurred but not yet individually identified. Assets that are not individually significant are collectively assessed for impairment. Collective assessment is carried out by grouping together assets with similar risk characteristics.

In assessing collective impairment, the Group uses historical information on the timing of recoveries and the amount of loss incurred, and makes an adjustment if current economic and credit conditions are such that the actual losses are likely to be greater or less than suggested by historical trends.

An impairment loss is calculated as the difference between an asset's carrying amount and the present value of the estimated future cash flows discounted at the asset's original effective interest rate. Losses are recognised in profit or loss and reflected in an allowance account. When the Group considers that there are no realistic prospects of recovery of the asset, the relevant amounts are written off. If the amount of impairment loss subsequently decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, then the previously recognised impairment loss is reversed through profit or loss.

(ii) *Non-financial assets*

At each reporting date, the Group reviews the carrying amounts of its non-financial assets (other than deferred tax assets) to determine whether there is any indication of impairment. If any such indication exists, then the asset's recoverable amount is estimated. Goodwill is tested annually for impairment.

For impairment testing, assets are grouped together into the smallest group of assets that generates cash inflows from continuing use that are largely independent of the cash inflows of other assets or cash generating units (CGUs). Goodwill arising from a business combination is allocated to CGUs or groups of CGUs that are expected to benefit from the synergies of the combination.

The recoverable amount of an asset or CGU is the greater of its value in use and its fair value less costs to sell. Value in use is based on the estimated future cash flows, 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 or CGU.

An impairment loss is recognised if the carrying amount of an asset or CGU exceeds its recoverable amount.

Impairment losses are recognised in profit or loss. They are allocated first to reduce the carrying amount of any goodwill allocated to the CGU, and then to reduce the carrying amounts of the other assets in the CGU on a pro rata basis.

An impairment loss in respect of goodwill is not reversed. For other assets, 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.

Appen Holdings Pty Limited and its controlled entities

Notes to the consolidated financial statements (continued)

For the period ended 30 June 2014

3 Significant accounting policies (continued)

(g) Employee benefits

(i) Defined contribution plans

A defined contribution plan is a post-employment benefit plan under which an entity pays fixed contributions into a separate entity and will have no legal or constructive obligation to pay further amounts. Obligations for contributions to defined contribution plans are recognised as an employee benefit expense in profit or loss in the periods during which services are rendered by employees.

(ii) Other long-term employee benefits

The Group's net obligation in respect of long-term employee benefits 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) Short-term employee benefits

Short-term employee benefits are expensed as the related service is provided. A liability is recognised for the amount expected to be paid if the Group has a present legal or constructive obligation to pay this amount as a result of past service provided by the employee and the obligation can be estimated reliably.

(iv) Share-based payment transactions

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

(h) Revenue

(i) Rendering of services

Revenue from rendering of services represents the sale of contract service or licence products and database. Revenue is recognised in profit or loss 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.

(ii) 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 being delayed.

(i) 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.

Appen Holdings Pty Limited and its controlled entities

Notes to the consolidated financial statements (continued)

For the period ended 30 June 2014

3 Significant accounting policies (continued)

(j) Finance income and finance costs

Finance income comprises interest income on funds invested and net foreign exchange gains. Interest income is recognised as it accrues in profit or loss, using the effective interest method.

Finance costs comprise interest expense on borrowings.

Foreign currency gains and losses are reported on a net basis as either finance income or finance cost depending on whether foreign currency movements are in a net gain or net loss position.

(k) Income tax

Tax expense comprises current and deferred tax. Current tax and deferred tax is recognised in profit or loss except to the extent that it relates to a business combination, or items recognised directly in equity or in other comprehensive income.

(i) Current tax

Current tax is the expected tax payable or receivable on the taxable income or loss for the year, using tax rates enacted or substantively enacted at the reporting date, and any adjustment to tax payable in respect of previous years. Current tax payable also includes any tax liability arising from the declaration of dividends.

