

Appendix 4E

rhipe Limited

ABN: 91 112 452 436

1. Reporting Period

Report for the financial year ended: **30 June 2020**

Previous corresponding period is the financial year ended: **30 June 2019**

2. Results for announcement to the market (Item 2)

| | | \$'000 |
|--|------------------------------------|------------------------------------|
| Revenues from ordinary activities (Item 2.1) | Up 15% to | 55,828 |
| Profit from ordinary activities after tax attributable to members (Item 2.2) | Down 23% to | 4,799 |
| Net Profit for the period attributable to members (Item 2.3) | Down 23% to | 4,799 |
| Dividends (Items 2.4) | Amount per security | Franked amount per security |
| Final Dividend | 2.0 cent | 2.0 cent |
| Record date for determining entitlements to a dividend (Item 2.5) | | 10 September 2020 |
| Brief explanation of any of the figures reported above necessary to enable the figures to be understood (Item 2.6) | Refer to attached financial report | |

3. Statement of Comprehensive Income (Item 3)

Refer to attached financial report

4. Statement of Financial Position (Item 4)

Refer to attached financial report

5. Statement of Cash Flows (Item 5)

Refer to attached financial report

6. Statement of Changes in Equity (Item 6)

Refer to attached financial report

7. Dividends (Item 7)

Interim dividend of 1.2 cents per share was declared on 17 February and cancelled subsequently due to uncertainty around COVID-19. 2020 final dividend of 2.0 cent per share is declared subsequent to balance date, on 24 August 2020 and will be paid on 24 September 2020. Final dividend is fully franked at a tax rate of 30 percent.

8. Dividend Reinvestment Plan (Item 8)

There was no dividend reinvestment plan in operation which occurred during the financial year.

9. Net Tangible Assets per Security (Item 9)

| | 2020 | 2019 |
|--|--------|--------|
| Net tangible asset backing per ordinary security | \$0.32 | \$0.14 |

10. Details of Entities over which Control has been Gained or Lost during the Period (Item 10)

Refer to attached financial report

| Control gained over entities/acquisitions: Name of entities | Date(s) of gain of control rhipe |
|---|----------------------------------|
| Network2Share Pty Ltd | 2 August 2019 |
| Data Confidence Pty Ltd | 2 August 2019 |
| rhipe Japan K.K. | 7 August 2019 |
| Loss of control of entities/disposals: Name of entities | Date(s) of loss of control |
| rhipe UK Pty Ltd | 8 October 2019 |

11. Details of Associates and Joint Venture Entities (Item 11)

Not applicable

12. Details of Significant Information Relating to the Entity's Financial Performance and Financial Position (Item 12)

Refer to attached financial report.

13. For Foreign Entities, which set of Accounting Standards is Used in Compiling the Report (Item 13)

Not applicable

14. Commentary on Results for the Period (Item 14)

Refer to attached financial report.

15. Audit of the Financial Report (Items 15 to 17)

Not applicable

rhipe

2020

ANNUAL REPORT

Cloud Licencing and Solutions across the **Asia Pacific Region**

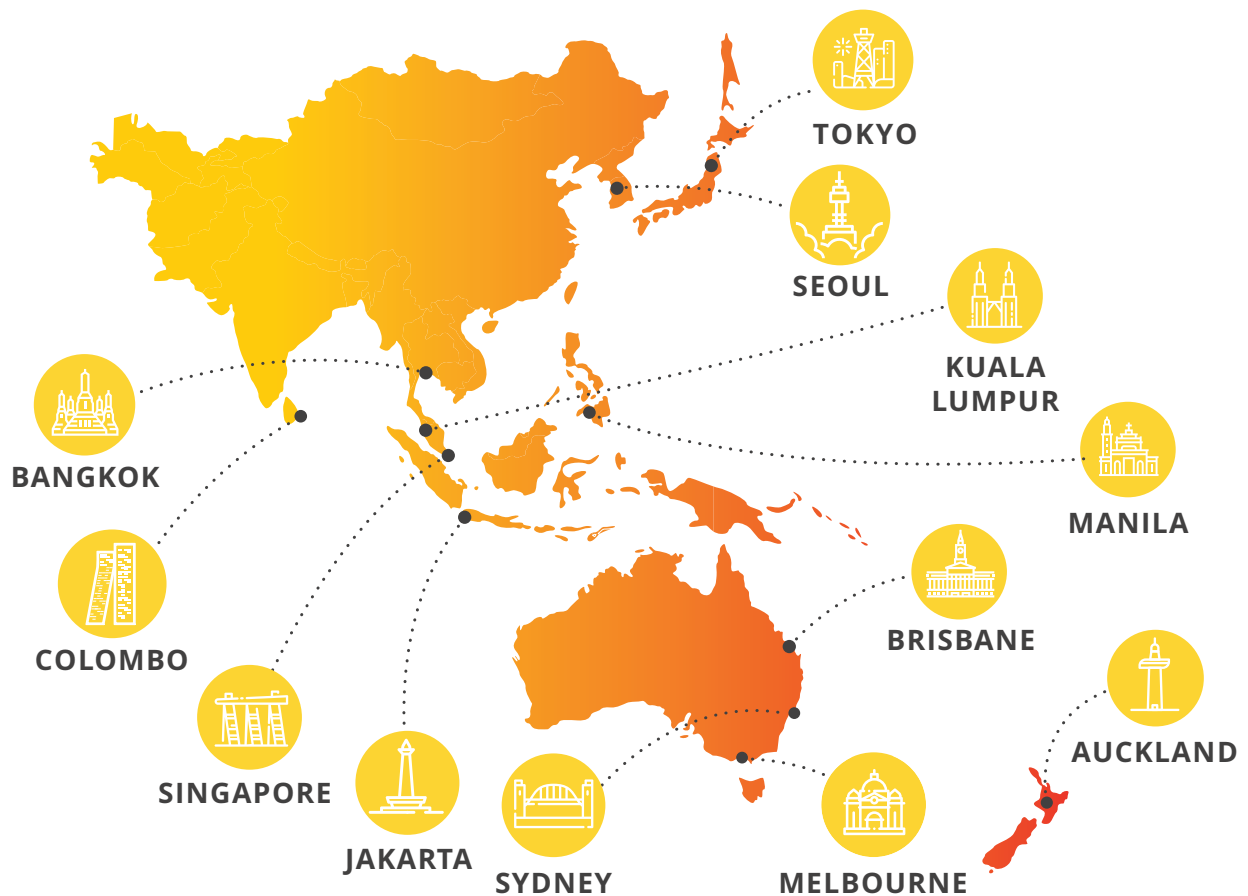
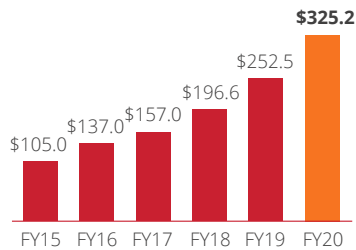




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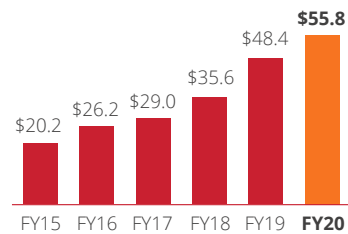
Financial Highlights



\$325.2m

Sales - software products and services

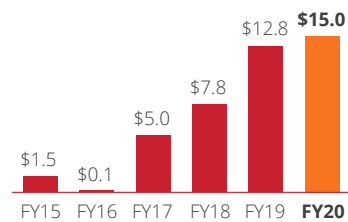
**29%
GROWTH**



\$55.8m

Group Revenue

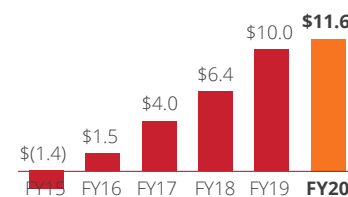
**15%
GROWTH**



\$15.0m

Group Operating Profit excluding Japan investments (1)

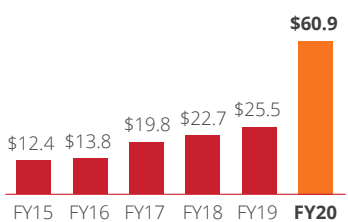
**17%
GROWTH**



\$11.6m

Group EBITDA (2)

**16%
GROWTH**



\$60.9m

Group Cash Balance

**\$35.4m
GROWTH**

1 Includes property leases cost

2 Includes impact of AASB 16

Our **Value Proposition**



Cloud **First**

rhipe is a born in the cloud, value add software distributor, supporting over 3,000 IT resellers across Asia Pacific. Our business model is focused on pay-as-you-consume cloud software subscriptions and maximising our customer's investment in cloud software.



Channel **First**

Value added services for our resellers including technical advice and support, marketing, consulting, and 24/7 support-as-a-service.

These services are aimed at driving the ongoing growth in consumption of cloud software subscriptions.

Our Offices

400
EMPLOYEES

28%
GROWTH



AUCKLAND



BANGKOK



BRISBANE



COLOMBO



JAKARTA



KUALA
LUMPUR



MANILA



MELBOURNE



SEOUL



SINGAPORE



SYDNEY



TOKYO

Strategic Operating Divisions



CLLOUD LICENCING

Software sold and implemented by IT service providers.
Monthly pay-as-you-go cloud licencing subscriptions.



CLLOUD SOLUTIONS

Professional services and support people to help Vendors and
Service Providers with technical needs.



CLLOUD OPERATIONS

Internally developed software subscription management platform.
Cloud first, digital first marketing to drive demand for channel
partners.



Chairman's Report

Dear Shareholder,

I began thinking about this letter back in January while on holiday in Japan. I was reflecting on a strong H1 performance for rhipe and the exciting times ahead for H2. While we had seen some potential concerning trends with COVID-19 in China, I think we all assumed it would simply go away. Only on my return to Australia in early February did I realise this was very different. That all seems a distant reality. I write to you from my home like many other people around the world. COVID-19 has taken over our lives and I suspect transformed many things forever. The implications for businesses, our families and friends, our customers, our employees, and our shareholders are profound and will continue to be felt for several years to come.

Our Group again delivered strong results with Sales of \$325.2m, up 29% year on year and revenue of \$55.8m, up 15% year on year.

Although the impact has been dramatic across many geographies and businesses, I do hope we will begin to see a steady recovery of the economies towards the end of 2020 together with a more positive business sentiment in the months thereafter.



Gary Cox, Non-Executive Chairman

During the last six months I have been so pleased by the continued dedication our leadership and employees have displayed in very difficult circumstances to ensure our partners and customers are able to conduct their business with minimal impact. The resilience of each and every employee has been amazing. I am unable to acknowledge all of the heroic efforts of our team but needless to say there are many.

At rhipe we have always looked to the long-term and ensuring our business holistically is resilient to change and able to capitalise on opportunity. Since January, our Leadership team has doubled down our operational priorities to ensure our long-term success and health of our business is secure.

Health, Safety and Wellbeing

Our employees, their families and our partners continue to remain our primary priority as always, but during this difficult period we have resolved to provide a series of work and support options that permit all of our staff to work in an environment most suitable for them.

Fiscal and Operational Accountability

Our leadership implemented a very prudent series of actions during H2, which permitted rhipe to perform well and ensure not only our core operating metrics remain strong but also our cash position remained strong. During H2, rhipe undertook a capital raise of \$32.5m, net of transaction cost, to further strengthen our cash reserves while providing a platform that allows for strategic acquisitions should they arise.

Long-Term Perspective

Our annuity model permits rhipe to consider investments that allow for a sustainable growth of both revenue and profit. We continue to focus on critical geographic expansion, solution offerings, vendor and partner expansion.

People, Culture & Talent

Of significance to rhipe is its culture and people strategy. This continues to be a key pillar in the strategic focus of the Board and the leadership team, with a new Board sub committee established during the year to focus on culture. This continued and imperative focus on culture should provide the platform for innovation and sustainable growth in the future.

Acceptance and adoption of public and private cloud computing continues to show no sign of slow down across the Asia Pacific market. rhipe's cloud subscription business positions the Company well to further capitalise this opportunity across Asia Pacific, and was proven by the significant increase in managed seats of Microsoft Office 365 and Microsoft Azure revenue in FY20. During H2, this was further bolstered by demand for new work from home infrastructure and business continuity solutions.

Our Group again delivered strong results with Sales of \$325.2m, up 29% year on year with revenue of \$55.8M, up 15% year on year. Our operating profit of \$15.0m, excluding investment in our new joint venture in Japan, represented annual growth of 17% and is especially pleasing given the unprecedented business environment. This strong performance is reinforcement of strong execution, leadership and fiscal management across the business.

Growth was led from our deep relationship with Microsoft and we were delighted with the support and acknowledgment in 2021 to be named again as a globally managed account. Other key vendors delivered strong annual growth of 19% and these vendors represent a significant opportunity to add to our portfolio mix in the future.

rhipe continues to expand its offering of value add support services to its partners to drive value added services to end customers. These solutions are a strategic pillar within our growth framework as we seek to balance our revenue from software licencing with value add services. FY20 has seen further investment in intellectual property via the acquisition of SmartEncrypt, an encryption product aimed at small and medium sized businesses (SMB), continued investment in our Microsoft Dynamics offerings and our support-as-a-service business unit. These areas will continue to be a focus for investment as we move into FY21.

Our continued strategy to build out our footprint in key fast developing Asian markets has provided rhipe with the opportunity to build market share and capitalise on the changing IT industry.

Our continued investment in the market opportunity is further demonstrated by our announcement in August last year of a joint venture in Japan with Japan Business Systems Co., Ltd. Japan offers a significant growth opportunity for rhipe as Japan begins to accelerate its adoption of cloud-based subscription software products into the SMB segment. The Company is excited by the market potential in Japan. FY21 will continue to be a year of investment to accelerate the growth of our business in Japan.

With a recurring revenue model, rhipe enters 2021 in a strong position. Growth will continue to be driven by Microsoft products, but as importantly by the addition of new solutions offerings and the addition of new vendors, to meet the increasing demand of the new cloud paradigm.

On behalf of the Board we would like to thank all our stakeholders for believing in rhipe's future and believing in the leadership team to continue to deliver above strong growth while building a long-term sustainable growth-oriented business.

The Board sincerely acknowledges the outstanding efforts of the entire staff at rhipe and its partners and congratulates them for delivering another year of strong results.

To all our employees across APAC, our customers and partners and our shareholders please stay safe and healthy during these challenging times.

Yours Sincerely,



Gary Cox
Chairman



CEO Report

rhipe is a leading wholesale provider of subscription-based cloud licences, infrastructure and services in the Asia Pacific region ("APAC"). rhipe's 3,000+ customers are Information Technology ("IT") service providers that have a need to move their own end-user clients onto cloud-based technology. rhipe enables these resellers with marketing, enablement services, sales and technical support plus subscription billing capabilities.

During FY20, rhipe announced a joint venture in Japan which will provide access to a market many times larger than our current market and which currently has a low cloud penetration rate.

Once enabled, the IT service providers become equipped to move clients onto Pay-As-You-Go ("PAYG") cloud-based software and platforms from key technology vendors like Microsoft, Citrix, VMWare, RedHat, Veeam, Trend Micro and Zimbra. rhipe's largest vendor relationship is with Microsoft with 75% of sales being Microsoft products. rhipe is a wholesale (indirect) distributor of Microsoft cloud-based technology such as Office 365 and Microsoft Azure in Australia, New Zealand, Singapore, Malaysia, Thailand, Indonesia, The Philippines, Sri Lanka, South Korea and most recently in Japan.



Dominic O'Hanlon, Managing Director and CEO

During the 2020 Financial Year ("FY20") rhipe added annual sales growth of over 50% for Microsoft Office 365 and 120% for Microsoft Azure.

The FY20 expansion in Japan is via 80% owned joint-venture ("JV") with a leading Microsoft partner, Japan Business Systems Co.,Ltd ("JBS"). The Japanese market is one of the largest in the world for Microsoft, yet cloud penetration is still low compared to many other developed countries. rhipe believes that an expansion of our business in Japan will provide the Company with longer-term access to a significantly larger addressable market, many times larger than our existing largest Australia.

Over the 12 months from July 1, 2019 to June 30, 2020, billable end user Microsoft Office 365 seats deployed grew from 450,000 to 630,000, with growth in Microsoft Azure tenants from 590 to 1,700 in the same period.

In addition to rhipe's ongoing growth in cloud-based licencing programs, rhipe has invested in FY20 to continue building out value-added services for our IT reseller clients. These offerings, collectively known as rhipe Solutions, include 24x7 technical support and consulting as a service for

products such as Microsoft Office 365 and Dynamics365. rhipe's technical support team has a significant contract with a major vendor that now supports over 150 staff in Asia with revenue contribution in excess of \$10m to the FY20 results.

In particular, I would like to highlight a number of significant achievements in the 2020 Financial Year:

- \$312m in software licence sales with revenue of \$42.4m. This represents a year over year growth in sales and revenue of 28% and 9% respectively
- Growth in rhipe solutions of 41% with revenue of \$13.5m and gross profit of \$10m despite material investment in a number of areas in the Solutions business, notably Dynamics and support-as-a-service, and
- The August 2019 acquisition of Melbourne-based SmartEncrypt, a simple and inexpensive cloud encryption software product which rhipe plans to take to market in FY21 as our first own commercial product offering, and
- Completion of a \$32.5m, net of transaction cost, capital raise in April 2020 to fund future acquisitions and growth opportunities.

Like many businesses, rhipe was affected by the devastating impact of COVID-19 during the second half of FY20. rhipe's resellers largely service the small and medium sized business (SMB) segment of the market, rather than large corporate enterprises. As a result, the impact of COVID-19 on rhipe's business has been in line with the impact on different segments and industry verticals within the SMB market across the APAC region.

The key impacts of COVID-19 on rhipe's business have been as follows:

- More end-user clients and IT resellers have raced to adopt cloud-based collaboration tools so that staff can productively work from home
- Other end-user clients and other IT resellers have faced significant business decline because their staff have not been able to work from home. Customers in hospitality and travel industries are examples
- rhipe has witnessed an increase in customers asking for extended payment terms and in customers being unable to pay their bills. As a result, rhipe has increased its provision for doubtful debts to cover the expected increase in business failures in FY21 or beyond
- Microsoft extended an offer of free Office 365 seats to new clients for six months as a result of COVID-19. rhipe added approximately 100,000 such seats in FY20, with no incremental revenue. While this slowed rhipe's sales growth, it does also present an opportunity for rhipe in FY21 when some of these free seats will undoubtedly convert to paid licences
- The speed of rhipe's investment in Japan slowed with no additional headcount added after the outbreak of COVID-19 in Tokyo
- rhipe's Dynamics365 consulting practice saw a dramatic decline in project workload. While the Dynamics365 pipeline has improved, the business underperformed to target in FY20

- Operating Expenses have been constrained with a significant slowdown in travel, marketing, and headcount related costs.

While some of these impacts have clearly been positive for rhipe in the medium to long term, others have had a negative impact on our business in FY20. Despite this, the business has performed very well by generating an operating profit of \$13.8m for the year after incurring \$1.3m investment in Japan. This achievement is within 2% of rhipe's original guidance for the full year in a pre-COVID world.

I believe that rhipe's resilience during this time provides a clear validation of ongoing investment in further business diversity. Just a few years ago rhipe was focused exclusively on selling software licences to private data centres. Since this time, rhipe has invested in public cloud programs such as Microsoft CSP, in 24x7 support services, and in other rhipe services and solutions. While not all of these investments have yet paid off, others have performed well. And, without investment in these new business opportunities, rhipe would have been much more exposed to the impact of our global pandemic.

In FY21 rhipe is unclear what to expect as a result of the ongoing impact of COVID-19. If business continues in a similar manner to what we witnessed in the second half of FY20 then we should expect to see continued growth in Sales, Gross revenue, and Operating Profit.

FY21 is also likely to be a year of continued investment in business diversity. We have been incredibly successful in growing our existing Microsoft business but it is now increasingly important for us to expand our offerings with new vendors,

new value-added services and perhaps new acquisitions. This may require us to further invest in building or buying systems to support our ongoing growth. It may require us to invest in recruitment, training, and development of our people. It may require us to invest in business process improvement, marketing, sales and support. But, despite this, the management team of rhipe will continue to have a clear focus on cost management so that we can deliver short as well as long term results for our shareholders.