(ii) Deferred tax

Deferred tax is recognised in respect of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes.

The measurement of deferred tax reflects the tax consequences that could follow the manner in which the Group expects, at the end of the reporting period, to recover or settle the carrying amount of its assets and liabilities.

Deferred tax is measured at the tax rates that are expected to be applied to temporary differences when they reverse, using tax rates enacted or substantively enacted by the reporting date.

Deferred tax assets and liabilities are offset if there is a legally enforceable right to offset current tax liabilities and assets, and they relate to income taxes levied by the same tax authority on the same taxable entity, or on different tax entities, but they intend to settle current tax liabilities and assets on a net basis or their tax assets and liabilities will be realised simultaneously.

A deferred tax asset is recognised for unused tax losses, tax credits and deductible temporary differences, to the extent that it is probable that future taxable profits will be available against which they can be utilised. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realised.

(iii) Tax exposures

The Group believes that its accruals for tax liabilities are adequate for all open tax years based on its assessment of many factors, including interpretations of tax law and prior experience.

(iv) 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 from that date. The Company is the head entity within the tax-consolidated group.

Appen Holdings Pty Limited and its controlled entities

Notes to the consolidated financial statements (continued)

For the period ended 30 June 2014

3 Significant accounting policies (continued)

(I) New standards and interpretations not yet adopted

A number of new standards, amendments to standards and interpretations are effective for annual periods beginning after 1 January 2014, and have not been applied in preparing these consolidated financial statements. None of these are expected to have a significant effect on the consolidated financial statements of the Group, except for AASB 9 Financial Instruments, which becomes mandatory for the Group's 2018 consolidated financial statements and could change the classification and measurement of financial assets. The Group does not plan to adopt this standard early and the extent of the impact has not been determined.

Appen Holdings Pty Limited and its controlled entities

Notes to the consolidated financial statements (continued)

For the period ended 30 June 2014

4 Revenue

In AUD

**1 January 2014 to
30 June 2014**

Rendering of services	26,068,534
Licence and database income	833,252
	<u>26,901,786</u>

5 Other income

In AUD

**1 January 2014 to
30 June 2014**

Net gain on sale of property, plant and equipment	207
Rental income	31,926
	<u>32,133</u>

6 Employee expenses

In AUD

**1 January 2014 to
30 June 2014**

Wages and salaries	7,656,792
Contribution to defined contribution superannuation funds	440,923
Payroll tax	416,401
Directors' salaries	352,676
Other personnel expenses	456,924
	<u>9,323,716</u>

7 Finance income and finance costs

In AUD

**1 January 2014 to
30 June 2014**

Interest income	6,710
Net foreign exchange gain	62,099
Finance income	<u>68,809</u>
	<u>(60,195)</u>
Interest expense	(60,195)
Finance costs	(60,195)
Net finance income recognised in profit or loss	<u>8,614</u>

Appen Holdings Pty Limited and its controlled entities
Notes to the consolidated financial statements (continued)
For the period ended 30 June 2014

8 Cash and cash equivalents

<i>In AUD</i>	2014
Bank balances	3,539,382
Call deposits	85,266
Cash on hand	1,786
Cash and cash equivalents in the statement of cash flows	<u>3,626,434</u>

Reconciliation of cash flows from operating activities

<i>In AUD</i>	1 January 2014 to 30 June 2014
Cash flows from operating activities	
Profit for the period	2,087,871
Adjustments for:	
Depreciation and amortisation	463,457
Net foreign exchange gain - unrealised	(107,954)
Change in fair value of contingent consideration	444,624
Share based payment expenses	133,461
Impairment loss on receivables	80,160
Income tax expense	764,452
	<u>3,866,071</u>
Change in trade and other receivables	(1,111,385)
Change in trade and other payables	(2,045,188)
Change in employee benefits	97,193
Change in unearned income	(30,581)
	<u>776,110</u>
Interest received	6,710
Interest paid	(60,195)
Income tax paid	(594,931)
Net cash from operating activities	<u>127,694</u>

9 Trade and other receivables

<i>In AUD</i>	2014
Current	
Trade receivables	9,960,900
Work in progress	1,919,352
Other receivables and prepayments	277,680
Derivatives - foreign exchange contracts	295,782
Related party receivables	3,860
	<u>12,457,574</u>

Appen Holdings Pty Limited and its controlled entities
Notes to the consolidated financial statements (continued)
For the period ended 30 June 2014

10 Property, plant and equipment

<i>In AUD</i>	2014
<i>IT equipment</i>	
At cost	680,939
Accumulated depreciation	(598,712)
	<u>82,227</u>
<i>Audio equipment</i>	
At cost	274,412
Accumulated depreciation	(211,846)
	<u>62,566</u>
<i>Fixtures and fittings</i>	
At cost	143,029
Accumulated depreciation	(89,205)
	<u>53,824</u>
<i>Leasehold improvements</i>	
At cost	274,221
Accumulated depreciation	(137,763)
	<u>136,458</u>
<i>Make good</i>	
At cost	84,300
Accumulated depreciation	(53,511)
	<u>30,789</u>
<i>Total property, plant and equipment</i>	
At cost	1,456,901
Accumulated depreciation	(1,091,037)
Net carrying amount	<u>365,864</u>

Appen Holdings Pty Limited and its controlled entities

Notes to the consolidated financial statements (continued)

For the period ended 30 June 2014

11 Intangible assets and goodwill

In AUD

2014

Goodwill

Cost

7,195,178

7,195,178

Contracts

Cost

2,234,555

Accumulated amortisation

(1,495,655)

738,900

Licence and database

Cost

81,716

Accumulated amortisation

-

81,716

Patents

Cost

245,046

Accumulated amortisation

(224,773)

20,273

Internal software

Cost

1,673,526

Accumulated amortisation

(158,905)

1,514,621

Appen Holdings formation costs

Cost

46,950

Accumulated amortisation

(39,225)

7,725

Appen Inc. formation costs

Cost

35,729

Accumulated amortisation

(29,168)

6,561

Total intangible assets

Cost

11,512,700

Accumulated amortisation

(1,947,726)

Net carrying amount

9,564,974

Appen Holdings Pty Limited and its controlled entities

Notes to the consolidated financial statements (continued)

For the period ended 30 June 2014

12 Trade and other payables

In AUD

2014

Current

Trade payables	2,860,889
Other payables and accrued expenses	2,432,604
Related party payables	168
Contingent consideration	5,806,330
	<u>11,099,991</u>

13 Loans and borrowings

In AUD

2014

Current

Bank loan	<u>4,747,643</u>
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During the period, the company breached one of its loan covenants relating to dividend payments. Subsequent to period-end, the company received a waiver notice from the bank stating that no action will be taken as a result of this breach. Consequently, \$2,307,514 included in current liabilities above has been reclassified to non-current liabilities after period-end.

14 Employee benefits

In AUD

2014

Current

Liability for long service leave	172,975
Liability for annual leave	565,981
	<u>738,956</u>

Non-current

Liability for long service leave	<u>94,832</u>
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Appen Holdings Pty Limited and its controlled entities

Notes to the consolidated financial statements (continued)

For the period ended 30 June 2014

15 Capital and reserves

Share capital

<i>In number of shares</i>	Company	
	Ordinary shares 2014	Management shares 2014
On issue at 1 January	7,475,412	1,508,534
Issued for cash	-	438,475
On issue at 30 June 2014	<u>7,475,412</u>	<u>1,947,009</u>

Ordinary shares and management shares

The Company does not have authorised capital or par value in respect of its issued shares. All issued shares are fully paid.

The holders of ordinary shares are entitled to receive dividends as declared from time to time and are entitled to one vote per share at shareholders meetings of the Company.

The holders of management shares are entitled to receive dividends as declared from time to time and but are not entitled to vote at shareholders meetings of the Company.