On behalf of the whole rhipe management team I would like to thank our staff for a fantastic FY20. It has no doubt been one of the most challenging years in all of our careers. Our business resilience is not only a testament to our business model. It is a testament to your ongoing hard work.

In addition, I would like to thank our key vendors and partners for their continued support. We have many great relationships that we are privileged to have now and into the future.

To our shareholders we say thanks for your ongoing belief. We are looking forward to another great year in FY21.



Dominic O'Hanlon
Managing Director and CEO



2020 Financial Report

OPERATING AND FINANCIAL REVIEW

rhipe Limited and Controlled Entities

Principal Activities and Significant Changes in Nature of Activities

The principal activity of rhipe Limited (“rhipe” or the “Company”) and controlled entities (the “Group”) during the financial year was the sale and support of subscription software licences to over 3,000 IT service provider resellers in the Asia Pacific region, who support the small and medium sized businesses in this region. rhipe has established sales momentum driven by its vision of a “world without shelfware” and has become one of the leading Asia Pacific platforms for monthly Pay-As-You-Go (“PAYG”) cloud software licence subscriptions. International software vendors such as Microsoft, VMWare, Citrix, Red Hat, Trend Micro, Veeam, and Synacor all rely on rhipe’s ecosystem of partners, technical resources and licence subscription management platform to build, grow and support the consumption of their cloud licence programs. In addition, rhipe also provides value add services to its resellers in Asia Pacific including rhipe’s 24x7 technical support desk, consulting services and migration to the cloud services. Our technical support offering is now also supporting one of rhipe’s software vendors to service the vendor’s end customers.

Operating Results and Review of Operations for the Year

Although the 12-month period to 30 June 2020 (“FY20”) has been impacted by the global pandemic crisis, particularly the second half of the financial year, rhipe has continued to invest in operations and people that are focused on the IT industry transition to the cloud business model. rhipe has three integrated business divisions;

1. Cloud Licencing (private, public and hybrid cloud IT environments),
2. Cloud Solutions (consulting and support services), and
3. Cloud Operations (subscription billing, provisioning, support and marketing).

rhipe has taken much of the know-how from many years of experience in software subscription management to build rhipe’s own subscription management platform known as PRISM. Our platform, when combined with rhipe’s other value-added services, such as technical support, provide a strong differentiator in the market and will allow rhipe to continue building on its strong market position in the countries in which rhipe operates.

rhipe Licencing

In FY20 rhipe continued to invest both in its public cloud offering and its longer-established private cloud business. Whereas rhipe has provided licences to private-cloud data centres for more than 15 years, rhipe only launched its public cloud business in the financial

year to 30 June 2016 ("FY16"). rhipe did this in anticipation of an industry shift away from on-premise and private data centre software implementations towards hyper-scale public cloud software and infrastructure. In FY16 rhipe was appointed by Microsoft as an Indirect Cloud Solutions Provider ("CSP") to build a channel of resellers for Microsoft's key public cloud products (Microsoft Office 365 and Microsoft Azure). Growth in Office 365 ("O365") and Azure has continued to underpin the growth in revenue and profit of the Company. In FY20, rhipe experienced growth in O365 sales in excess of 50% with sales of Microsoft Azure growing at more than 120% despite the impact of the pandemic crisis on small and medium sized enterprises in our geographic footprint. Sales of Microsoft's public cloud products now represent almost 40% of total licencing sales and delivered around two-thirds of the Company's licencing sales growth in FY20.

At the beginning of FY20, rhipe's partners were consuming approximately 600,000 licences or 'seats' of O365 per month, including around 150,000 zero priced seats for the education sector. As at 30 June 2020 the monthly consumption of O365 seats is over 1.5m seats of licences, with more than 630,000 paid seats, an increase of 40% in paid seats in the last 12 months. Annualized Run Rate ("ARR") Sales from CSP is now over \$123m with Office365 contributing \$84m and Azure more than \$39m. This compares to total ARR Sales from CSP of \$80m twelve months ago and \$42m at June 2018.

Although migration to public cloud has been a core driver of our revenue growth rate during the year, we continue to see growth in our legacy private cloud data centre licencing business.

Growth in the Microsoft private cloud licencing market was 8% across all of rhipe's markets in the current financial

year with Asia delivering sales growth of 22% year on year. We continue to see our partners growing their private cloud licencing usage as they seek to maximise their investments in their data centres. As data centres reach capacity or equipment becomes end of life this will often result in a gradual transition to the public cloud.

Although Microsoft products deliver around 75% of our licencing sales, rhipe continues to invest in other software vendors including VMWare, Citrix, Veeam, Trend Micro and Redhat. Our strategy is to invest and grow these areas of the business as well as add to our portfolio of other software vendors.

Growth in these non-Microsoft products in FY20 was approximately 20%, similar to the growth experience in the prior year.

rhipe Solutions

rhipe Solutions includes the provision of a number of value-add services aimed at enhancing the services offered to our partners and their end customers. These services include a technical consulting group focused on providing value add services centred on products like Microsoft SharePoint and Azure, plus our recently acquired Microsoft Dynamics business and a large 24x7 support team to assist rhipe's resellers and, more recently, one of rhipe's key vendors. In addition, during FY20 rhipe acquired a small encryption software business, Network 2 Share Pty Limited, which is developing a simple, easy to use encryption product called SmartEncrypt. We have continued to invest in this product in FY20 with the intention of commencing to distribute this product to our network of partners in FY21.

The consulting team helps with technical implementation services to deepen our relationships with resellers while also assisting to drive the ongoing sale of

cloud software licences. Over the last 12 months we have invested in expanding our Microsoft Dynamics business by creating a channel focused Dynamics practice alongside the Dynamics business we acquired in FY19. rhipe will continue to invest and refine the strategy for our consulting services especially in relation to public cloud growth opportunities for products such as Microsoft Azure and Microsoft Dynamics365.

The 24x7 technical support team continued to expand in FY20 as a result of the growth in a support contract for one of rhipe's software vendors. At the end of FY20, rhipe had 156 employees in this support team, primarily based in Philippines, compared to 135 employees at June 2019.

In FY21 we intend to continue to invest in the service offering provided by rhipe Solutions and expansion of the service offering into related areas. Our strategy is to grow the share of the Group's revenue and profitability derived from these value-add services.

Overall Results

The results presented in this financial report reflect the operations of the Group from 1 July 2019 to 30 June 2020.

| Financial Summary (\$'000) | FY20 | FY19 | Change |
|--------------------------------------|----------|----------|--------|
| Sales - Software Products & Services | 325,201 | 252,537 | +29% |
| Revenue | 55,828 | 48,356 | +15% |
| Gross Profit | 52,380 | 45,880 | +14% |
| Operating Expenses | (38,625) | (33,038) | +17% |
| Operating Profit | 13,755 | 12,842 | +7% |
| Operating Profit (excluding Japan) | 15,009 | 12,842 | +17% |
| Reported EBITDA | 11,566 | 10,017 | +15% |
| Profit After Tax | 4,799 | 6,214 | (23%) |

For FY20, the Group reported another increase in profitability despite the challenging economic conditions caused by the worldwide pandemic with operating profit of \$13.8m, an increase of 7% from the prior year. The growth in profitability of the Group has been driven by:

1. Investments made in the business over the past few years, notably in our public cloud capabilities, our Asian operation and our 24x7 support activities, all of which have produced strong sales and revenue growth in FY20
2. Attracting new customers or partners into the rhipe ecosystem to increase our customer base in all countries; and
3. Careful cost management which has allowed us to continue to invest in a number of areas while also delivering an increase in profitability. This was particularly evident in the second half of FY20 where the pandemic reduced revenue growth which was offset by lower cost growth.

Sales

FY20 sales growth of \$73m, compared to \$56m in FY19, was driven by the areas of the business where we have made material investments, notably our public cloud business with Microsoft CSP (Microsoft Office 365 and Azure). Over the last 12 months, sales from these products grew by almost 70% YoY, from \$14m in FY17 to \$33m in FY18, to \$65m in FY19 and to \$110m in FY20. The growth in Microsoft CSP delivered circa two thirds of the sales growth in FY20 .

rhipe's longer established Microsoft private cloud business also continued to grow in FY20 with growth of 8% in FY20 broadly similar to growth rates in this area for the last two years. This growth was mainly

driven by expansion in our Asian and New Zealand operations where local private cloud sales of Microsoft licences grew by 22% and 17% respectively year on year.

Growth from our non-Microsoft vendors has also been strong, with a year on year increase of around 20% versus 19% in FY19, driven by continued focus on investing in our capabilities and marketing of these complementary products.

Revenue

Growth in Group revenue for FY20 of 15% was driven by growth in sales in our Licencing business offset by the decline in sales margin due to lower standard software vendor rebates and lower 'strategic growth' rebates received from a key software vendor. In addition, sales margin also declined due to growth in lower margin Asia region and also strong growth in Microsoft Azure which is typically at a lower margin than software licences. Growth in rhipe Solutions revenue in FY20 was \$5.3m or 54% helped by the acquisition of our Dynamics business in March 2019. Excluding the impact of the acquisition revenue growth was around 40% driven by increased 24x7 support activities for one of rhipe's key vendors.

Operating Expenses

Operating expenses in FY20 increased by \$5.6m or 17% year on year, with the majority of this increase driven by investment in front office headcount to help support the sales and revenue growth experienced by the Licencing business and also additional investment into building our Solutions business. The number of full-time equivalent employees (FTE) across the Group has increased from 313 at 30 June 2019 to around 400 12 months later.

It should also be noted that we have continued to include property lease costs in "Operating Expenses" whereas in our Consolidated Statement of Comprehensive Income, the property lease costs are included in amortisation cost line and interest from lease liabilities in finance cost line in accordance with the revised AASB 16.

Operating Profit and EBITDA

The table below outlines the operating profit and underlying EBITDA, key performance measures for the management and the Company, contribution from the Group for the year ending June 30, 2020:

Adjustments between Operating profit and EBITDA

| (\$'000) | FY20 | FY19 |
|---|----------------|----------------|
| Operating profit | 13,755 | 12,842 |
| <i>Less</i> | | |
| Foreign exchange (loss) / gain | (97) | 291 |
| Restructuring and transaction costs | (1,068) | (473) |
| Impairment expense | (3,425) | (20) |
| Share-based payments expense (non-cash) | (3,112) | (2,623) |
| Impact of AASB16 | 2,013 | - |
| Fair value adjustment to deferred consideration | 3,500 | - |
| Total adjustments | (2,189) | (2,825) |
| EBITDA | 11,566 | 10,017 |
| Interest income | 111 | 258 |
| Interest on leases | (142) | - |
| Non-controlling interest | (216) | - |
| Impact of AASB16 - Lease depreciation | (1,872) | - |
| Depreciation and amortisation | (2,297) | (1,784) |
| Profit/(loss) before tax | 7,150 | 8,491 |
| Tax expense | 2,351 | 2,277 |
| Profit after tax | 4,799 | 6,214 |

Operating profit in FY20 grew by \$0.9m or 7% year on year with EBITDA growing by \$1.5m or 16% over the same period. The

profit growth was despite the challenging economic environment caused by the global pandemic and also the investment that the Company is making in Japan and also our Solutions business.

Other non operating costs include:

- Foreign exchange losses of \$97k compared to a gain of \$291k in FY19 driven by the strengthening of US dollar
- Restructuring and transaction cost of almost \$1.1m included \$0.5m of redundancy cost incurred in June 2020 following an internal restructure
- Impairment expense of \$3.4m driven by a write off of goodwill associated with the acquisition of DBITS
- Share-based payment expenses relate to FY19 and FY20 Long Term Incentives
- Fair value adjustment of \$3.5m arising due to non triggering of earn out payment for DBITS

Investment & Capital Expenditure

rhipe continues to invest in its operations and people in areas that management believe will provide future profitable sustainable competitive advantages. In the 12 months to 30 June 2020, the Group invested \$1.4m in fixed asset spend, double the previous year as we invested in a new office in the Philippines to accommodate the significant growth already experienced and planned for the future.

In addition, the Company invested \$2.9m in developing software intangible assets with around \$0.8m invested in our cloud software encryption product SmartEncrypt and the remainder of \$2.1m invested in PRISM our software subscription

management platform. The investment in PRISM is around 10% lower than in the previous financial year.

Cash & Returns to Shareholders

During FY20 the Company undertook a capital raise of \$32.5m, net of costs, to bolster cash resources with the aim of being able to act quickly for any acquisitions opportunities that may arise. The Directors believe that the Group is in a strong and stable financial position to continue to grow and invest in the business. At 30 June 2020, the Group had cash of \$60.9m compared to a cash balance of \$25.5m at 30 June 2019. Excluding the capital raise the Company's cash position at 30 June 2020 would have been \$28.4m, an increase of 11% compare to 30 June 2019.

The \$2.9m increase in cash resources excluding the capital raise is after distributing \$2.8m to shareholders via dividends, investment in SmartEncrypt and PRISM of \$2.9m, the acquisition of SmartEncrypt with a cash payment of \$2m made in August 2019 and investment in fixed assets of \$1.4m. Net cashflow from operating activities in FY20 increased from \$12.1m in FY19 to \$13.7m broadly in line with our operating profit for each year and despite the economic turmoil inflicted by the global pandemic.

As a result of the strong year end cash position the Board has approved a final fully franked dividend of 2.0 cents per share.



Directors' Report

Your Directors present their report on the Group consisting of rhipe Limited and its controlled entities for the financial year ended 30 June 2020. The information in the preceding Operating and Financial Review forms part of this Directors' Report for the financial year ended 30 June 2020 and is to be read in conjunction with the following information.

General Information Directors & other Executives

The following people were Directors of rhipe Limited during or since the end of the financial year up to the date of this report:

- | | | |
|--------------------|-------------------|-------------------|
| • Gary Cox | • Mark Pierce | • Inese Kingsmill |
| • Dominic O'Hanlon | • Michael Tierney | • Olivier Dispas |
| • Dawn Edmonds | | |

Information relating to Directors, other Executives and Company Secretary



Gary Cox, Non-executive Chairman

Experience and Qualifications

Appointed 26 March 2019

Gary Cox has over 35 years of global experience in the technology industry across the UK, USA, Asia, Japan and ANZ in senior leadership roles with Microsoft, EMC and Oracle. Recently Mr Cox has held both strategic consulting and board appointments for technology organisations based in Australia with global growth focus and leveraging both his broad business management and extensive experience in cloud and managed services.

His last position at Microsoft was VP Enterprise and Partner business for Asia (Japan, India, APAC, Hong Kong, Taiwan) excluding China. He retained responsibility for all key industry segments throughout Asia across 16 subsidiaries which encompassed all Microsoft's large customers across the commercial and public sector markets.

Interest in Shares, Options and Performance rights

None

Special Responsibilities

Remuneration and Nomination Committee and People and Culture Committee

Directorships held in other listed entities during the three years prior to the current year

None



Dominic O'Hanlon, Managing Director & Chief Executive Officer

Experience and Qualifications

Appointed as Managing Director 15 June 2015, Chief Executive Officer from 5 August 2014

Mr O'Hanlon is a well-known and successful technology entrepreneur who has over 25 years' experience in software development, marketing, sales, implementation and support. Dominic has served in prior roles as CEO, Chief Strategy Officer, NED and Chairman for numerous high growth technology companies. Dominic is a Fellow of the Australian Institute of Company Directors.

Interest in Shares, Options and Performance rights

3,057,840 ordinary shares and 1,233,075 performance rights

Special Responsibilities

None

Directorships held in other listed entities during the three years prior to the current year

None



Dawn Edmonds, Non-executive Director

Experience and Qualifications

Appointed 10 April 2014. Ceased Interim Chief Executive Officer on 5 August 2014 upon appointment of Dominic O'Hanlon.

Dawn Edmonds is one of the founders of rhipe (then NewLease) and has nearly 20 years' experience in the IT industry. Until the end of 2016, Dawn served as the Chief Operating Officer for the Company and was responsible for the management of systems, process and performance as well as the day-to-day operations of the organisation. Dawn has led the development and implementation of processes and systems that have been recognised as best practice by vendors. Prior to starting NewLease in 2003, she was instrumental in building two other successful start up businesses.

Dawn has received industry awards for Women in IT and Entrepreneurship and continues to be passionate about diversity in the workplace and the IT industry.

Interest in Shares, Options and Performance rights

2,702,294 ordinary shares

Special Responsibilities

Remuneration and Nomination Committee (Chair) and People and Culture Committee

Directorships held in other listed entities during the three years prior to the current year

None



Mark Pierce, Non-executive Director

Experience and Qualifications

Appointed 10 April 2014

Mr Pierce has over 25 years' corporate finance and business experience gained from senior positions held at Westpac, Macquarie Bank, Rabobank and Credit Suisse. Since 2009, he has worked as an independent advisor and company director. In this role, he has extended his experience to include a deep understanding of business and product development, company operations, and corporate governance. In 2016, Mr Pierce co-founded a finance business, offering specialist finance to the medical sector. This business has grown to over \$100m of assets and continues to grow its assets and profitability with significant institutional funding support. Mark is a Graduate of the Australian Institute of Company Directors.

Interest in Shares, Options and Performance rights

320,000 ordinary shares

Special Responsibilities

Audit and Risk Committee (Chair)

Directorships held in other listed entities during the three years prior to the current year

None



Michael Tierney, Non-executive Director

Experience and Qualifications

Appointed 27 January 2017

Mr Tierney brings to the Company over 30 years' experience in global financial markets, most recently as Managing Director and Head of Leverage Finance at Credit Suisse for the Asia Pacific region. Mr Tierney has worked across a wide range of industries and clients advising and executing financing and M&A strategies to enable them to achieve their strategic objectives. He has extensive governance experience fulfilling reporting requirements to APRA and ASIC and is a Senior Fellow of FINSIA

Interest in Shares, Options and Performance rights

2,007,191 ordinary shares

Special Responsibilities

Audit and Risk Committee

Directorships held in other listed entities during the three years prior to the current year

None



Inese Kingsmill, Non-executive Director

Experience and Qualifications

Appointed 15 April 2019

Over the course of a career spanning over 25 years, Inese Kingsmill has earned a reputation as a growth focused and customer oriented business leader. Her end-to-end business experience has spanned leadership across a broad spectrum of accountabilities at Microsoft, Telstra and Virgin Australia. Transformation and growth have been common themes underpinning Inese's career.

In addition to her corporate career, Inese was a member of the Board and Chair of the Australian Association of National Advertisers (AANA), Australia's peak media, marketing and advertising industry body. She also currently serves on the boards of Spirit IT&T (ASX:ST1), NobleOak Life Limited and WorkVentures.

With a personal interest in fostering innovation in Australian business, Inese is currently director and co-founder of Breakfast Epiphanies Consulting Group, a privately held management consulting practice engaged in digital transformation, strategy planning and leadership development.

Interest in Shares, Options and Performance rights

32,904 ordinary shares

Special Responsibilities

People and Culture Committee (Chair) Audit and Risk Committee

Directorships held in other listed entities during the three years prior to the current year

Spirit Telecom Limited - From 1 July 2020



Olivier Dispas, Non-executive Director

Experience and Qualifications

Appointed 15 April 2019

Olivier Dispas has spent more than 25 years in the IT industry, focused on channel and partner strategy and sales leadership. Most recently, he led the worldwide partner sales and strategy team focusing on licencing solution partners at Microsoft, driving deal and investment negotiation and long-term growth planning. He serves as an advisor to the boards of Enlyft and Quantiq, and continues to provide consulting and coaching services to partner organisations within the industry.

Interest in Shares, Options and Performance rights

None

Special Responsibilities

Remuneration and Nomination Committee and Audit and Risk Committee

Directorships held in other listed entities during the three years prior to the current year

None



Mark McLellan, Chief Financial Officer and Chief Operating Officer

Experience and Qualifications

Mark joined rhipe in November 2016 as Chief Financial Officer and was appointed Chief Operating Officer in March 2018. Mark qualified as a member of the Institute of Chartered Accountants of Scotland in 1997 and also holds a B.A. (Hons) Degree in Economics. Mark has previously worked for PricewaterhouseCoopers and Ernst & Young. Prior to joining rhipe, Mark worked for The Royal Bank of Scotland plc for 12 years latterly in their Strategy and Corporate Development team. Mark has extensive experience in strategic planning, financial and capital allocation modelling and mergers and acquisitions.