Translation reserve

The translation reserve comprises all foreign currency differences arising from the translation of the financial statements of foreign operations.

Common control reserve

Common control reserve represents the difference between the consideration transferred by the Company for the acquisition of commonly controlled entities and the existing book value of those entities immediately prior to the acquisition.

Share based payment reserve

The share based payment 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 and its controlled entities

Notes to the consolidated financial statements (continued)

For the period ended 30 June 2014

15 Capital and reserves (continued)

Dividends

The following dividends were declared and paid by the Company:

<i>In AUD</i>	Dollar per share	Total amount
2014		
Interim	0.13	1,188,257
Total amount		<u>1,188,257</u>

Dividend franking account

In AUD

Amounts of franking credits available to shareholders of Appen Holdings Pty Limited for subsequent financial periods

2014

391,455

The ability to utilise the franking credits is dependent upon the ability to declare dividends.

16 Operating leases

Leases as lessee

Non-cancellable operating lease rentals are payable as follows:

<i>In AUD</i>	2014
Less than one year	365,054
Between one and five years	571,601
	<u>936,655</u>

The Group leases an office premise under an operating lease. The lease runs for a period of 5 years, with an option to renew the lease after that date.

17 Group entities

	Country of incorporation	Ownership interest
Parent entity		2014
Appen Holdings Pty Limited		%
Significant subsidiaries		
Appen Butler Hill Pty Limited	Australia	100
Appen Butler Hill Inc.	USA	100
Appen (Europe) Limited	UK	100
Appen (Hong Kong) Limited	Hong Kong	100

18 Subsequent events

There have been no events subsequent to balance date which would have a material effect on the Group's financial statements at 30 June 2014.

Appen Holdings Pty Limited and its controlled entities

Directors' declaration

In the opinion of the directors of Appen Holdings Pty Limited (the Company):

- (a) the Company is not a reporting entity;
- (b) the consolidated financial statements and notes, set out on pages 2 to 21:
 - (i) present fairly the financial position of the Group as at 30 June 2014 and its performance, as represented by the results of its operations and its cash flows, for the financial period ended on that date in accordance with the statement of compliance and basis of preparation described in Notes 1 to 3; and
 - (ii) complying with Australian Accounting Standards (including the Australian Accounting Interpretations) to the extent described in Notes 1 to 3; 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.

Signed in accordance with a resolution of directors.



Christopher Charles Vonwiller
Director

Dated at Sydney this 30th day of October 2014.



Independent audit report to the members Appen Holdings Pty Limited

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 30 June 2014, and the consolidated statement of profit or loss and other comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the 6 months period ended on that date, notes 1 to 18 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 period'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 and fair presentation of the special purpose financial report and have determined that the basis of preparation described in Notes 1 to 3 to the financial statements 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 and fair presentation 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 and fair presentation of the financial report 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 the 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 view which is consistent with our understanding of the Group's financial position, and of their performance.



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

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

Independence

In conducting our audit, we have complied with the independence requirements of the Accounting Professional and Ethical Standards Board.

Auditor's opinion

In our opinion the financial report presents fairly, in all material respects, the financial position of Appen Holdings Pty Limited as of 30 June 2014 and of its financial performance and its cash flows for the period then ended in accordance with the accounting policies described in Notes 1 to 3 to the financial statements.

Basis of accounting and restriction on distribution and use

Without modifying our opinion, we draw attention to Note 2 to the financial statements, which describes the basis of accounting. The financial report has been prepared to assist Appen Holdings Pty Limited to meet the needs of the members. As a result, the financial report may not be suitable for another purpose. Our report is intended solely for Appen Holdings Pty Limited and should not be distributed to or used by parties other than Appen Holdings Pty Limited. We disclaim any assumption of responsibility for any reliance on this report, or on the financial report to which it relates, to any person other than the directors of Appen Holdings Pty Limited or for any other purpose than that for which it was prepared.

KPMG

Carlo Pasqualini
Partner

Sydney

5 November 2014