Interest in Shares, Options and Performance rights

369,984 ordinary shares
739,846 performance rights

Special Responsibilities

None

Directorships held in other listed entities during the three years prior to the current year

None



Chris Sharp, Group Executive - Products & Programs

Experience and Qualifications

Chris joined rhipe in October 2014 as Chief Strategy Officer and was appointed Group Executive - Products & Programs in July 2019. Chris holds undergraduate qualifications from USQ and a Master of Business Administration from AIB. Chris has worked in the IT industry for most of his career and has held senior management roles for Red Hat and Microsoft prior to joining rhipe. Chris has spent the last 17 years in Singapore helping Multinational companies like Microsoft and rhipe to expand their partner channel throughout Asia. Chris has extensive experience in channel strategy, partner planning and market development.

Interest in Shares, Options and Performance rights

779,225 ordinary shares
542,551 performance rights

Special Responsibilities

None

Directorships held in other listed entities during the three years prior to the current year

None



Warren Nolan, Group Executive - Solutions & Professional Services

Experience and Qualifications

Warren Nolan joined rhipe in 2005. Warren is an experienced senior executive with a deep understanding of strategic planning, channel development, relationship management and sales execution. He has been at the forefront of rhipe's go-to-market strategy in the early stages of rhipe's evolution. Warren was inducted into the Australian Reseller News ICT industry Hall of Fame in 2017, recognising his contribution to the development of Australian's Cloud channel. His previous experience includes senior management positions in the banking & finance, manufacturing and recruitment sectors.

Interest in Shares, Options and Performance rights

1,028,487 ordinary shares
616,535 performance rights

Special Responsibilities

None

Directorships held in other listed entities during the three years prior to the current year

None



Marika White, Company Secretary, non KMP

Experience and Qualifications

Appointed 24 May 2019

Marika is Executive Director of Emerson Operations and provides tailored company secretarial and compliance services to a range of public, private and not-for-profit organisations in Australia and internationally. Marika has extensive company secretarial experience, both in Australia and overseas, and is a member of the Australian Institute of Company Directors and the Governance Institute of Australia.

Interest in Shares, Options and Performance rights

None

Special Responsibilities

None

Directorships held in other listed entities during the three years prior to the current year

None

Mike Hill, Non-executive Chairman

Retired from the board 26 March 2019, no involvement in the company in FY20

Laurence Sellers, Non-executive Director

Retired from the board 8 November 2018, no involvement in the company in FY20

Meeting of Directors

During the financial year, 27 Meetings of Directors were held. The Audit and Risk Committee, the Remuneration and Nomination Committee and the

People and Culture Committee met during the reporting period. Attendances by each Director during the year were as follows:

| | Directors' Meeting | | Audit & Risk | | Remuneration & Nomination | | People & Culture | |
|------------------|---------------------------|-----------------|---------------------------|-----------------|---------------------------|-----------------|---------------------------|-----------------|
| | Number eligible to attend | Number attended | Number eligible to attend | Number attended | Number eligible to attend | Number attended | Number eligible to attend | Number attended |
| Gary Cox | 27 | 27 | - | - | 3 | 3 | 3 | 3 |
| Olivier Dispas | 27 | 25 | 4 | 3 | 3 | 3 | - | - |
| Dawn Edmonds | 27 | 27 | - | - | 3 | 3 | 3 | 3 |
| Inese Kingsmill | 27 | 27 | 4 | 4 | - | - | 3 | 3 |
| Dominic O'Hanlon | 27 | 26 | - | - | - | - | - | - |
| Mark Pierce | 27 | 27 | 4 | 4 | - | - | - | - |
| Michael Tierney | 27 | 24 | 4 | 4 | | | | |

rhipe Limited Risk Governance Framework

The rhipe Limited risk governance framework outlines how risk is managed in the Company including maintenance and ownership of the risk register and also the Company's risk appetite statement is determined.

The risk governance framework is reviewed on an annual basis by the Board to ensure that the Company is operating pursuant to the risk appetite set by the Board.

Overview of Board Responsibilities for Risk Management

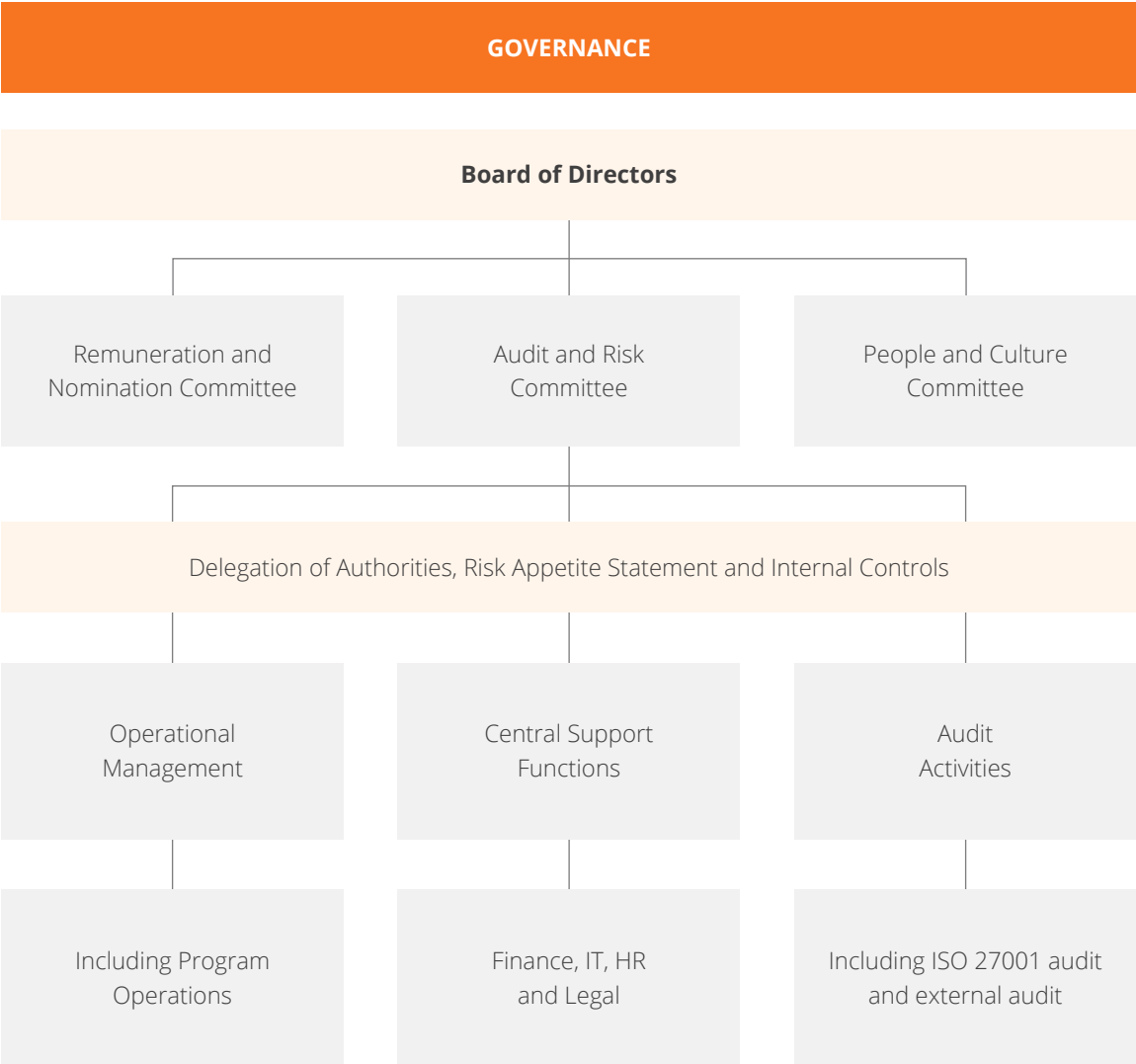
Below is a summary of the risk management responsibilities of the Board:

- Identify and assess the principal risks facing the Company
- Determine risks the organisation is willing to take or "risk appetite"
- Ensure the risk profile of the Company is kept under review and measures to manage or mitigate the principal risks are taken
- Regular monitoring and review of identified risks is undertaken
- Regular risk management communication takes place to and from the board
- Ensure that risk management is incorporated within normal processes; and
- Review, approve and monitor system of internal controls including those designed to ensure the integrity of budgets, financial statements and other reporting.

To assist the Board in discharging its responsibilities in relation to risk management, the Board has approved this risk governance framework and has delegated certain activities to the Audit and Risk Committee. The Board has also

delegated various authorities to the Managing Director and CEO, to enable the management of the Company on a day to day basis are carried out within authorities approved by the Board.

An outline of the risk governance framework is shown below:



The Managing Director, CEO and the Chief Financial Officer are responsible for providing a declaration to the Board regarding the half and full-year financial statements in accordance with section

295A of the Corporations Act 2001 and recommendation 4.2 of the ASX Principles and for providing assurance to the Board that the Company's financial and non-

financial risk management and internal control systems are operating effectively.

Audit and Risk Committee

The Board has merged an Audit Committee and Risk Committee into Audit and Risk Committee on 1 July 2019 to assist the Board in its responsibilities regarding continuous disclosure, financial reporting, legal and regulatory compliance, managing the Company's risk register and its internal control systems.

The Committee oversees the internal controls, policies and procedures which the Company has established to identify and manage key risks and where required the Committee will review matters on behalf of the Board and make recommendations, which are then referred to the Board for resolution (if the committee has an advisory role) or resolve matters entirely (if the committee has been delegated authority), which is then reported to the Board.

The roles and responsibilities of the Committee are set out in the Audit and Risk Committee Charter.

The CEO, Managing Director, the Chief Financial Officer, Chief Operating Officer, Company Secretary, General Counsel, external Auditor and any other relevant third-party advisors or personnel may also attend meetings of the Audit and Risk Committee.

Risk Appetite

The Board also have in place a Risk Appetite statement that is reviewed and updated annually as part of the business

planning cycle and reflects the expected financial performance of the Company in the next 12 months.

The risk appetite takes into account the level of risk and earnings volatility that the Board is prepared to take to achieve strategic objectives and offers management practical guidance around risk appetite when managing the business on a day to day basis. In determining its risk appetite, the Board considers:

- Updates provided by senior management on key strategic and operational matters
- The Group's annual budgeting process
- Significant matters that have been reserved for the Board
- Risk factors identified by the Board and Management and included in the risk register; and
- The reports of the external Auditor.

Key Material Business Risks

rhipe's activities and the industry that it operates within give rise to a broad range of risks. These risks are identified by the Board and Management and are recorded in the Company's risk register. Each identified risk is allocated a Senior Management owner who has responsibility to ensure any appropriate internal controls are in place and operating to provide mitigation, or ensure the Board is regularly informed on any material changes in the identified risk. rhipe continues to improve the identification, prioritisation and management of risks across the business. There is a strong focus to increase Board visibility into risks across the business to promote prudent risk management.

The Company's risk register includes the following key risks categorised under Strategic Risks, People Risks, Operational Risks and Financial Risks:

Strategic Risks

- Competitive pressures from existing competitors and new market entrants
- Dependency on Microsoft
- Technological innovation change
- Failure to retain existing customers and attract new customers
- Geopolitical risks associated with each country that we operate in.

People Risks

- Key person risk
- Inability to retain and attract talent
- Insufficient resources to manage continued growth
- Work place health, safety and welfare
- Misalignment of values and employee behaviors or actions.

Operational Risks

- Data loss and data breach
- Cyber Security and disruption to technology systems
- Adequacy of IT systems including Financial systems
- Anti-bribery & corruption
- Modern slavery
- Inadequate process documentation
- Business continuity and disaster recovery risk
- Compliance with applicable laws and regulations in each country rhipe operates
- Ability to manage operational change in a careful and controlled manner.

Financial Risks

- Competitive pressures and impact on margin earned
- Liquidity and funding risk
- Credit risk - customers and suppliers
- FX risk
- Completeness and accuracy of revenue recording, availability and accuracy of systems
- Capitalised software development costs; to date \$10.1m costs have been capitalised in relation to Prism and SmartEncrypt and impairment of these assets is possible
- Goodwill impairment
- Tax & Compliance risk in certain less developed Asian countries.

The risk register is reviewed by the Audit and Risk Committee at least twice a year or more frequently as necessary. The risks included on the risk register are also rated as Low, Medium or High from a probability

perspective and weighted in terms of impact on the Company. This segmentation helps to identify the higher risk items and whether they have a low, medium or high impact on rhipe.

The risk register is also reviewed by senior executives and management every six months to ensure they are aware of their risk management responsibilities and are required to escalate any key issues which arise or have the potential to arise. The CEO, the CFO and the COO have the primary responsibility to advise the Board of key risk areas which arise and together, the Board and senior management are responsible for taking all reasonable steps to address and mitigate such risk items.

Indemnifying Officers or Auditor

During or since the end of the financial year, the Company has given an indemnity or entered into an agreement to indemnify or paid or agreed to pay insurance premiums as follows:

- The Company has paid premiums to insure each of the Directors against liabilities for costs and expenses incurred by them in defending legal proceedings arising from their conduct while acting in the capacity of directors of the Company, other than conduct involving a willful breach of duty in relation to the Company. The contract of insurance prohibits disclosure of the nature of the liability and the amount of the premium
- No indemnity has been provided for the auditors.

Proceedings on Behalf of Company

No person has applied to the Court under section 237 of the *Corporations Act 2001* for leave to bring proceedings to which the Company is a party, for the purpose

of taking responsibility on behalf of the Company for all or part of the proceedings.

No proceedings have been brought or intervened in on behalf of the Company with leave of the Court under section 237 of the *Corporations Act 2001*.

Non-audit Services

The Board of Directors, in accordance with advice from the Audit and Risk Committee, is satisfied that the provision of non-audit services during the year is compatible with the general standard of independence for auditors imposed by the *Corporations Act 2001*. The Directors are satisfied that the services disclosed below did not compromise the external auditor's independence for the following reasons:

All non-audit services are reviewed and approved by the audit committee prior to commencement, to ensure they do not adversely affect the integrity and objectivity of the auditor; and

The nature of the services provided does not compromise the general principles relating to auditor independence in accordance with APES 110 Code of Ethics for Professional Accountants set by the Accounting Professional and Ethical Standards Board.

The following fees were paid or payable to Ernst & Young Australia for non-audit services provided during the year ended 30 June 2020.

| | |
|-------------------|---------|
| | \$ |
| Taxation services | 109,632 |

Significant Changes in State of Affairs

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

Future Developments, Prospects and Business Strategies

The Group has strong existing relationships with a number of key software and technology partners and the Group will look to continue to build and nurture these relationships. The Group will also continue to explore opportunities to further expand its reach from its current bases in Australia, New Zealand, Singapore, Thailand, Malaysia, Philippines, Korea, Indonesia and Sri Lanka. In FY20 rhipe established a subsidiary in Japan with 20% of the entity owned by our joint venture business partner, Japan Business Systems Co.,Ltd. The Group intends to invest significantly in its activities into the large Japanese market. rhipe plans to temper any such expansion in operations so that the business can generate a solid growth in earnings in FY21.

rhipe will continue to assess further acquisition opportunities that will complement, create synergies or bring scale and earnings growth to the Company's existing business model.

Sustainability and Environmental Issues

The consolidated Group's operations are not regulated by any significant environmental regulations under a law of the Commonwealth or of a

state or territory. However the Group is committed to finding ways of reducing the impact of our work to the environment.

Options

As at the date of signing this report, there were 100,000 unissued ordinary shares under option (30 June 2019: 870,000). These options are exercisable as follows:

| Date of Grant | Number of Options | Date of Expiry | Conversion Price (\$) |
|---------------|-------------------|----------------|-----------------------|
| 13/09/2017 | 50,000 | 12/09/2021 | 0.5 |
| 13/09/2017 | 50,000 | 12/09/2022 | 0.5 |
| Total | 100,000 | | |

Auditor's Independence Declaration

The lead auditor's independence declaration for the year ended 30 June 2020 has been received and can be found on page 52 of the Financial Report.

Rounding of Amounts

The Company is an entity to which ASIC Legislative Instrument 2016/191 applies and, accordingly, amounts in the financial statements and directors' report have been rounded to the nearest thousand dollars.

Corporate Governance Statement

The Directors of the Group support and adhere to the principles of corporate governance, recognising the need for the highest standard of corporate behaviour and accountability to the corporate governance statement dated 25 August 2020 released to ASX and posted on the Company's website www.rhipe.com/about/investors/.

Reporting under the Workplace Gender Equality Act 2012

In accordance with the requirements under the Workplace Gender Equality Act 2012 (Act), rhipe has submitted an annual compliance report to Workplace Gender Equality Agency. This is the first time rhipe has had to report with the reporting period of 1 April 2019 to 31 March 2020. Key points from the report are:

- Gender composition to 31 March 2020: 30% Female and 70% Male in Australia however as of 30 June 2020, 38% Female and 62% Male globally
- Promotions: 42.1% of employees awarded promotions were women and 57.9% were men
- Resignations: 40.7% of employees who resigned were women and 59.3% were men.

rhipe had made significant progress to promote diversity and inclusion of all types during the period through the following achievements:

- Increase of primary carer leave to 16 weeks and secondary carer to two weeks, both fully paid with only six months qualifying period
- Endorsement by Work180 in Australia in 2020 as an employer supporting diversity, inclusion and equality. Work180 is a global jobs network that promotes diversity, inclusion and equality.
- Implementation and on-going initiatives of the rhipe Diversity and Inclusion Council, including the changes to parental leave, establishment of cultural leave and numerous cultural initiatives to celebrate our multi-cultural workforce.

The Group has currently over 25 nationalities across our 400 employees globally.

The full report may be accessed on rhipe's website.

Events after the Reporting Period

Final dividend of 2.00 cent per share, fully franked, is declared subsequent to the balance sheet date, on 24 August 2020 and will be paid on 24 September 2020.

30,000 options were exercised on 3 August 2020 at \$0.50 exercise price per option.

The company continues to monitor the impact of the global pandemic on its business and its partners whom are focused on serving small and medium sized businesses, which is the hardest hit sector. Management will continue to assess the risk and take actions aimed at reducing the impact of the pandemic on our people and our partners.

Apart from those noted above, there has not been any other matter or circumstances occurring subsequent to the end of the financial year that has significantly affected, or may significantly affect the operations of the Group, the results of those operations, or the state of affairs of the Group in future financial years.



Dominic O'Hanlon
Managing Director and CEO

Remuneration Report

rhipe Limited and Controlled Entities

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Message from the Chair of the Remuneration and Nomination Committee



In what is arguably one of our most challenging years yet, I am, on behalf of the Remuneration and Nomination Committee and the Board, pleased to present to shareholders, rhipe's Remuneration Report for the financial year ended 30 June 2020 ("FY20").

Whilst there has been no avoiding the impact of the COVID-19 crisis, particularly as it unfolded in the second half of the year, the Company's leadership team and staff responded with a sense of calm and community that reminded me of our familial roots.

In some ways, the crisis has brought people from across the organisation closer together, and the newly established People and Culture Committee is an important asset as we move through and beyond the current situation.

Strategically, and despite the pandemic, rhipe has continued its investment into new markets including Japan following the completion of a joint venture with Japan Business Systems Co., Ltd in August 2019. In addition the acquisition of an Australian based encryption software product SmartEncrypt, is also an important pillar supporting our Intellectual Property strategy with the aim of distributing this product to our reseller community.

Changes to remuneration in this financial year reflect the Company's FY20 structural changes that underpin the pursuit of the strategic plan.

Overall, total remuneration packages increased by 3% in FY20, mainly driven by decrease in short term incentive payments which decreased by 44% in FY20 offset by a 17% increase in LTI cost due to the Board's strategy to implement more consistent long term incentive plans.

The increase in total remuneration package of 3% compares to operating profit increase of 17% in FY20, excluding Japan investment or 7% growth after accounting for the investment in Japan.

Given the Company's resilient financial performance this year, the Board is satisfied that its remuneration strategy aligns performance to reward. The Remuneration and Nomination Committee will continue to tailor the remuneration strategy to suit the evolving needs of the business and the macro environment.

Yours sincerely,

A handwritten signature in black ink, appearing to read 'Dawn Edmonds'.

Dawn Edmonds

Chair of the Remuneration and Nomination Committee

2. Persons Addressed and Scope of the Remuneration Report

The Remuneration Report sets out, in accordance with section 300A of the Corporations Act 2001:

- (i) The Company's governance relating to remuneration
- (ii) The policy for determining the nature and amount or value of remuneration of KMP
- (iii) The various components or framework of that remuneration
- (iv) The prescribed details relating to the amount or value paid to key management personnel, as well as a description of any performance conditions
- (v) The relationship between the policy and the performance of the Company.

In addition, rhipe Limited (rhipe, the Company or the Group) has decided to set out such further information as shareholders may require for them to obtain an accurate and complete understanding of the Company's approach to the remuneration of KMP.

KMP are the NEDs, the Executive Directors and employees who have authority and responsibility for planning, directing and controlling the activities of the Group. On that basis, the following roles/individuals are addressed in this report (all located in Australia unless otherwise noted):

NEDs as at the End of the Financial Year

| | |
|-----------------|--|
| Gary Cox | <ul style="list-style-type: none"> - Independent NED and Chairman of the Board since 26 March 2019 - Remuneration and Nomination Committee since 26 March 2019 - People & Culture Committee since 1 January 2020 (Note 1) |
| Dawn Edmonds | <ul style="list-style-type: none"> - Independent NED since 1 January 2017 - Remuneration and Nomination Committee since 10 April 2014, Chair since 8 November 2018 - Risk Committee from 10 April 2014 to 30 June 2019 - People & Culture Committee since 1 January 2020 |
| Mark Pierce | <ul style="list-style-type: none"> - Independent NED since 10 April 2014 - Audit and Risk Committee since 1 July 2019 - Risk Committee Chair from 10 April 2014 to 30 June 2019 - Audit Committee Chair from 10 April 2014 to 30 June 2019 |
| Michael Tierney | <ul style="list-style-type: none"> - Independent NED since 27 January 2017 - Audit and Risk Committee since 1 July 2019 - Remuneration and Nomination Committee from 27 January 2017 to 30 June 2019 - Audit Committee from 27 January 2017 to 30 June 2019 |
| Inese Kingsmill | <ul style="list-style-type: none"> - Independent NED since 15 April 2019 - Audit and Risk Committee since 1 July 2019 - Risk Committee from 6 June 2019 to 30 June 2019 - People & Culture Committee since 1 January 2020 |
| Olivier Dispas | <ul style="list-style-type: none"> - Independent NED since 15 April 2019, located in Seattle, USA - Audit and Risk Committee since 1 July 2019 - Remuneration and Nomination Committee since 1 July 2019 |

1 The People and Culture Committee was formed effective 1 January 2020 as approved by the Board on 18 December 2019

2 The Audit Committee and Risk Committee were consolidated into the Audit and Risk Committee effective 1 July 2019

Senior Executives Classified as KMP or Otherwise Addressed in this Report during the Financial Year

| | |
|------------------|--|
| Dominic O'Hanlon | Managing Director since 15 June 2015 and Chief Executive Officer since 5 August 2014 |
| Mark McLellan | Chief Financial Officer since 1 November 2016 and Chief Operating Officer since 1 March 2018 |
| Warren Nolan | Group Executive - Solutions & Professional Services, since 2 August 2005 |
| Chris Sharp | Group Executive - Products & Programs since 1 October 2014 and is located in Singapore |

During the period the following person ceased to be classified as KMP of rhipe for reporting purposes due to business structure changes (see section 3.1): Patara Yongvanich as of 1 July 2019.

3. Context of and Changes to KMP Remuneration for FY20

3.1 Matters Identified as Relevant Context for Remuneration Governance in FY20

With the ongoing growth and evolution of the Company in FY20, the Board and Management Team has continued to focus its efforts on building out the organisational structure initiated at the end of FY19, in order to align business units for optimal market competitiveness and provide diverse talent mobility internally. It should be noted that these initiatives will not impact current cash generating units (CGUs) of the business. This included the creation of a single Licencing business unit under one member of the KMP and a Solutions business unit under another single member of the KMP. It also involved further development of the key middle management layer as part of the People and Culture plan in order to prepare for the journey ahead.

The creation of the Licencing business unit involved the establishment of the Group Executive, Products & Programs role which has full responsibility for P&L and for driving global sales across the Licencing portfolio in all regions. For that reason, it was deemed appropriate to reconfigure the Executive's Total Remuneration Package ("TRP") with greater weighting towards performance incentives (STI) and less towards base pay. Furthermore, the financial target component of the STI plans of both Executives leading the Licencing and Solutions businesses were tailored to drive performance in each of their specific business lines. Details of these changes can be found in the statutory remuneration tables.

Having successfully established a footprint in Asia, and as the business continues to grow, the Company made the decision to further structure the organisation's reporting lines under centralised, global business functions rather than geographical divisions. Therefore, the MD Asia moved under the direction of the Group Executive, Products & Programs and is no longer classified as KMP for the purposes of this report.

During the period the number of employees across the organisation grew from 313 to 400, an increase of 28%. The Company also expanded into Japan during FY20 and acquired a Melbourne based security software company whose key product is a simple, easy to use encryption product called SmartEncrypt.

People and Culture goals gathered further momentum, with the implementation of an employee feedback survey and the establishment of the rhipe People and Culture Committee effective 1 January 2020.

Given the focus on People in FY20 and long-term incentives for talent retention, the Board sought advice from its share registry platform in the area of Employee Share Plans. As a result, the rhipe Employee Share Purchase Plan was launched in March 2020. The Employee Share Purchase Plan allows all employees of rhipe located in Australia (subject to service criteria) to salary sacrifice up to \$5,000 per annum to purchase shares in the Company. The Board considers this an important step in providing all employees with a sense of ownership in the Company and aligning their goals with the Company's longer term objectives.

The Board's approach to KMP remuneration governance continued to build on the foundations put in place over the previous reporting periods. As the remuneration strategy becomes more developed, the Board, in FY20 worked towards setting more consistent variable pay as a percentage of base packages across the KMP. Total Remuneration Packages ("TRP") for FY20 for Directors and KMP increased by approximately 3% compared to the previous year with the majority of the increase tied to the strategy of variable pay and long term incentives becoming a more prominent component of total remuneration.

The fully established Long Term Incentive Plan ("LTIP") continued to drive the long term performance of the business, complemented by the Short Term Incentive Plan ("STI") maintaining sales momentum throughout the year and the achievement of annual individual non-financial KPIs,

As approved by shareholders on 21 November 2019, the NED remuneration fee cap was increased from \$500,000 per annum to \$700,000. The cap was increased to accommodate an increase in board size (an additional Director was appointed in January 2019) as well as an increase to individual board fees which had remained static since rhipe's listing in 2014. The increase to NED fees was \$10,000 per annum and Committee Chair fees of \$10,000 per annum were introduced. The new fee structure took effect in December 2019. If extrapolated to a full financial year, the revised fees would total \$540,000, leaving sufficient headroom to accommodate future growth and additional responsibilities of the board as the Company continues to evolve.

Financial performance, particularly in the second half of the year, was not unsurprisingly impacted by the COVID-19 crisis. Prudently, the Company raised \$32.5 million in April via an unconditional placement to sophisticated and institutional investors, in order to strengthen its balance sheet and allow it to pursue complementary acquisitions. As the capital raising would extraordinarily and directly impact the Company's EPS growth, the Board deemed it appropriate to remove these impacts from the calculation of the EPS growth for any existing LTI plans already issued prior to the capital raise. The Board engaged its external auditors to specifically review the assumptions made and to provide its assessment of these adjustments to the calculation.

4. Overview of rhipe's Remuneration Governance Framework & Strategy

The performance of the Company depends upon the quality of its Directors and Executives. The Group recognises the need to attract, motivate and retain highly skilled Directors and Executives.

The Board, through its Remuneration and Nomination Committee (the "Committee"), accepts responsibility for determining and reviewing remuneration arrangements for the Directors and Executives. The Committee assesses the appropriateness of the nature and amount of remuneration of Directors and Executives on a periodic basis by reference to relevant employment market conditions, giving due consideration to the overall profitability and financial resources of the Company, with the objective of ensuring maximum stakeholder benefit from the retention of a high-quality Board and Executive team.

Sections 13.7 and 13.8 of the Company's constitution set out broadly how remuneration is to be dealt with in line with the Corporations Act and ASX Listing Rules. The following summarises the Board's current approach to governing and setting remuneration

4.1 Remuneration and Nomination Committee Charter

The Committee is appointed and authorised by the Board to assist the Board in fulfilling its statutory and fiduciary duties. The Committee is responsible for the following:

- Reviewing the executive remuneration policy and framework (“Remuneration Policy”) and recommending it to the Board for approval. This includes areas such as:
 - Assessing the Remuneration Policy for compliance with legal and regulatory requirements
 - Reviewing changes to the Remuneration Policy, including remuneration structure, retention and termination policies
 - Reviewing changes to the recruitment process, procedures and remuneration approach for the Senior Executives
 - Recommending performance-based (at-risk) components of remuneration and targets for the Company’s financial performance as they relate to incentive plans, including equity-based payments
 - Reviewing and making recommendations regarding the remuneration framework for Non-Executive Directors and making remuneration recommendations for Non-Executive Director fees
 - Proposing the Remuneration Report to the Board, liaising with external auditors and making recommendations that are in accordance with the Corporations Act and other regulations/laws
 - Identifying and recommending candidates to the Board after considering the necessary and desirable competencies of Board members, reviewing induction processes and reviewing succession plans; and
 - Developing and implementing processes to review Board performance.

The Committee shall have free and unfettered access to all personnel and other parties (internal and external), including the external auditors, legal advice or independent remuneration advisers. Committee members may seek independent professional advice for Company related matters. The Committee must approve the engagement of remuneration consultants when obtaining independent advice on the appropriateness of remuneration packages and other employment conditions for Senior Executives.

rhipe recognises the importance of ensuring that any recommendations given to the Committee provided by remuneration consultants are provided independently of those to whom the recommendations relate.

4.2 Senior Executive Remuneration Policy

The Senior Executive remuneration policy applies to Senior Executives who are defined as follows:

- Managing Director and CEO - accountable to the Board for the Company’s performance and long-term planning
- Those roles classified as executive KMP under the Corporations Act
- Direct Reports to the Managing Director – roles that are business unit, functional, or expertise heads; and
- Any other members of the executive/senior leadership team as may be determined from time to time.

In relation to remuneration for Senior Executives:

- Remuneration should be composed of:
 - Base Package (inclusive of superannuation, allowances, benefits and any applicable fringe benefits tax (FBT))
 - STI which provides a reward for performance against annual objectives which may be subject to deferral should the Board determine that this is appropriate from time to time
 - LTI which provides an equity-based reward for performance against indicators of shareholder benefit or value creation, over an extended period, and intended to create alignment with shareholders; and
 - In total the sum of the elements will constitute a TRP.

- Both internal relativities and external market factors should be considered
- TRPs should be structured with reference to relevant market practices
- The Base Package policy mid-points should be set with reference to P50 (the median or the middle) of the relevant market practice
- TRPs at Target (being the Base Package plus incentive awards intended to be paid for targeted levels of performance) should be set with reference to P75 (the upper quartile, the point at which 75% of the sample lies below) of the relevant market practice so as to create a strong incentive to achieve targeted objectives in both the short and long term
- Remuneration of individuals will be managed within a range of a policy benchmark so as to allow for the recognition of individual differences such as the calibre of the incumbent and the competency with which they fulfill a role
- Exceptions will be managed separately such as when particular talent needs to be retained or there are individuals with unique expertise that need to be acquired (“Red circle” exceptions); and
- Termination benefits will generally be limited to the default amount allowed for under the Corporations Act (without shareholder approval).

4.3 NED Remuneration Policy

Fees and payments to NEDs reflect the demands which are made of the Directors in fulfilling their responsibilities. The NED remuneration policy applies to NEDs of the Company in their capacity as Directors and as members of committees, and may be summarised as follows:

- Remuneration may be composed of:
 - Board fees
 - Committee fees
 - Superannuation
 - Other benefits; and
 - Equity (if deemed appropriate as may occur from time to time).
- Remuneration will be managed within the Aggregate Fee Limit (AFL) or fee pool approved by shareholders of the Company (see Section 3.1 for details pertaining to changes in FY20)
- Remuneration should be reviewed annually
- Nominal termination benefits are included in NED Services Agreements
- A policy level of Board Fees (being the fees paid for membership of the Board, inclusive of superannuation and exclusive of committee fees) will be set with reference to the P50 (median or middle) of the market of comparable ASX listed companies
- Directors are not paid additional fees for serving on committees although Committee Chair fees were introduced in December 2019 (see Section 3.1 for further detail)
- Per diem fees may be paid on occasions where approved special work is undertaken outside of the expected commitments

- Any Non-Executive Director remuneration package that is subject to fee sacrifice into equity arrangements should fall at or close to P75 of the market of the comparable ASX listed company market. Currently the Company does not provide an equity facility as part of Non-Executive Director remuneration and shareholder approval would be sought for any plan that may facilitate this element of remuneration being paid.

4.4 Approach to Determining Comparators for Remuneration Benchmarking

When the Company seeks external market data in relation to NED or Senior Executive benchmarking, or the Board seeks independent expert advice, the following principles are generally intended to apply:

- A benchmarking comparator group will take into account the Company's estimated sustainable market capitalisation at the time of the exercise, which may include discounting the market capitalisation if and when the Company's P/E ratio is unusually high relative to peers
- It will include direct competitors of comparable scale to the extent possible, noting that there are a very limited number of these in the Australian market
- The group should be large enough to produce valid statistics, and small enough to be reasonably specific
- To the extent that direct competitors are not sufficient to produce a statistically robust sample, companies of comparable scale from the same industry or sector will be included
- The group should be balanced with an equal number of comparators larger and smaller, generally limited to those within a range of half to double the Company's market capitalisation value used in designing the group
- International data benchmarks will be considered when relevant to incumbents who are internationally sourced or located; and
- These principles are specific to remuneration benchmarking exercises and therefore may produce different outcomes than those applied to the design of other types of comparator groups.

4.5 Short-Term Incentive Policy (STIP)

The STIP may be summarised as follows:

The purpose of the STIP as part of the TRP offered to Senior Executives is to:

- Motivate Senior Executives to achieve the short-term annual objectives linked to Company success and shareholder value creation:
 - Create a strong link between performance and reward
 - Share Company success with the Senior Executives that contribute to it; and
 - Create a component of the employment cost that is responsive to short to medium term changes in the circumstances of the Company.
- NEDs are excluded from participation
- The measurement period for performance should be the financial year of the Company which is considered short-term
- The STIP should be outcome focused rather than input focused, and while an individual performance component may be present, rewards should generally be linked to indicators of shareholder value creation

- The Board will retain discretion to adjust actual awards so as to manage circumstances in which the calculated award may be considered inappropriate
- The Board will give consideration as to whether deferral should apply to a portion of STI awards, from time to time, to be specified in an invitation to participate in the STIP if it does; and
- Any claw back policy as may be developed by the Company from time to time, will apply to the STIP unless otherwise determined by the Board.

4.6 Long-Term Incentive Policy (LTIP)

The LTIP may be summarised as follows:

- The purpose of the LTIP as part of the TRP offered to Senior Executives (as defined in the policy) is to:
 - Motivate Senior Executives to achieve long-term objectives linked to shareholder value creation over the long-term
 - Create a strong link between performance and reward over the long-term; and
 - Share the experience of shareholders with the Senior Executives that contribute to it including creating an ownership position.
- NEDs are currently excluded from participation
- The measurement period for performance should be aligned with the financial year of the Company and typically vest over a three-year period
- The Board will retain discretion to adjust actual vesting so as to manage circumstances in which the calculated vesting may be considered inappropriate; and
- A claw back policy applies to the LTI and any further development of this policy as may be required by the Company from time to time will apply to the LTIP unless otherwise determined by the Board.

4.7 Setting Incentive Plans

Performance-related incentives are linked to the achievement of financial and non-financial objectives which are relevant to meeting the Company's business objectives according to its Balanced Scorecard as well as longer term Shareholder value.

In relation to the design, implementation and operation of incentives there should be a range of performance and reward outcomes identified and defined. These should be set with regard to the elasticity of the measure, the impact of the measure on shareholder value creation and the ability of Senior Executives to influence the measure. In order to create clarity and consistency, the following concepts and principles are generally applied to the design of incentive scales:

- "Threshold", being a minimum acceptable outcome for a "near miss" of the target, associated with a fraction of the target reward appropriate to the threshold outcome
- "Target", being a challenging but achievable outcome, and which is the expected outcome for a Senior Executive/team that is of high calibre and high performing
- "Stretch" (the maximum) levels of objectives, which is intended to be a "blue sky" or exceptional outperformance, not expected to be achieved, the purpose of which is to create a continuous incentive to outperform when outperformance of the Target has already been achieved. This is particularly important

for shareholders to understand when comparing with other Companies whose maximum levels of incentives may be associated with a planned or target outcome.

Awards for outcomes between these levels should generally be scaled on a pro-rata basis dependent on actual performances. This is intended to provide a motivating opportunity to attain a reward and to ensure that reward outcomes align with performance under a range of circumstances.

It is recognised that there is a link between the budget setting culture of the Company and the setting of incentive hurdles. In this regard, the Board is confident that budgets developed and agreed to, are sufficiently challenging but also achievable.

4.8 Claw back Policy and Procedure

A claw back policy continued to apply to the Performance Rights Plan in FY20. The Board will continue to review how this may be applied more broadly over time. However, claw back policies are generally intended to relate to the recovery of overpayments when there has been a material misstatement in the financial reports of the Company, which is a demonstrably low risk based on the frequency of occurrence in the Australian market. The Company has sufficient controls in place as to be confident that this risk is negligible.

4.9 Securities Trading Policy

The Company's Policy on Trading in rhipe Securities by Directors and KMP:

- Sets out the guidelines for dealing in any type of rhipe securities by the Company's KMP; and
- Summarises the law relating to insider trading which applies to everyone, including to all rhipe Group employees as well as to KMP.

Under the current policy, KMP may not trade during black out periods. These black out periods are near financial reporting dates in January and February for 1H reporting, July and August for full year reporting and October and November for the Annual General Meeting for rhipe.

In addition to the above, all of the CEO's vested options are restricted from being traded without the approval of the Board.

4.10 Equity Holding Policy

The Company does not currently have an equity holding policy applicable to KMP.

4.11 Executive Remuneration Consultant Engagement Policy & Procedure

The Company has an Executive Remuneration Consultant (ERC) engagement policy which is intended to manage the interactions between the Company and ERCs, so as to ensure their independence and so that the Remuneration and Nomination Committee will have clarity regarding the extent of any interactions between management and the ERC. This policy enables the Board to state with confidence whether or not the advice received has been independent and why that view is held. The Policy states that ERCs are to be approved and engaged by the Board before any advice is received, and that such advice may only be provided to a Non-Executive Director. Interactions between management and the ERC must be approved and will be overseen by the Remuneration and Nomination Committee when appropriate.

4.12 Variable Executive Remuneration – STIP

| Aspect | Plan, Offers and Comments |
|--|--|
| Purpose | <p>The STIP's purpose is to give effect to an element of remuneration. This element of remuneration constitutes part of a market competitive total remuneration package and aims to provide an incentive for Senior Executives to deliver and outperform annual business plans that will lead to sustainable superior returns for shareholders. The STIP aims to reflect current trading conditions experienced by the Company. Target-based STI's are also intended to modulate the cost to the Company of employing Senior Executives, such that risk is shared with the Executives themselves and the cost to the Company is reduced in periods of poor performance.</p> |
| Measurement Period | The four quarters of the Company's financial year. |
| Award Opportunities | <p>FY20 Invitations</p> <p>The MD/CEO was offered a target-based STIP equivalent to 52% of the Base Package for Target performance, with a maximum/stretch opportunity of up to 150% of the Target Award.</p> <p>Other Senior Executives who are KMP were offered a target-based STIP equivalent to 43% to 59% of their Base Package for Target performance, with a maximum/ stretch opportunity of up to 150% of the Target Award.</p> <p>FY21 Invitations</p> <p>No decisions on changes to award opportunities have been made yet.</p> |
| Performance Indicators (KPIs), Weighting and Performance Goals | <p>FY20 Invitations</p> <p>FY20 Invitations to participate in the STIP for all participants, had an 80% weighting on an Operating Profit KPIs relating to the Group and incorporating for relevant KMP, a component relating to the Business Lines they lead.</p> <p>Financial targets are set with reference to the annual budget for the financial year.</p> <p>Non-financial KPIs for each KMP were incorporated with a 20% weighting, awarded on an annual basis provided 75% of Operating Profit had been met.</p> <p>The Operating Profit target remains the primary performance measure for KMP.</p> <p>FY21 Invitations</p> <p>The Board cannot disclose the financial targets for FY21 as this information is commercially sensitive, however this will be disclosed in the FY21 Remuneration Report. The target is set with reference to the annual Group Budget for the financial year. Non-financial targets will continue to be incorporated with KPIs and weightings allocated as appropriate.</p> |
| Award Determination and Payment | Calculations are performed following the end of the quarterly and annual Measurement Periods and the audit of Company accounts. The Board has discretion to determine the extent and nature of any deferral, as part of invitations. At present, no amounts of STI awards are subject to deferral, and therefore STI awards are paid in cash through payroll soon after the end of each quarter, the final payment being after the end of the financial year. |

| | |
|---|---|
| Cessation of Employment During a Measurement Period | In the event of cessation of employment due to dismissal for cause, or any other reason considered a “bad leaver”, all entitlements in relation to the Measurement Period are forfeited, as are any unvested deferred amounts. In the event of cessation of employment classified as “good leaver”, the Board has discretion to determine the appropriate treatment of STI entitlements for the period, within the termination benefit limit. |
| Change of Control | In the event of the Board declaring that a Change of Control is likely to occur, including a takeover, the Board has discretion to determine appropriate treatment of STI entitlements, given the circumstances at the time. This will generally include consideration of performance up to the date of the event. |
| Plan Gate & Board Discretion | No plan gate applies to the STIP. Board discretion to modify award outcomes applies to the STIP in circumstances where it would be considered as inappropriate to shareholders.. |
| Claw back & Malus | The Company does not currently operate a claw back policy in relation to the STIP. |

4.13 Variable Executive Remuneration – (LTIP) – Performance Rights Plan

Aspect

Plan, Offers and Comments

| | |
|----------------|---|
| Purpose | The LTIP's purpose is to give effect to an element of Senior Executive remuneration. This element of remuneration constitutes part of a market competitive total remuneration package and aims to provide an incentive for Senior Executives to deliver Company performance that will lead to sustainable superior returns for shareholders. The LTIP is also designed to act as a retention mechanism so as to maintain a stable team of performance focused Senior Executives and to create alignment with the interests and experiences of shareholders through developing the “ownership position” of Executive KMP. |
| Form of Equity | Currently the Company operates a Performance Rights plan for the purposes of the LTIP. Performance Rights were selected because they have an inherent incentive to improve the Company's performance over the longer term, consistent with the intention of the LTIP. |
| LTI Value | <p>The Board retains discretion to determine the value of LTI to be offered each year, subject to shareholder approval in relation to Directors when the Performance Rights are to be settled in the form of a new issue of Company shares. The Board may also seek shareholder approval for grants to Directors in other circumstances, at its discretion.</p> <p>FY20 LTI Invitations LTI allocations were issued to KMP and other five key executives in FY20 in the form of Performance Rights. The LTI Target value was set between 56% and 95% of base packages.</p> <p>Comments The target LTI value reflects the Company's current position in terms of expected growth trajectory and its intention to retain valued executives. As the remuneration governance framework evolves, the LTI component as a percentage of base is expected to evolve also. The Board has discretion to set exercise prices, measurement periods, and vesting conditions for each round of invitations. Performance Rights that are not exercisable or are unexercised by their Expiry Date will lapse.</p> |

| | |
|---------------------------------------|---|
| LTI Value | <p>FY20 Invitations</p> <p>Measurement Period Three years from 1 July 2019:</p> <p>Vesting Conditions: Gross Profit Growth on a CAGR basis Threshold 13% Target 16% Stretch $\geq 20\%$</p> <p>EPS Growth on CAGR basis Threshold 15% Target 17% Stretch $\geq 21\%$</p> <p>TSR Threshold- Index TSR Target – Index TSR plus 5% per annum Stretch – Index TSR plus 10% or more per annum</p> <p>If the employee ceases employment with the Company during the measurement period, rights may be retained on a pro rata basis with reference to time served. All remaining rights will lapse.</p> <p>The exercise price is Nil; and</p> <p>Holders of Performance Rights in the Company do not have any shareholder rights such as voting or dividend rights.</p> <p>Comments Gross profit growth was chosen as it is an important lead indicator of ongoing, profitable growth and can be directly impacted by KMP behaviour. EPS growth ensures that there is an appropriate focus on cost management and tax planning which is also directly controlled by KMP. TSR is the most direct measure of value creation for shareholders and is therefore one of the most effective measures available to align the interests of executives with those of shareholders. The TSR target compares Total Shareholder Return with the TSR of the S&P/ASX Small Industrials Index, the most relevant index available at the grant date. This avoids the problems of gains or losses associated with broader market movements.</p> |
| Retesting | Retesting is not available under the plan. |
| Plan Gate & Board Discretion | No Plan gate applies to the Performance Rights. The Board does not have discretion to adjust vesting outcomes but does retain some discretion to adjust the number of shares issued and the terms in certain situations. |
| Amount Payable for Performance Rights | No amount is payable by participants for Performance Rights granted as part of remuneration. |
| Exercise of Vested Performance Rights | The Company will notify the Participant that a Performance Right has Vested pursuant to the Plan Rules and allocate shares accordingly. |

Disposal Restrictions etc. Performance Rights are not subject to any disposal or dealing restrictions at any time, other than the Corporation's Act restrictions or those restrictions outlined in the Group's share trading policy and cannot be exercised prior to vesting.

Cessation of Employment The Board has discretion to specify how the Participant's Performance Rights will be treated on cessation of employment and may detail additional or alternative treatment in the invitation terms. The applicable treatment may vary depending on the circumstances in which the Participant's employment of engagement ceases.

Change of Control of the Company If a Change of Control Event occurs the Board may, in its absolute discretion, determine that all or a specified number of a Participant's Performance Rights Vest or cease to be subject to Vesting Conditions or restrictions (as applicable).

Claw back & Malus The Company implements a Claw back Policy in relation to LTIP.

5. Performance Outcomes for FY20 Including STI and LTI Assessment

5.1 Company Performance

The following outlines the performance of the Company over the FY20 period and the previous four financial years in accordance with the requirements of the Corporations Act:

| (\$'000's) unless otherwise stated | 2020 | 2019 | 2018 | 2017 | 2016 |
|--|---------|---------|---------|---------|---------|
| Sales – Software Products & Services | 325,201 | 252,537 | 196,608 | 156,970 | 137,120 |
| Revenue | 55,828 | 48,356 | 35,624 | 28,969 | 26,214 |
| Operating profit ¹ | 13,755 | 12,842 | 7,761 | 5,024 | 16 |
| Reported EBITDA ² | 11,566 | 10,017 | 6,384 | 4,004 | 1,466 |
| Profit/(Loss) before income tax (\$'000's) | 7,150 | 8,491 | 5,190 | 3,344 | 1,168 |
| Profit/(Loss) after income tax (\$'000's) | 4,799 | 6,214 | 3,066 | 2,507 | (129) |
| 30 June Share Price (\$) | 1.97 | 2.86 | 1.18 | 0.52 | 0.90 |
| Change in Share Price (\$) | (0.89) | 1.68 | 0.66 | (0.38) | (0.57) |
| Basic Earnings/(loss) Per Share (cents) | 3.49 | 4.53 | 2.26 | 1.83 | (0.10) |
| Dividends declared during the period | 2.00 | 2.00 | 0.5 | - | - |
| Total Shareholder Return (%) | (31%) | 143% | 128% | (42%) | (39%) |

¹ Includes property leases cost in each reporting period

² Includes impact of AASB 16 in FY20

The overall Executive award takes into account performance over the financial year especially as it relates to improving performance over prior years. The Company's strong financial performance over the last few years has been the result of investment in public cloud operations and expansion into Asia made since the Company floated in 2014. The Company continues to invest every year in its people and operations with a view to the medium to long term benefit for shareholders.

This investment is also made in the knowledge of market expectations about continued growth in operating profitability and it is an ongoing challenge around this decision trade off.

Operating Profit, which is the key performance measure for KMP and the Company, grew from \$12.8m in FY19 to \$15.0m in FY20 excluding investment in our new Japan operations, growth of 17% which was driven by growth in revenue and gross profit in the Licencing business. Delivery of \$15.0m operating profit compares to the original market guidance of \$16m made at the beginning of FY20, with the lower profitability due to the impact of COVID-19 which impacted our Microsoft Dynamics consulting business and also resulted in an increase in our provision for doubtful debts of around \$1m. The Group's operating profit including our investment in Japan was \$13.8m compared to the original forecast of \$14m made at the beginning of the financial year. The financial performance was therefore relatively resilient in a very difficult economic environment.

EBITDA over the same period grew by a similar amount at 15% year on year.

5.2 Links between Performance and Reward Including STI and LTI Outcomes

The remuneration of executive KMP is intended to be composed of three parts as outlined earlier, being:

1. Base Package, which is not intended to vary with performance, but which tends to increase as the scale of the business increases (i.e. following success)
2. STI which is intended to vary with indicators of annual Company and individual performance, and may include a deferred component which will vary with exposure to the market; and
3. LTI which is also intended to deliver a variable reward based on long-term measures of Company performance.

For the FY20 period, a 60-80% weighting component of STIs was tied to delivery of the Group Financial Target of \$16M annual operating profit, with specific business line targets also applied to the relevant KMP leading the Licencing and Solutions businesses. The STI components related to financial performance continue to be paid according to quarterly operating profit targets to drive strong results throughout the full period. This component is awarded after each relevant quarter throughout the year and after the final quarter (i.e. during FY21).

The Board assessed the extent to which target levels of performance had been achieved and used the pre-determined scales to calculate the total award payable for the Financial components of the STI. Overall in FY20 STI awards were down 44% compared to FY19 due to the over performance in FY19 and non delivery of original targets by 6% for FY20.

Despite strong KMP performance efforts, the original Operating Profit target was not achieved due to the COVID-19 impact. However, resilient leadership and performance by KMP led to the Group still delivering 94% of the original profit target. Payment of STI was therefore calculated based on the strong cumulative profit targets delivered in FY20 and no targets were changed as a result of COVID-19 impact.

Non-financial KPIs according to the Company Balanced Scorecard were allocated to each KMP with a 20% weighting for the FY20 period and achievements assessed and also awarded after the close of the financial year. The combination of financial and non-financial KPIs resulted in an award to KMP of between 73% to 85% of target STI.

This method of performance assessment has been maintained as the most objective approach to short term incentive governance and drives the desired behaviours to optimise strong quarterly results and maintain momentum throughout the year as well as incentivise KMP towards customer, process and people and culture targets over the full period.

50% of the FY19 LTI grant that commenced in July 2018 vested at the end of June 2020. This two-year tranche was granted only because it was the first of the Company's formal LTI program. All subsequent LTI grants have, and are intended to have in the future, a three-year measurement period.

KMP achievement for the two-year tranche was as follows:

- Gross profit growth - achievement at the Stretch level
- EPS growth – achievement at the Target level (after excluding capital raising impacts and Japan investment)
- iTSR – achievement at the Stretch level.

The Board is therefore of the view that LTI outcomes align appropriately with the performance outcomes of the business.

It is the Board's view that the combination of quarterly related to financial targets and annual awards for the STI related to financial and non-financial targets continued the momentum to drive a strong close to results at the end of each quarter throughout FY20, as well as build a sustainable business environment aligned to the continued growth strategy. The Operating Profit and non-financial targets for the STI and the extended targets for the LTI continued to provide executives with challenging but attainable and controllable targets that have led to good results for the business and for shareholders in FY20 despite difficult circumstances.

5.3 Links between Company Strategy and Remuneration

The Company intends to attract the superior talent required to successfully implement the Company's strategies at a reasonable and appropriately variable cost by:

- Positioning Base Packages (the fixed element) around relevant market data benchmarks when they are undertaken
- Supplementing the Base Package with at-risk remuneration, being incentives that motivate Executives to focus on:
 - Short to mid-term objectives linked to the strategy via KPIs and annual performance assessments. The percentage of total remuneration that constitutes an executive's STI varies depending on the size of the role and its impact on the attainment of the Company's short-term targets; and
 - Long-term value creation for shareholders by linking a material component of remuneration to those factors that underpin the Company's long-term strategy, including expansion into new regions and diversification of products and programs.

The Board remains confident that the remuneration strategy continues to support and drives the Company's medium and longer-term strategy.

6. Changes in Equity held by KMP

All options and rights in the following table have been issued by rhipe Limited unless stated otherwise. The table outlines the changes in the number of shares held by executives over the financial year:

| Ordinary Shares | Balance At Beginning of the Year | Granted As Remuneration During The Year | Issued On Exercise of Options or Rights During The Year | Other Changes During the Year | Balance At End of The Year | Notes |
|---------------------|----------------------------------|---|---|-------------------------------|----------------------------|-------|
| Mr Gary Cox | - | - | - | - | - | |
| Ms Inese Kingsmill | 32,904 | - | - | - | 32,904 | |
| Mr Olivier Dispas | - | - | - | - | - | |
| Mr Dominic O'Hanlon | 3,857,840 | - | 800,000 | (1,600,000) | 3,057,840 | 1,2,3 |
| Ms Dawn Edmonds | 2,702,294 | - | - | - | 2,702,294 | |
| Mr Mark Pierce | 320,000 | - | - | - | 320,000 | |
| Mr Michael Tierney | 2,007,191 | - | - | - | 2,007,191 | |
| Mr Mark McLellan | 700,000 | - | 183,331 | (513,347) | 369,984 | 1,3,4 |
| Mr Warren Nolan | 1,009,475 | - | 149,012 | (130,000) | 1,028,487 | 1,3,4 |
| Mr Chris Sharp | 779,225 | - | - | - | 779,225 | |
| Total | 11,408,929 | - | 1,132,343 | (2,243,347) | 10,297,925 | |

1. The KMP disposed of ordinary shares during the period

2. The KMP exercised options during the period

3. The KMP converted performance rights during the period

4. 332,343 shares were issued following the conversion of 470,000 options via the 'cashless exercise' mechanism as approved at the 2018 AGM

All options and rights in the following table were issued by rhipe Limited unless stated otherwise. The table outlines the changes in the number of options and rights held by NEDs and KMP over the financial year:

| Options and Rights | | Balance At Beginning of the Year | Granted As Compensation During The Year | Exercised Rights No. | Value of Options and Rights Exercised \$ | Forfeited Options During the Year | Balance At End Of The Year | Balance Vested At 30 June 2020 & Exercisable | Balance Not Vested & Not Exercisable At 30 June 2020 | Notes |
|--------------------|---------------------------|----------------------------------|---|----------------------|--|-----------------------------------|----------------------------|--|--|-------|
| Gary Cox | Options | - | - | - | - | - | - | - | - | - |
| | Performance Rights | - | - | - | - | - | - | - | - | - |
| Olivier Dispas | Options | - | - | - | - | - | - | - | - | - |
| | Performance Rights | - | - | - | - | - | - | - | - | - |
| Inese Kingsmill | Options | - | - | - | - | - | - | - | - | - |
| | Performance Rights | - | - | - | - | - | - | - | - | - |
| Dominic O'Hanlon | Options | 300,000 | - | (300,000) | 48,480 | - | - | - | - | - |
| | Performance Rights | 1,343,298 | 389,777 | (500,000) | 164,000 | - | 1,233,075 | - | 1,233,075 | 1 |
| Dawn Edmonds | Options | - | - | - | - | - | - | - | - | - |
| | Performance Rights | - | - | - | - | - | - | - | - | - |
| Mark Pierce | Options | - | - | - | - | - | - | - | - | - |
| | Performance Rights | - | - | - | - | - | - | - | - | - |
| Michael Tierney | Options | - | - | - | - | - | - | - | - | - |
| | Performance Rights | - | - | - | - | - | - | - | - | - |
| Mark McLellan | Options | 270,000 | - | (270,000) | 93,560 | - | - | - | - | - |
| | Performance Rights | 505,979 | 233,867 | - | - | - | 739,846 | - | 739,846 | 1 |
| Warren Nolan | Options | 200,000 | - | (200,000) | 168,460 | - | - | - | - | - |
| | Performance Rights | 421,648 | 194,887 | - | - | - | 616,535 | - | 616,535 | 1 |
| Chris Sharp | Options | - | - | - | - | - | - | - | - | - |
| | Performance Rights | 371,050 | 171,501 | - | - | - | 542,551 | - | 542,551 | 1 |
| Total | Options | 770,000 | - | (770,000) | 310,500 | - | - | - | - | |
| | Performance Rights | 2,641,975 | 990,032 | (500,000) | 164,000 | - | 3,132,007 | - | 3,132,007 | |

1. KMP were granted performance rights as part of their remuneration and incentive packages for FY20 from under the rhipe Performance Rights Plan which was approved by shareholders in November 2017

The number of Performance Rights granted to KMP of the Group during the year is as follows:

| 2020 Equity Grants | Instrument | Grant Date | Threshold | Number of rights | |
|--------------------|--------------------|------------|-----------|------------------|---------|
| | | | | Base | Stretch |
| Dominic O'Hanlon | Performance Rights | 30-Jan-20 | 97,443 | 194,887 | 389,777 |
| Mark McLellan | Performance Rights | 30-Jan-20 | 58,466 | 116,933 | 233,867 |
| Warren Nolan | Performance Rights | 30-Jan-20 | 48,720 | 97,443 | 194,887 |
| Chris Sharp | Performance Rights | 30-Jan-20 | 42,874 | 85,750 | 171,501 |

| 2020 Equity Grants | Exercise Price \$ | Value Per Security \$ | Grant Value \$ | Value Expensed in FY20 | Percentage Remaining as Unvested % | Service period | Expiry Date for Exercise | Notes |
|--------------------|-------------------|-----------------------|----------------|------------------------|------------------------------------|------------------|--------------------------|-------|
| Dominic O'Hanlon | - | 2.57 | 500,000 | 131,289 | 100 | Jul-19 to Jun 22 | 30-Jan-35 | 1,2,3 |
| Mark McLellan | - | 2.57 | 300,000 | 78,774 | 100 | Jul-19 to Jun 22 | 30-Jan-35 | 1,2,3 |
| Warren Nolan | - | 2.57 | 250,000 | 65,644 | 100 | Jul-19 to Jun 22 | 30-Jan-35 | 1,2,3 |
| Chris Sharp | - | 2.57 | 220,000 | 57,767 | 100 | Jul-19 to Jun 22 | 30-Jan-35 | 1,2,3 |

1. Equity settled share-based payments expense represents amounts accrued for performance rights that have not vested and do not represent payments made to KMP

2. Value per security represents grant value awarded to executives over the base number of performance rights

3. The fair value of these options is disclosed in Note 22 of the financial report

7. NED Fee Policy Rates for FY20 and FY21, and Fee Limit

Non-Executive Director fees are managed within an annual fees limit (AFL or fee pool) as specified in the Company's constitution and they were increased to \$700,000 in FY20 as approved at the AGM on 21 November 2019 (see Section 3.1 for further detail).

The following table outlines the NED fee policy rates that were applicable during FY20:

| Function | Role | NED Fee Policy Rates |
|---|-----------------|----------------------|
| From 1 Jul 2019 to 30 Nov 2019 | | |
| Main Board | Chair | \$150,000 |
| | Member | \$60,000 |
| From 1 Dec 2019 -to 30 June 2020 | | |
| Main Board | Chair | \$160,000 |
| | Member | \$70,000 |
| | Committee Chair | \$10,000 |

From time to time, a daily fee may be paid on such occasions where approved special work is undertaken outside of the expected commitments of NEDs. No additional fees were paid to NEDs during FY20.

8. Remuneration Records for FY20 – Statutory and share-based reporting

8.1 Senior Executive Remuneration

The following table outlines the remuneration received by Senior Executives of the Company during FY20 prepared according to statutory disclosure requirements and applicable accounting standards:

| DIRECTORS | Role(s) | Year | Short term benefits | | | Post employment Superannuation (\$) | Long Term Benefits Employee Entitlements (\$) | Share-based payments/LTI** | | Termination payments | Total Remuneration Package (TRP) (\$) | Performance related % | Notes |
|------------------|--------------------------|-------------|---------------------|-----------------|------------|-------------------------------------|---|----------------------------|-----------------------|----------------------|---------------------------------------|-----------------------|----------|
| | | | Salary & Fees (\$) | Bonus/STI* (\$) | Other (\$) | | | Performance rights (\$) | Performance related % | | | | |
| Dominic O'Hanlon | Managing Director & CEO | 2020 | 504,000 | 234,035 | - | 21,003 | 74,456 | 958,487 | - | - | 1,791,981 | 67% | |
| | | 2019 | 477,405 | 412,500 | - | 20,531 | 73,203 | 849,838 | - | - | 1,833,477 | 69% | |
| Dawn Edmonds | NED | 2020 | 71,667 | - | - | - | - | - | - | - | 71,667 | 0% | |
| | | 2019 | 60,000 | - | - | - | - | - | - | - | 60,000 | 0% | |
| Gary Cox | Non-Executive Chairman | 2020 | 155,833 | - | - | - | - | - | - | - | 155,833 | 0% | |
| | | 2019 | 37,500 | - | - | - | - | - | - | - | 37,500 | 0% | |
| Mark Pierce | NED | 2020 | 71,667 | - | - | - | - | - | - | - | 71,667 | 0% | |
| | | 2019 | 60,000 | - | - | - | - | - | - | - | 60,000 | 0% | |
| Michael Tierney | NED | 2020 | 65,833 | - | - | - | - | - | - | - | 65,833 | 0% | |
| | | 2019 | 60,000 | - | - | - | - | - | - | - | 60,000 | 0% | |
| Inese Kingsmill | NED | 2020 | 70,833 | - | - | - | - | - | - | - | 70,833 | 0% | |
| | | 2019 | 12,500 | - | - | - | - | - | - | - | 12,500 | 0% | |
| Oliver Dispas | NED | 2020 | 65,833 | - | - | - | - | - | - | - | 65,833 | 0% | |
| | | 2019 | 12,500 | - | - | - | - | - | - | - | 12,500 | 0% | |
| Sub-Total | Current Directors | 2020 | 1,005,666 | 234,035 | - | 21,003 | 74,456 | 958,487 | - | - | 2,293,647 | 52% | |
| | | 2019 | 847,136 | 412,500 | - | 30,116 | 73,203 | 849,838 | - | - | 2,212,793 | 57% | 1 |

1 The following KMPs ceased to be a KMPs of the Group in FY19: Mike Hill, resigned 26 March 2019, remuneration in FY19 for Mr Hill consisted of salary of \$100,898 and superannuation contribution of \$9,585 Laurence Sellers, resigned 8 November 2018, remuneration in FY19 for Mr Sellers consisted of salary of \$26,333

| OTHER EXECUTIVES | Role(s) | Year | Short term benefits | | Post employment | Long Term Benefits | Share-based payments/LTI** | | Termination payments | Total Remuneration Package (TRP) (\$) | Performance related % | Notes |
|--------------------|---|-------------|---------------------|------------------|-----------------|--------------------|----------------------------|----------------------------|----------------------|---------------------------------------|-----------------------|-------|
| | | | Salary & Fees (\$) | Bonus/STI* (\$) | | | Other (\$) | Employee Entitlements (\$) | | | | |
| Mark McLellan | CFO & COO | 2020 | 450,000 | 170,208 | - | 15,966 | 575,089 | - | 1,232,266 | 60% | | |
| | CFO & COO | 2019 | 425,000 | 300,000 | - | 24,457 | 445,531 | - | 1,215,519 | 61% | | |
| Warren Nolan | Executive-Solutions & Professional Services | 2020 | 375,000 | 171,813 | - | 117,246 | 479,241 | - | 1,164,303 | 56% | | |
| | Executive - Solutions & Professional Services | 2019 | 326,426 | 375,000 | 13,043 | 89,421 | 360,000 | - | 1,184,421 | 62% | | |
| Chris Sharp | Executive - Products & Licencing | 2020 | 420,019 | 155,871 | - | 51,373 | 421,732 | - | 1,062,177 | 54% | 2,3 | |
| | Executive - Products & Licencing | 2019 | 411,156 | 216,325 | - | 67,886 | 423,684 | - | 1,131,579 | 57% | | |
| Sub-Total | Other Current Executives | 2020 | 1,245,019 | 497,892 | - | 184,585 | 1,476,062 | - | 3,458,746 | 57% | | |
| | | 2019 | 1,162,582 | 891,325 | 13,043 | 181,764 | 1,229,215 | - | 3,531,519 | 60% | | |
| Grand Total | All Current KMP | 2020 | 2,250,685 | 731,927 | - | 259,041 | 2,434,549 | - | 5,752,393 | 55% | | |
| | | 2019 | 1,882,487 | 1,303,825 | 13,043 | 254,967 | 2,079,053 | - | 5,607,496 | 60% | 1 | |

charge matches the vesting. The table below shows the LTI for FY20 as well as prior years' LTI that was expensed in FY20:

Total SBPE for FY20 per KMP:

| | Prior Years LTI | 2020 LTI | Total |
|------------------|-----------------|----------|---------|
| Dominic O'Hanlon | 131,289 | 827,198 | 958,487 |
| Mark McLellan | 78,774 | 496,315 | 575,089 |
| Warren Nolan | 65,644 | 413,597 | 479,241 |
| Chris Sharp | 57,767 | 363,965 | 421,732 |

1 The following KMPs ceased to be a KMPs of the Group in FY19:

Patara Yongvanich, ceased to be classified as KMP from 1 July 2019, remuneration in FY19 for Mr Yongvanich consisted of salary of \$337,768, superannuation contribution of \$17,060, bonus of \$191,194 and LTI of \$219,791
 Athena Thompson, left the company on 17 August 2018, remuneration in FY19 for Ms Thompson consisted of salary of \$28,892, superannuation contribution of \$5,132 and termination payments of \$45,838

2 Mr Sharp is paid in SGD, Salary and local Provident Fund was converted to AUD based on the Reserve Bank of Australia average rate for the financial year. Bonuses are accrued in AUD and is paid in SGD on payment date.

3 Mr Sharp STI includes employer CPF contribution payable in Singapore

* Please note that the STI value reported in this table is the STI that was accrued for the relevant financial year. Actual cash payments may differ.

** Please note that the LTI value reported in this table is the amortised accounting charge of all grants that were not lapsed or vested at the start of the reporting period and do not represent payments to KMP. Where a market-based measure of performance is used such as TSR, no adjustments can be made to reflect actual LTI vesting. However, in relation to non-market conditions, such as EPS, adjustments must be made to ensure the accounting

9. Employment Terms for Key Management Personnel

9.1 Service Agreements

A summary of contract terms in relation to executive KMP is presented below:

| Name | Position Held at Close of FY20 | Duration of Contract | Period of Notice | | Termination Payments |
|------------------|---|----------------------|------------------|----------|----------------------|
| | | | From Company | From KMP | |
| Dominic O'Hanlon | Managing Director & CEO | Open ended | 6 months | 6 months | Up to 12 months* |
| Mark McLellan | Chief Financial Officer & Chief Operations Officer | Open ended | 6 months | 3 months | Up to 12 months* |
| Warren Nolan | Group Executive - Solutions & Professional Services | Open ended | 3 months | 3 months | Up to 12 months* |
| Chris Sharp | Group Executive - Products & Licencing | Open ended | 1 months | 1 months | Up to 12 months* |

* Under the Corporations Act the Termination Benefit Limit is 12 months average Salary (last 3 years) unless shareholder approval is obtained.

The treatment of incentives in the case of termination is addressed in the STI and LTI Plan sections of this report. On appointment to the Board, all NEDs enter into a service agreement with the Company. The service agreement summarises the Board policies and terms, including compensation relevant to the office of the Director.

A summary of the appointment terms in relation to NEDs is presented below:

| Name | Position Held at Close of FY20 | Duration of Contract | Period of Notice | | Termination Payments |
|-----------------|--------------------------------|----------------------|------------------|----------|----------------------|
| | | | From Company | From KMP | |
| Gary Cox | Non-Executive Chairman | 3 years | 3 months | 3 months | None |
| Dawn Edmonds | NED | 3 years | 3 months | 3 months | None |
| Mark Pierce | NED | 3 years | 3 months | 3 months | None |
| Michael Tierney | NED | 3 years | 3 months | 3 months | None |
| Inese Kingsmill | NED | 3 years | 3 months | 3 months | None |
| Olivier Dispas | NED | 3 years | 3 months | 3 months | None |

Termination payments consist of notice period only, no other benefits apply.

Other Remuneration Related Matters

The following outlines other remuneration related matters that may be of interest to stakeholders, in the interests of transparency and disclosure:

- There were no loans to Directors or other KMP at any time during the reporting period
- There were no other relevant material transactions involving KMP other than compensation and transactions concerning shares, performance rights/options as discussed in this report.

10. External Remuneration Consultant Advice

The Board did not engage any independent expert external remuneration consultants in FY20, but did engage Hamilton Locke Pty Ltd to provide recommendations and review documentation for the Group Employee Share Plan implemented in March 2020. The Plan fits with the Company's strategy to improve its Group-wide remuneration incentives and focus on people.

Fees charged by Lawyers are disclosed for the reporting period as follows: \$4,824 + GST

Auditor's Independence Declaration



Ernst & Young
200 George Street
Sydney NSW 2000 Australia
GPO Box 2646 Sydney NSW 2001

Tel: +61 2 9248 5555
Fax: +61 2 9248 5959
ey.com/au

Auditor's Independence Declaration to the Directors of rhipe Limited

As lead auditor for the audit of the financial report of rhipe Limited for the financial year ended 30 June 2020, I declare to the best of my knowledge and belief, there have been:

- a) no contraventions of the auditor independence requirements of the Corporations Act 2001 in relation to the audit; and
- b) no contraventions of any applicable code of professional conduct in relation to the audit.

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

A handwritten signature in cursive script, appearing to read 'Ernst & Young', is written over the printed name 'Ernst & Young'.

A handwritten signature in cursive script, appearing to read 'Graham Leonard', is written over the printed name 'Graham Leonard'.

Graham Leonard
Partner
25 August 2020

Consolidated Statement of Comprehensive Income

And Other Comprehensive Income For The Year Ended 30 June 2020

rhipe Limited and Controlled Entities

| CONSOLIDATED GROUP | Note | 2020 \$'000 | 2019 \$'000 |
|--|-------------|------------------------|------------------------|
| Revenue | 4(a) | 55,828 | 48,356 |
| Cost of Sales | | (3,448) | (2,476) |
| Gross Profit | | 52,380 | 45,880 |
| Other income | 4(b) | 3,611 | 548 |
| Sales and Marketing | | (29,015) | (22,834) |
| General and Administration | | (16,162) | (15,083) |
| Impairment expense | | (3,425) | (20) |
| Other expenses | 5 (c) | (97) | - |
| Finance cost | 5(F) | (142) | - |
| Total expenses | 5 | (48,841) | (37,937) |
| Profit before income tax | | 7,150 | 8,491 |
| Tax expense | 6 | (2,351) | (2,277) |
| Profit after tax | | 4,799 | 6,214 |
| Attributable to: | | | |
| Equity holders of the parent | | 5,015 | 6,214 |
| Non-controlling interest | | (216) | - |
| | | 4,799 | 6,214 |
| EARNINGS PER SHARE | | | |
| - Basic, profit for the year attributable to ordinary equity holders of the parent (cents) | 7 | 3.49 | 4.53 |
| - Diluted, profit for the year attributable to ordinary equity holders of the parent (cents) | 7 | 3.41 | 4.42 |
| OTHER COMPREHENSIVE INCOME | | | |
| Items that may be reclassified subsequently to profit or loss in subsequent periods: | | | |
| Exchange differences on translating foreign operations | | 2 | 690 |
| Other comprehensive income for the period | | 2 | 690 |
| Total comprehensive income | | 4,801 | 6,904 |

The accompanying notes form part of these financial statements.

Consolidated Statement of Financial Position

As at 30 June 2020

rhipe Limited And Controlled Entities

| CONSOLIDATED GROUP | Note | 2020 \$'000 | 2019 \$'000 |
|--|------|----------------|----------------|
| ASSETS CURRENT ASSETS | | | |
| Cash and cash equivalents | 8 | 60,925 | 25,530 |
| Trade and other receivables | 9 | 42,281 | 39,308 |
| Other assets | 10 | 1,504 | 1,215 |
| Total Current Assets | | 104,710 | 66,053 |
| NON-CURRENT ASSETS | | | |
| Right of use assets | 11 | 3,191 | - |
| Property, plant and equipment | 12 | 1,804 | 1,110 |
| Deferred tax assets | 16 | 2,660 | 1,141 |
| Intangible assets | 13 | 36,611 | 32,669 |
| Total Non-Current Assets | | 44,266 | 34,920 |
| Total Assets | | 148,976 | 100,973 |
| LIABILITIES CURRENT LIABILITIES | | | |
| Trade and other payables | 14 | 47,947 | 41,342 |
| Unearned revenue | 15 | 274 | 252 |
| Current tax liabilities | 16 | 1,688 | 2,885 |
| Current lease liability | 11 | 1,656 | - |
| Provisions | 17 | 1,158 | 1,037 |
| Deferred contingent consideration | 18 | 939 | 1,750 |
| Total Current Liabilities | | 53,662 | 47,266 |
| NON-CURRENT LIABILITIES | | | |
| Deferred tax liabilities | 16 | 72 | 264 |
| Non-current lease liability | 11 | 2,203 | - |
| Provisions | 17 | 501 | 257 |
| Deferred contingent consideration | 18 | 1,878 | 1,750 |
| Total Non-Current Liabilities | | 4,654 | 2,271 |
| Total Liabilities | | 58,316 | 49,537 |
| Net Assets | | 90,660 | 51,436 |
| EQUITY | | | |
| Issued capital | 19 | 77,438 | 43,320 |
| Treasury shares | | (729) | - |
| Reserves | | 6,044 | 2,194 |
| Accumulated profits | | 7,848 | 5,922 |
| Equity attributable to equity holders of the parent | | 90,601 | 51,436 |
| Non-controlling interest | | 59 | - |
| Total Equity | | 90,660 | 51,436 |

The accompanying notes form part of these financial statements.

Consolidated Statement of Changes in Equity

For The Year Ended 30 June 2020

rhipe Limited and Controlled Entities

| | Share Capital | | Accumulated Profits/(losses) \$'000 | Reserves | | | Other Equity \$'000 | Total \$'000 | Non-controlling interest \$'000 | Total equity \$'000 |
|---|-----------------|-----------------|-------------------------------------|---|---|--------------|---------------------|--------------|---------------------------------|---------------------|
| | Ordinary \$'000 | Treasury \$'000 | | Foreign Currency Translation Reserve \$'000 | Equity Settled Employee Benefits Reserve \$'000 | | | | | |
| CONSOLIDATED GROUP | | | | | | | | | | |
| Balance at 1 July 2018 | 39,287 | - | 2,283 | (664) | 2,715 | - | 43,621 | - | 43,621 | |
| COMPREHENSIVE INCOME | | | | | | | | | | |
| Profit for the year | - | - | 6,214 | - | - | - | 6,214 | - | 6,214 | |
| Exchange differences on translation of subsidiaries | - | - | - | 690 | - | - | 690 | - | 690 | |
| Total comprehensive income for the year | - | - | 6,214 | 690 | - | - | 6,904 | - | 6,904 | |
| TRANSACTIONS WITH OWNERS, IN THEIR CAPACITY AS OWNERS, AND OTHER TRANSFERS | | | | | | | | | | |
| Shares issued during the year | 3,085 | - | - | - | - | - | 3,085 | - | 3,085 | |
| Investment in DBITS | - | - | (11) | - | - | - | (11) | - | (11) | |
| Shares bought back during the year | (2,056) | - | - | - | - | - | (2,056) | - | (2,056) | |
| Dividend paid | - | - | (2,721) | - | - | - | (2,721) | - | (2,721) | |
| Transaction costs, net of tax | (7) | - | - | - | - | - | (7) | - | (7) | |
| Share-based payments | - | - | - | - | 2,623 | - | 2,623 | - | 2,623 | |
| Transfer from SBP Reserves – Options expired | - | - | 157 | - | (157) | - | - | - | - | |
| Transfer from SBP Reserves – Options exercised | 3,013 | - | - | - | (3,013) | - | - | - | - | |
| Total transactions with owners and other transfers | 4,033 | - | (2,575) | - | (547) | - | 911 | - | 911 | |
| Balance at 30 June 2019 | 43,320 | - | 5,922 | 26 | 2,168 | - | 51,436 | - | 51,436 | |
| Balance at 1 July 2019 | 43,320 | - | 5,922 | 26 | 2,168 | - | 51,436 | - | 51,436 | |
| Effect of adoption of new accounting standard | - | - | (287) | - | - | - | (287) | - | (287) | |
| Balance at 1 July 2019 | 43,320 | - | 5,635 | 26 | 2,168 | - | 51,149 | - | 51,149 | |
| COMPREHENSIVE INCOME | | | | | | | | | | |
| Profit for the year | - | - | 5,015 | - | - | - | 5,015 | (216) | 4,799 | |
| Exchange differences on translation of subsidiaries | - | - | - | 2 | - | - | 2 | - | 2 | |
| Total comprehensive income for the year | - | - | 5,015 | 2 | - | - | 5,017 | (216) | 4,801 | |
| TRANSACTIONS WITH OWNERS, IN THEIR CAPACITY AS OWNERS, AND OTHER TRANSFERS | | | | | | | | | | |
| Shares issued during the period | 34,386 | - | - | - | - | - | 34,386 | - | 34,386 | |
| Shares purchased on the market by ESS Trust | - | (729) | - | - | - | - | (729) | - | (729) | |
| Transaction costs, net of tax | (1,058) | - | - | - | - | - | (1,058) | - | (1,058) | |
| Deferred tax assets on cost of capital raise | 315 | - | - | - | - | - | 315 | - | 315 | |
| Set up of rhipe Japan | - | - | - | - | - | - | - | 275 | 275 | |
| Share based payments | - | - | - | - | 37 | - | 37 | - | 37 | |
| Equity settled deferred consideration | - | - | - | - | - | 1,174 | 1,174 | - | 1,174 | |
| Dividend paid | - | - | (2,802) | - | - | - | (2,802) | - | (2,802) | |
| Share based payments | - | - | - | - | 3,112 | - | 3,112 | - | 3,112 | |
| Transfer from SBP Reserves-options exercised | 475 | - | - | - | (475) | - | - | - | - | |
| Total transactions with owners and other transfers | 34,118 | (729) | (2,802) | - | 2,674 | 1,174 | 34,435 | 275 | 34,710 | |
| Balance at 30 June 2020 | 77,438 | (729) | 7,848 | 28 | 4,842 | 1,174 | 90,601 | 59 | 90,660 | |

The accompanying notes form part of these financial statements.

Consolidated Statement of Cash Flows

For The Year Ended 30 June 2020

rhipe Limited and Controlled Entities

| CONSOLIDATED GROUP | Note | 2020 \$'000 | 2019 \$'000 |
|---|-----------|----------------|----------------|
| CASH FLOWS FROM OPERATING ACTIVITIES | | | |
| Receipts from partners | | 322,380 | 242,880 |
| Payments to vendors/customers and employees | | (304,137) | (228,805) |
| Interest received | | 111 | 257 |
| Interest paid | | (142) | - |
| Net income tax paid | | (4,476) | (2,277) |
| Net cash provided by operating activities | 23 | 13,736 | 12,055 |
| CASH FLOWS FROM INVESTING ACTIVITIES | | | |
| Purchase of property, plant and equipment | | (1,371) | (689) |
| Payments for intangibles | | (2,906) | (2,281) |
| Payment for subsidiary on acquisition | | (2,000) | (3,000) |
| Net cash used in investing activities | | (6,277) | (5,970) |
| CASH FLOWS FROM FINANCING ACTIVITIES | | | |
| Proceeds from issue of shares | | 34,386 | 1,577 |
| Buy back of shares | | - | (2,056) |
| Investment in Treasury shares | | (729) | - |
| Payment of principal portion of lease liability | | (1,893) | - |
| Dividend paid | | (2,802) | (2,721) |
| Costs associated with issue of shares | | (1,058) | - |
| Net cash provided by / (used in) financing activities | | 27,903 | (3,200) |
| Net increase in cash held | | 35,362 | 2,885 |
| Cash and cash equivalents at beginning of financial year | | 25,530 | 22,696 |
| Effect of exchange rates on cash holdings in foreign currencies | | 33 | (51) |
| Cash and cash equivalents at end of financial year | 8 | 60,925 | 25,530 |

The accompanying notes form part of these financial statements.

Notes to the Financial Statements

For The Year Ended 30 June 2020

rhipe Limited And Controlled Entities

These consolidated financial statements and notes represent those of rhipe Limited and subsidiaries (the “consolidated Group” or “Group”).

The financial statements were authorised for issue on 25 August 2020 by the directors of the Company.

Note 1. Summary of Significant Accounting Policies

(a) Basis of Preparation

These general purpose financial statements have been prepared in accordance with the Corporations Act 2001, Australian Accounting Standards and Interpretations of the Australian Accounting Standards Board and International Financial Reporting Standards (“IFRS”) as issued by the International Accounting Standards Board. The Group is a for-profit entity for financial reporting purposes under Australian Accounting Standards. Material accounting policies adopted in the preparation of these financial statements are presented throughout financial statements and have been consistently applied unless stated otherwise.

The consolidated financial statements have been prepared on the basis of historical cost, except for certain financial instruments that are measured at fair value at the end of each reporting period, as explained in the accounting policies below. Historical cost is generally based on the fair value of the consideration given in exchange for goods and services. All amounts are presented in Australian dollars, unless otherwise noted. Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date, regardless of whether that price is directly observable or estimated using another valuation technique. In estimating the fair value of an asset or a liability, the Group takes into account the characteristics of the asset or liability if market participants would take those characteristics into account when pricing the asset or liability at the measurement date. Fair value for measurement and/or disclosure purposes in these consolidated financial statements is determined on such a basis.

(b) Basis of Consolidation

The consolidated financial statements incorporate all of the assets, liabilities and results of rhipe Limited (the “Parent”) and its subsidiaries. Subsidiaries are entities the Parent controls.

The Parent 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. A list of the subsidiaries is provided in Note 29.

The assets, liabilities and results of all subsidiaries are fully consolidated into the financial statements of the Group from the date on which control is obtained by the Group. The consolidation of a subsidiary is discontinued from the date that control ceases. Inter-company transactions, balances and unrealised gains or losses on transactions between Group entities are fully eliminated on consolidation. Accounting policies of subsidiaries have been changed and adjustments made where necessary to ensure uniformity of the accounting policies adopted by the Group.

Equity interests in a subsidiary not attributable, directly or indirectly, to the Group are presented as ‘Non-controlling Interests’. The Group initially recognises non-controlling interests where the Group is entitled to a proportionate share of the subsidiary’s net assets on liquidation at either fair value or at the non-controlling interests’ proportionate share of the subsidiary’s net assets.

Notes to the Financial Statements

Subsequent to initial recognition, non-controlling interests are attributed their share of profit or loss and each component of other comprehensive income. Non-controlling interests are shown separately within the equity section of the statement of financial position and statement of comprehensive income

(c) Business Combination and Goodwill

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

When the Group acquires a business, it assesses the financial assets and liabilities assumed for appropriate classification and designation in accordance with the contractual terms, economic circumstances and pertinent conditions as at the acquisition date. This includes the separation of embedded derivatives in host contracts by the acquiree.

Any contingent consideration to be transferred by the acquirer will be recognised at fair value at the acquisition date. Contingent consideration classified as equity is not remeasured and its subsequent settlement is accounted for within equity. Contingent consideration classified as an asset or liability that is a financial instrument and within the scope of AASB 9 Financial Instruments, is measured at fair value with the changes in fair value recognised in the statement of profit or loss in accordance with AASB 9. Other contingent consideration that is not within the scope of AASB 9 is measured at fair value at each reporting date with changes in fair value recognised in profit or loss.

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

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

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

Notes to the Financial Statements

(d) Financial Instruments

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

(i) Financial assets Initial recognition and subsequent measurement

Financial assets are classified, at initial recognition, as subsequently measured at amortised cost, fair value through other comprehensive income (OCI), and fair value through profit or loss.

The Group's business model for managing financial assets refers to how it manages its financial assets in order to generate cash flows. The business model determines whether cash flows will result from collecting contractual cash flows, selling the financial assets, or both.

Purchases or sales of financial assets that require delivery of assets within a time frame established by regulation or convention in the market place (regular way trades) are recognised on the trade date, i.e. the date that the Group commits to purchase or sell the asset. For purposes of subsequent measurement, financial assets are classified in four categories:

- Financial assets at amortised cost (debt instruments)
- Financial assets at fair value through OCI with recycling of cumulative gains and losses (debt instruments)
- Financial assets designated at fair value through OCI with no recycling of cumulative gains and losses upon de-recognition (equity instruments)
- Financial assets at fair value through profit or loss. Financial assets at amortised cost (debt instruments.)

Financial assets at amortised cost is the category that is the most relevant to the Group. The Group measures financial assets at amortised cost if both of the following conditions are met:

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

The Group's financial assets at amortised cost includes trade receivables included under other current financial assets.

The Group measures debt instruments at fair value through OCI if both of the following conditions are met:

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

For debt instruments at fair value through OCI, interest income, foreign exchange revaluation and impairment losses or reversals are recognised in the statement of profit or loss and computed in the same manner as for financial assets measured at amortised cost.

Notes to the Financial Statements

De-recognition

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

- The rights to receive cash flows from the asset have expired; or
- The Group has transferred its rights to receive cash flows from the asset or has assumed an obligation to pay the received cash flows in full without material delay to a third party under a 'pass-through' arrangement and either:
 - (a) the Group has transferred substantially all the risks and rewards of the asset, or
 - (b) the Group has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

When the Group has transferred its rights to receive cash flows from an asset or has entered into a pass-through arrangement, it evaluates if, and to what extent, it has retained the risks and rewards of ownership. When it has neither transferred nor retained substantially all of the risks and rewards of the asset, nor transferred control of the asset, the Group continues to recognise the transferred asset to the extent of its continuing involvement. In that case, the Group also recognises an associated liability. The transferred asset and the associated liability are measured on a basis that reflects the rights and obligations that the Group has retained.

Impairment of financial assets

The Group recognises an allowance for expected credit losses (ECLs) for all debt instruments not held at fair value through profit or loss. ECLs are based on the difference between the contractual cash flows due in accordance with the contract and all the cash flows that the Group expects to receive, discounted at an approximation of the original effective interest rate. The expected cash flows will include cash flows from the sale of collateral held or other credit enhancements that are integral to the contractual terms. For trade receivables and contract assets, the Group applies a simplified approach in calculating ECLs. Therefore, the Group does not track changes in credit risk, but instead recognises a loss allowance based on lifetime ECLs at each reporting date. The Group has established a provision matrix that is based on its historical credit loss experience, adjusted for forward-looking factors specific to the debtors and the economic environment.

(ii) Financial liabilities

Initial recognition and subsequent measurement

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

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

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

Notes to the Financial Statements

Subsequent measurement

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

- Financial liabilities at fair value through profit or loss
- Financial liabilities at fair value through profit or loss include financial liabilities held for trading and financial liabilities designated upon initial recognition as at fair value through profit or loss.
- Gains or losses on liabilities held for trading are recognised in the statement of profit or loss.
- Financial liabilities at amortised cost (loans and borrowings). This is the category most relevant to the Group. After initial recognition, interest-bearing loans and borrowing are subsequently measured at amortised cost using the EIR method. Gains and losses are recognised in profit or loss when the liabilities are derecognised as well as through the EIR amortisation process. Amortised cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the EIR. The EIR amortisation is included as finance costs in the statement of profit or loss.

Derecognition

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

(e) Impairment of Assets

At the end of each reporting period, the Group assesses whether there is any indication that an asset may be impaired. The assessment will include the consideration of external and internal sources of information. If such an indication exists, an impairment test is carried out on the asset by comparing the recoverable amount of the asset, being the higher of the asset's fair value less costs to sell and value-in-use, to the asset's carrying amount. Any excess of the asset's carrying amount over its recoverable amount is recognised immediately in profit or loss.

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

Impairment testing is performed annually for goodwill, intangible assets with indefinite lives and intangible assets not yet available for use.

Notes to the Financial Statements

(f) Foreign Currency Transactions and Balances

Functional and presentation currency

The functional currency of each of the Group's entities is measured using the currency of the primary economic environment in which that entity operates. The consolidated financial statements are presented in Australian dollars which is the parent entity's functional currency.

Transaction and balances

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the date of the transaction. Foreign currency monetary items are translated at the year-end exchange rate. Non-monetary items measured at historical cost continue to be carried at the exchange rate at the date of the transaction. Non-monetary items measured at fair value are reported at the exchange rate at the date when fair values were determined.

Exchange differences arising on the translation of monetary items are recognised in profit or loss, except where deferred in equity when the exchange difference arises on monetary items receivable from or payable to a foreign operation for which settlement is neither planned nor likely to occur (therefore forming part of the net investment in the foreign operation).

Exchange differences arising on the translation of non-monetary items are recognised directly in other comprehensive income to the extent that the underlying gain or loss is recognised in other comprehensive income, otherwise the exchange difference is recognised in the profit or loss.

Group companies

The financial results and position of foreign operations whose functional currency is different from the Group's presentation currency are translated as follows:

- Assets and liabilities are translated at exchange rates prevailing at the end of the reporting period
- Income and expenses are translated at average exchange rates for the period; and
- Retained earnings are translated at the exchange rates prevailing at the date of the transaction.

Exchange differences arising on translation of foreign operations with functional currencies other than the Australian dollar are recognised in other comprehensive income and included in the foreign currency translation reserve in the statement of financial position. The cumulative amount of these differences is reclassified into profit or loss in the period in which the operation is disposed of.

(g) Employee Benefits

Short-term employee benefits

Provision is made for the Group's obligation for short-term employee benefits. Short-term employee benefits are benefits (other than termination benefits) that are expected to be settled wholly before 12 months after the end of the annual reporting period in which the employees render the related service, including wages, salaries and sick leave. Short-term employee benefits are measured at the (undiscounted) amounts expected to be paid when the obligation is settled.

Notes to the Financial Statements

Other long-term employee benefits

Provision is made for employees' long service leave and annual leave entitlements are expected to be settled after 12 months after the end of the annual reporting period in which the employees render the related service. Other long-term employee benefits are measured at the present value of the expected future payments to be made to employees.

Expected future payments incorporate anticipated future wage and salary levels, durations of service and employee departures and are discounted at rates determined by reference to market yields at the end of the reporting period on government bonds that have maturity dates that approximate the terms of the obligations. Any remeasurements for changes in assumptions of obligations for other long-term employee benefits are recognised in profit or loss in the periods in which the changes occur.

The Group's obligations for long-term employee benefits are presented as non-current provisions in its statement of financial position, except where the Group does not have an unconditional right to defer settlement for at least 12 months after the end of the reporting period, in which case the obligations are presented as current provisions.

(h) Goods and Services Tax ("GST")

Revenues, expenses and assets are recognised net of the amount of GST, except where the amount of GST incurred is not recoverable from the Australian Taxation Office ("ATO").

Receivables and payables are stated inclusive of the amount of GST receivable or payable. The net amount of GST recoverable from, or payable to, the ATO is included with other receivables or payables in the statement of financial position.

Cash flows are presented on a gross basis. The GST components of cash flows arising from investing or financing activities which are recoverable from, or payable to, the ATO are presented as operating cash flows included in receipts from customers or payments to suppliers.

(i) Rounding of Amounts

The Group has applied the relief available to it under ASIC Corporations (Rounding in Financial / Directors' reports) Instrument 2016/191. Accordingly, amounts in the financial statements and directors' report have been rounded off to the nearest \$1,000.

(j) Critical Accounting Estimates and Judgements

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

Notes to the Financial Statements

Key Estimates and Judgements

i. Cash-generating unit determination

Goodwill is allocated to cash-generating units and tested for impairment on an annual basis. Management apply judgement in determining cash-generating units and allocating the goodwill arising from business combinations to these cash-generating units. The recoverable amount of the Asia Pacific region includes 3 CGUs, Licencing, Concierge and DBITS to which goodwill is recognised.

ii. Recoverability of capitalised development directly attributable

Internally generated intangible assets are capitalised in accordance with AASB 138: Intangible Assets. Assumptions and judgements are made with regard to assessing the expected future economic benefits, the economic useful life and the level of completion. At the point where activities no longer relate to development but only to maintain the asset, capitalisation is discontinued.

iii. Equity settled compensation

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

iv. Recoverability of trade and other receivables

Trade and other receivables include amounts that are past due but not impaired and balances that are receivable from counter-parties and governments based in Asia. Other receivables include indirect taxes due from governments in Asia. There is a high degree of judgment in estimating whether these receivables require an impairment provision.

v. Contingent consideration

Contingent consideration resulting from business combinations, is valued at fair value at the acquisition date as part of the business combination. The determination of the fair value is based on discounted cash flows. The key assumptions take into consideration the probability of meeting each performance target. As part of the accounting for the acquisition of Network2Share Pty Ltd, contingent consideration with an estimated fair value of \$1,174,000 was recognised at the acquisition in equity. The maximum consideration based on current modelling to be paid is \$5,990,000.

vi. AASB 16: Determining the discount rate

Under new accounting standard the Group is required to bring all leases onto the balance sheet in the form of right-of-use asset with corresponding lease liability. These assets and liabilities are initially measured at the present value of the future lease payments. Determining the discount rate requires a judgement. Management used the incremental borrowing rate ("IBR") that was indicative of the rate at which the Group could borrow over a similar term and with similar security on the right-of-use asset.

Notes to the Financial Statements

Share-based payments

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

The cost of equity-settled transactions is determined by the fair value at the date when the grant is made using an appropriate valuation model.

That cost is recognised in employee benefits expense (Note 5), together with a corresponding increase in equity (Share-based payment reserves), over the period in which the service and, where applicable, the performance conditions are fulfilled (the vesting period). The cumulative expense recognised for equity-settled transactions at each reporting date until the vesting date reflects the extent to which the vesting period has expired and the Group's best estimate of the number of equity instruments that will ultimately vest. The expense or credit in the statement of profit or loss for a period represents the movement in cumulative expense recognised as at the beginning and end of that period.

Service and non-market performance conditions are not taken into account when determining the grant date fair value of awards, but the likelihood of the conditions being met is assessed as part of the Group's best estimate of the number of equity instruments that will ultimately vest. Market performance conditions are reflected within the grant date fair value. Any other conditions attached to an award, but without an associated service requirement, are considered to be non-vesting conditions. Non-vesting conditions are reflected in the fair value of an award and lead to an immediate expensing of an award unless there are also service and/or performance conditions. The dilutive effect of outstanding options is reflected as additional share dilution in the computation of diluted earnings per share.

(k) New Accounting Standards, Interpretation and amendments adopted by the Group

The accounting policies adopted in the preparation of the consolidated financial statements are consistent with those followed in the preparation of the Group's annual consolidated financial statements for the year ended 30 June 2019, except for the adoption of new standards effective as of 1 July 2019 identified below. The Group has not early adopted any other standard, interpretation or amendment that has been issued but is not yet effective.

The Group has applied, for the first time, AASB 16 Leases, using the modified retrospective method.

AASB 16 Leases

The Group applied AASB 16 for the first time on 1 July 2019. The nature and effect of the changes as a result of adoption of this new accounting standard is described below. AASB 16 supersedes AASB 117 Leases and related interpretations. The standard sets out the principles for the recognition, measurement, presentation and disclosure of leases and requires lessees to recognise most leases on the balance sheet. Lessor accounting under AASB 16 is substantially unchanged from AASB 117. Lessors will continue to classify leases as either operating or finance leases using similar principles as in AASB 117.

The Group adopted AASB 16 using the modified retrospective method of adoption, where rhipe has taken the option of measuring Right-of-use asset as if AASB 16 applied since commencement date with the date of initial application of 1 July 2019. The Group elected to not reassess whether a contract is, or contains, a lease at 1 July 2019. Instead, the Group applied the standard only to contracts that were previously identified as leases applying AASB 117 at the date of initial application.

Notes to the Financial Statements

The Group elected to use the following transition practical expedients:

- Used a single discount rate to a portfolio of leases with reasonably similar characteristics
- Used hindsight in applying the new leases standard
- Excluded initial direct costs in the measurement of the right of use asset.

Impact on the consolidated statement of financial position (increase/(decrease):

| | 30 Jun 20 | 1 Jul 19 |
|---|--------------|--------------|
| | \$'000 | \$'000 |
| Assets | | |
| Right-of-use assets | 3,191 | 2,708 |
| Deferred Tax Asset | 112 | 119 |
| Total Assets | 3,303 | 2,827 |
| Equity | | |
| Accumulated profits | (262) | (287) |
| Total Equity | (262) | (287) |
| Liabilities | | |
| Current and non-current lease liabilities | 3,856 | 3,405 |
| Provisions | (290) | (290) |
| Total Liabilities | 3,566 | 3,115 |

Upon adoption of AASB 16, the Group applied a single recognition and measurement approach for all leases for which it is the lessee. The Group recognised lease liabilities to make lease payments and right-of-use assets representing the right to use the underlying assets.

As at 1 July 2019 and 30 June 2020:

- Right-of-use assets were recognised and presented separately in the statement of financial position
- Lease liabilities were recognised and presented separately in the statement of financial position
- Deferred tax balances changed because of the deferred tax impact of the changes in recognised lease related assets and liabilities
- Retained Earnings decreased due to the net impact of these adjustments.

(l) Employee Share Trust

rhipe has set up an Employee Share Trust ("EST") to facilitate the long term incentive plans for executives and employee share plans for other employees. The commercial purpose of this trust is to hold shares that have been bought by EST on the open market or directly from the Company and to issue the shares to employees under agreed share plans. Financial statements of EST are included in financial statement of the Group.

Notes to the Financial Statements

AASB Interpretation 23: Uncertainty over Income Tax Treatments

AASB Interpretation 23 is applicable for financial years beginning on or after 1 July 2019. In the past, the Group has only recognised claims against tax authorities when considered virtually certain. Following transition, claims are recognised when probable. AASB 23 was applied using the modified retrospective approach without adjusting comparative periods and no impact was identified upon transition. The Interpretation addresses the accounting for income taxes when tax treatments involve uncertainty that affects the application of AASB 112 Income Taxes. It does not apply to taxes or levies outside the scope of AASB 112, nor does it specifically include requirements relating to interest and penalties associated with uncertain tax treatments. The Interpretation specifically addresses the following:

- Whether an entity considers uncertain tax treatments separately
- The assumptions an entity makes about the examination of tax treatments by taxation authorities
- How an entity determines taxable profit (tax loss), tax bases, unused tax losses, unused tax credits and tax rates
- How an entity considers changes in facts and circumstances.

An entity has to determine whether to consider each uncertain tax treatment separately or together with one or more other uncertain tax treatments. The approach that better predicts the resolution of the uncertainty needs to be followed. Since the Group operates in a complex multinational environment, it assessed whether the Interpretation had an impact on its consolidated financial statements. Upon adoption of the Interpretation, the Group considered whether it had any uncertain tax positions, particularly those relating to transfer pricing. The Group determined, based on its tax compliance that it is probable that its tax treatments (including those for the subsidiaries) will be accepted by the taxation authorities. The interpretation did not have an impact on the consolidated financial statements of the Group.

Note 2. Operating Segments

The Group has identified its operating segments based on the internal reports that are reviewed and used by the Managing Director (chief operating decision maker) in assessing performance and determining the allocation of resources.

The Managing Director manages the Group's activities as one business segment providing cloud based licencing programs and services for its key software vendors across the Asia Pacific region.

Revenue derived by region:

| | 2020 \$'000 | 2019 \$'000 |
|---------------------------|----------------|----------------|
| CONSOLIDATED GROUP | | |
| Oceania | 45,229 | 39,159 |
| Asia | 10,599 | 9,197 |
| Total rhipec group | 55,828 | 48,356 |

Notes to the Financial Statements

Information about major vendors and customers

Microsoft represents 75% of the Group's sales. As a result, revenue and incentives earned from Microsoft products and services equate to more than 80% of the Group revenue. Excluding Microsoft, no single customer contributed 10% or more to the Group's revenue for both 2020 and 2019.

Operating Profit

The Managing Director assesses the performance of the business based on a measure of Operating Profit. This measure excludes foreign exchange differences, depreciation and amortisation, share-based payments, taxation and the effect of specific expenditure which is not in the ordinary course of business and non-cash losses. These include restructuring costs, business combination related expenses, impairments and the effects of gains or losses from financial instruments.

A reconciliation of profit before income tax to Operating Profit is shown below:

| CONSOLIDATED GROUP | 2020 | 2019 |
|---|---------------|---------------|
| | \$'000 | \$'000 |
| Profit before income tax | 7,150 | 8,491 |
| Share based payments | 3,112 | 2,623 |
| Restructuring and due diligence | 1,068 | 472 |
| Depreciation and amortisation | 2,298 | 1,784 |
| Impairment expense | 3,425 | 20 |
| Non-controlling interest | 216 | - |
| Foreign exchange loss/(gain) | 97 | (291) |
| Interest income | (111) | (257) |
| Fair value adjustment to deferred consideration | (3,500) | - |
| Operating profit | 13,755 | 12,842 |

Note 3. Business combination

Acquisitions in FY20

On the 2nd of August 2019 ("Completion date") rhipe Australia Pty Ltd acquired 100% of the share capital in each of the target companies, Network2Share Pty Ltd ('N2S') and Data Confidence Solutions Pty Ltd ("DCS"). N2S is an Australian based security software company that has developed a user-friendly encryption product ("SmartEncrypt") which rhipe intends to bundle with existing vendor software licences. The acquired companies were pre-revenue generating and the total consideration of \$5m plus earn out, consisted of upfront and deferred payments as follows:

1. Up-front completion payment of \$2m in cash to the seller
2. Deferred consideration of up to a further \$3m to be paid in three payments consisting of part cash and part shares as follows:

Notes to the Financial Statements

- a. A first deferred payment ("DP1") of \$1m in cash to the seller when rhipe sells at least 10,000 SmartEncrypt licences ('Payment trigger'). If the payment trigger for DP1 is not satisfied within two years after the completion date, DP1 is invalid
- b. A second deferred payment ("DP2") of \$750k in cash and issue fully paid ordinary shares in rhipe Limited to the seller equal to \$250k ("Consideration shares") if the target companies sell cumulatively 20,000 SmartEncrypt licences, irrespective of the target companies achieving the payment trigger for DP1. If the payment trigger for DP2 is not satisfied any time following the completion date and ending on the date, which is two years after the first deferred payment cut-off date, DP2 is invalid. The period between the completion date and 2 years after first deferred payment cut-off date (i.e. 4 years post completion date) is the second deferred payment cut-off date
- c. A third deferred payment ('DP3') of fully paid ordinary shares in rhipe Limited to the seller equal to \$1m if the target companies sell at least 40,000 SmartEncrypt licences, irrespective of the target companies achieving the payment trigger for DP1 or DP2. If the payment trigger for DP3 is not satisfied any time following the completion date and ending on the date which is 2 years after the second deferred payment cut-off date (i.e. 6 years post completion date), DP3 is invalid.

Consideration shares issued for the second and third deferred payments are calculated at a price per share based on the volume weighted average market price (VWAP) for rhipe Limited ordinary shares over 30 consecutive trading days up to the last trading day immediately prior to the acquisition date.

3. In addition to the above deferred consideration, rhipe must pay additional earn out payments for up to five years post acquisition as follows:
 - a. A percentage of the monthly licence gross revenue over an agreed threshold in respect of sales outside of rhipe's existing geographic footprint
 - b. Percentage of the monthly licence gross revenue over a threshold in respect of sales outside of rhipe's geographic foot print less the direct selling and marketing cost incurred.

The deferred consideration and earn out payments above forms part of the consideration paid and is considered contingent consideration as per AASB 3 Business Combinations (para. 39). The cash component of contingent consideration is recognised as a financial liability at the acquisition date, recognised at fair value as part of the consideration transferred in exchange for the target companies. The share component of contingent consideration is recognised in equity.

Notes to the Financial Statements

Assets acquired and liabilities assumed:

| | |
|--|---------------|
| Assets | \$'000 |
| Intangible assets - capitalised software | 4,687 |
| Total Assets | 4,687 |
| Liabilities | |
| Employee leave entitlements | 92 |
| Total Liabilities | 92 |
| Total identifiable net assets at fair value | 4,595 |
| Goodwill arising on acquisition | 1,395 |
| Purchase consideration | 5,990 |
| Contingent consideration current - payable in cash | 939 |
| Contingent consideration non-current - payable in cash | 1,877 |
| Contingent consideration - payable in shares | 1,174 |
| Up-front payment - paid in cash | 2,000 |
| Total purchase consideration | 5,990 |

The total consideration paid at acquisition was allocated to intangible assets and goodwill. The amount allocated to intangible assets has been recognised as capitalised software development. The acquisition accounting was provisional at 31 Dec 2019 subject to receipts of completion accounts and allocatable cost amount calculation ("ACA") at which point deferred tax liability ("DTL") was recognised. There were no revenues generated from the SmartEncrypt during the reporting period as rhipe intends to launch the product in Q3 FY21. Net loss for the period since acquisition date was \$0.5m including transaction cost of \$88,788 which were expensed and included in General and Administration expenses.

Acquisitions in FY19

On 28 February 2019, rhipe acquired 100% of the shares in Dynamic Business IT Solutions Pty Ltd ('DBITS'). The acquisition of DBITS provides the Company with Microsoft Dynamic implementation and support capabilities allowing rhipe to continue broadening the service that can be offered to its growing ecosystem of resellers in the Asia Pacific region.

Notes to the Financial Statements

Fair value of the identifiable assets and liabilities of DBITS at the date of acquisition were:

| Assets | \$'000 |
|--|---------------|
| Property, plant and equipment | 18 |
| Cash and cash equivalents | - |
| Trade receivables | 51 |
| Bonds | 34 |
| Customer relationships identified at acquisition | 792 |
| Total Assets | 895 |
| Liabilities | |
| Trade payables | 9 |
| Employee leave entitlements | 51 |
| Unearned revenue | 32 |
| Deferred tax liability arising on acquisition | 237 |
| Total Liabilities | 329 |
| Total identifiable net assets at fair value | 566 |
| Goodwill arising on acquisition | 7,434 |
| Purchase consideration | 8,000 |

The net assets recognised in the 30 June 2019 financial statements, in accordance with AASB 3, were based on provisional assessment of contingent consideration of up to \$3.5m which was to be paid in 2 equal instalments and tied to amount of adjusted EBITDA in the 12 months to 29 February 2020 and 28 February 2021.

In light of DBITS performance to date and forecast for the remaining period of the earn-out, it has been estimated that no contingent consideration will be paid and therefore the change in fair value is recognised in profit or loss in accordance with AASB 9. This adjustment is disclosed under Other income (Note 4 (b)).

Notes to the Financial Statements

Note 4. Revenue and Other Income

Revenue from contracts with customers is recognised when control of the goods or services are transferred to the customer at an amount that reflects the consideration to which the Group expects to be entitled in exchange for those goods or services. The Group has concluded that it is the agent in its revenue arrangements for licencing business, except for the provision of services, because it typically controls the goods or services before transferring them to the customer. If the consideration in a contract includes a variable amount, the Group estimates the amount of consideration to which it will be entitled in exchange for transferring the goods to the customer.

The variable consideration is estimated at contract inception and constrained until it is highly probable that a significant revenue reversal in the amount of cumulative revenue recognised will not occur when the associated uncertainty with the variable consideration is subsequently resolved. Volume rebates give rise to variable consideration.

Revenue recognition relating to the provision of services is determined with reference to the stage of completion of the transaction at the end of the reporting period where outcome of the contract can be estimated reliably. Stage of completion is determined with reference to the services performed to date as a percentage of total anticipated services to be performed.

Where the outcome cannot be estimated reliably, revenue is recognised only to the extent that related expenditure is recoverable. Interest revenue is recognised using the effective interest method. All revenue is stated net of the amount of goods and services tax. Set out below, is the reconciliation of the revenue from contracts with customers with the amount disclosed in the segment information (Note 2).

| | 2020 \$'000 | 2019 \$'000 |
|---|----------------|----------------|
| CONSOLIDATED GROUP | | |
| Sales - Software products & services | 325,201 | 252,537 |
| Less purchases of software products | (269,373) | (204,181) |
| Revenue | 55,828 | 48,356 |
| (a) Revenue from continuing operations | | |
| Revenue | | |
| Licencing revenue | 42,364 | 38,705 |
| Service & support revenue | 13,464 | 9,651 |
| Total revenue | 55,828 | 48,356 |
| (b) Other income | | |
| Interest income | 111 | 257 |
| Foreign exchange gain | - | 291 |
| Changes in fair value of deferred consideration | 3,500 | - |
| Total other income | 3,611 | 548 |

Notes to the Financial Statements

Note 5. Expenses

| CONSOLIDATED GROUP | 2020 \$'000 | 2019 \$'000 |
|--|------------------------|------------------------|
| (a) Employee benefits | | |
| Share-based payments | 3,112 | 2,623 |
| Defined contribution superannuation expenses | 1,861 | 1,490 |
| Other employee benefits | 27,502 | 21,872 |
| | 32,475 | 25,985 |
| (b) Depreciation and amortisation | | |
| Depreciation | 676 | 496 |
| Amortisation of intangible assets | 1,621 | 1,288 |
| Amortisation of right of use asset | 1,871 | - |
| | 4,168 | 1,784 |
| (c) Other expenses | | |
| Foreign exchange loss | 97 | - |
| (d) Impairment expense | | |
| Impairment of goodwill - DBITS | 3,425 | 20 |
| (e) Rental expense | | |
| Rental expenses on operating leases | - | 1,641 |
| (f) Finance cost | | |
| Interest on leases | 142 | - |
| (g) Marketing and travel expense | | |
| Marketing and travel related expenses | 1,296 | 3,283 |
| (g) Business administration expense | | |
| Business administration expense | 7,238 | 5,224 |
| Total expenses | 48,841 | 37,937 |

Notes to the Financial Statements

Note 6. Tax Expense

Income Tax

The income tax expense/(benefit) for the year comprises current income tax expense/(benefit) and deferred tax expense/(benefit).

Current income tax expense/(benefit) charged to profit or loss is the tax payable on taxable income. Current tax liabilities/(assets) are measured at the amounts expected to be paid to/ (recovered from) the relevant taxation authority.

Deferred income tax expense reflects movements in deferred tax asset and deferred tax liability balances during the year as well as unused tax losses.

Current and deferred income tax expense/(income) is charged or credited outside profit or loss when the tax relates to items that are recognised outside profit or loss.

Except for business combinations, no deferred income tax is recognised from the initial recognition of an asset or liability, where there is no effect on accounting or taxable profit or loss.

Deferred tax assets and liabilities are calculated at the tax rates that are expected to apply to the period when the asset is realised or the liability is settled and their measurement reflects the manner in which management expects to recover or settle the carrying amount of the related asset or liability.

Deferred tax assets relating to temporary differences and unused tax losses are recognised only to the extent that it is probable that future taxable profit will be available against which the benefits of the deferred tax asset can be utilised. Where temporary differences exist in relation to investments in subsidiaries, branches, associates, and joint ventures, deferred tax assets and liabilities are not recognised where the timing of the reversal of the temporary difference cannot be controlled and it is not probable that the reversal will occur in the foreseeable future.

Current tax assets and liabilities are offset where a legally enforceable right of set-off exists and it is intended that net settlement or simultaneous realisation and settlement of the respective asset and liability will occur. Deferred tax assets and liabilities are offset where:

- (a) A legally enforceable right of set-off exists; and
- (b) The deferred tax assets and liabilities relate to income taxes levied by the same taxation authority on either the same taxable entity or different taxable entities where it is intended that net settlement or simultaneous realisation and settlement of the respective asset and liability will occur in future periods in which significant amounts of deferred tax assets or liabilities are expected to be recovered or settled.

Tax consolidation

Relevance of tax consolidation to the Group

The Company and its wholly-owned Australian resident entities have formed a tax-consolidated group with effect from 2014 and are therefore taxed as a single entity from that date. The head entity within the tax-consolidated group is rhipe Limited.

Notes to the Financial Statements

Tax expense/(benefit), deferred tax liabilities and deferred tax assets arising from temporary differences of the members of the tax-consolidated group are recognised in the separate financial statements of the members of the tax-consolidated group, using the 'separate taxpayer within group' approach by reference to the carrying amounts in the separate financial statements of each entity and the tax values applying under tax consolidation. Current tax liabilities and assets and deferred tax assets arising from unused tax losses and relevant tax credits of the members of the tax consolidated group are recognised by the Company (as head entity in the tax-consolidated group).

Due to the existence of a tax funding arrangement between the entities in the tax-consolidated group, amounts are recognised as payable to or receivable by the Company and each member of the tax consolidated group in relation to the tax contribution amounts paid or payable between the parent entity and the other members of the tax-consolidated group in accordance with the arrangement.

Nature of tax funding arrangements and tax sharing agreements

Entities within the tax-consolidated group have entered into a tax funding arrangement and a tax sharing agreement with the head entity. Under the terms of the tax funding arrangement, rhipe Limited and each of the entities in the tax-consolidated group have agreed to pay a tax equivalent payment to or from the head entity, based on the current tax liability or current tax asset of the entity. The tax sharing agreement entered into between members of the tax-consolidated group provides for the determination of the allocation of income tax liabilities between the entities should the head entity default on its tax payment obligations or if an entity should leave the tax consolidated group. The effect of the tax sharing agreement is that each member's liability for tax payable by the tax-consolidated group is limited to the amount payable to the head entity under the tax funding arrangement.

| CONSOLIDATED GROUP | Note | 2020 \$'000 | 2019 \$'000 |
|---|-------------|------------------------|------------------------|
| (a) The components of tax (expense)/income comprise: | | | |
| Current tax | | 3,213 | 3,863 |
| Deferred tax | 16 | (1,237) | (1,835) |
| Under provision in respect of prior years | | 375 | 249 |
| | | 2,351 | 2,277 |
| (b) The prima facie tax on profit from ordinary activities before income tax is reconciled to the income tax as follows: | | | |
| Prima facie tax payable on profit from ordinary activities before income tax at 30% (2019: 30%) | | | |
| – Consolidated Group | | 2,210 | 2,547 |
| – Effect of tax rates of subsidiaries operating in other jurisdictions | | 42 | (321) |
| Add tax effect of: | | | |
| – Other non-allowable items | | 126 | 1,102 |
| | | 2,378 | 3,328 |
| Less tax effect of: | | | |
| – Under/(over) provision of prior year income tax | | 375 | 249 |
| – Temporary differences not recognised in the prior year | | (449) | - |
| – Current year overseas losses not recognised/(Utilisation of tax losses) | | 205 | (771) |
| – Research and development offset | | (158) | (529) |
| | | 2,351 | 2,277 |

Notes to the Financial Statements

(c) Amounts recognised directly in equity:

Aggregate current and deferred tax arising in the reporting period and not recognised in net profit or loss or other comprehensive income but directly debited to equity:

| | | |
|---------------------|-------|---|
| Share Base payments | (37) | - |
| Capital raising | (315) | - |
| AASB 16 Recognition | (123) | - |
| | (475) | - |

Note 7. Earnings per Share

| | 2020 \$'000 | 2019 \$'000 |
|--|-------------------------------|-------------------------------|
| CONSOLIDATED GROUP | | |
| Basic EPS | 3.49 | 4.53 |
| Diluted EPS | 3.41 | 4.42 |
| NET PROFIT ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT: | \$000 | \$000 |
| (a) Reconciliation of earnings to profit or loss | | |
| Profit/(Loss) | 5,015 | 6,214 |
| Earnings used to calculate basic EPS | 5,015 | 6,214 |
| Earnings used in the calculation of dilutive EPS | 5,015 | 6,214 |
| | 2020 No. of Shares | 2019 No. of Shares |
| (b) Weighted average number of ordinary shares outstanding during the year used in calculating basic EPS | 143,848,303 | 137,298,135 |
| Weighted average number of dilutive options and performance rights outstanding | 3,215,882 | 3,362,356 |
| Weighted average number of ordinary shares outstanding during the year used in calculating dilutive EPS | 147,064,185 | 140,660,491 |

Note 8. Cash and Cash Equivalents

Cash and cash equivalents include cash on hand, deposits available on demand with banks, other short-term highly liquid investments with original maturities of three months or less, and bank overdrafts. Bank overdrafts are reported within short-term borrowings in current liabilities in the statement of financial position.

| | 2020 \$'000 | 2019 \$'000 |
|--------------------------------------|----------------|----------------|
| CONSOLIDATED GROUP | | |
| Cash at bank | 22,983 | 18,400 |
| Short-term highly liquid investments | 37,942 | 7,130 |
| Cash and cash equivalents | 60,925 | 25,530 |

Notes to the Financial Statements

Note 9. Trade and Other Receivables

Trade and other receivables include amounts due from customers for goods sold and services performed in the ordinary course of business. Receivables expected to be collected within 12 months of the end of the reporting period are classified as current assets. All other receivables are classified as non-current assets.

Financial assets are classified, at initial recognition, as subsequently measured at amortised cost, fair value through other comprehensive income (OCI), and fair value through profit or loss. The Group recognises an allowance for expected credit losses (ECLs) for trade and other receivables. Refer to Note 1(d) for further discussion on the determination of impairment of financial assets. Interest rates, unemployment rates and other micro-economic factors were considered when calculating ECL.

| CONSOLIDATED GROUP | Note | 2020 \$'000 | 2019 \$'000 |
|--------------------------------------|-------------|------------------------|------------------------|
| CURRENT | | | |
| Trade receivables | | 30,753 | 30,258 |
| Provision for expected credit losses | 9(a) | (1,990) | (819) |
| Indirect taxes | | 2,624 | 1,744 |
| Accrued revenue | | 10,894 | 8,125 |
| | | 42,281 | 39,308 |

(a) Provision For Expected Credit Losses

Movement in provision for ECL is as follows:

| CONSOLIDATED GROUP | Opening Balance \$'000 | Impairment For The Year \$'000 | Amounts Written Off During The Year \$'000 | Closing Balance \$'000 |
|-------------------------------------|---------------------------------------|---|---|---------------------------------------|
| (i) Current trade receivables 2019 | 587 | 893 | (661) | 819 |
| (ii) Current trade receivables 2020 | 819 | 1,339 | (168) | 1,990 |

(b) Credit risk

The Group has no significant concentration of credit risk with respect to any single counter party or group of counter parties. Trade and Other Receivables are considered to be the main source of credit risk related to the Group.

On a geographic basis, the Group has significant credit risk exposures in Australia, Singapore, New Zealand, Malaysia, Philippines and Thailand given the substantial operations in those regions. The Group's exposure to credit risk for receivables at the end of the reporting period in those regions is as follows:

Notes to the Financial Statements

| CONSOLIDATED GROUP | 2020 % | 2020 \$'000 | 2019 % | 2019 \$'000 |
|---|-------------------|------------------------|-------------------|------------------------|
| Australia | 53% | 22,401 | 52% | 20,500 |
| Singapore | 11% | 4,792 | 17% | 6,473 |
| Malaysia | 10% | 4,207 | 10% | 3,742 |
| New Zealand | 6% | 2,551 | 7% | 2,867 |
| Philippines | 8% | 3,357 | 6% | 2,341 |
| Thailand | 5% | 1,994 | 3% | 1,346 |
| Other (Indonesia, Korea, USA and Japan) | 7% | 2,979 | 5% | 2,039 |
| | 100% | 42,281 | 100% | 39,308 |

The following table details the Group's trade and other receivables exposed to credit risk with ageing analysis and ECL provided for thereon. Amounts are considered as 'past due' when the debt has not been settled within the terms and conditions agreed between the Group and the customer or counter party to the transaction. All receivables are assessed for ECL using the historical default rate adjusted for forward-looking estimates based on macro economic indicators.

| | Gross Amount \$'000 | Within | | (Days Overdue) | | ECL \$'000 |
|---------------------------------|------------------------|-------------------------|------------------------|----------------|------------|---------------|
| | | Initial Terms \$'000 | Past Due <30 \$'000 | 31-60 \$'000 | >60 \$'000 | |
| 2019 Trade and term receivables | 30,258 | 17,421 | 6,794 | 3,984 | 2,059 | |
| Expected credit loss rate | | 1% | 1% | 2% | 23% | |
| Expected credit loss | | 150 | 100 | 97 | 472 | 819 |
| 2020 Trade and term receivables | 30,753 | 17,177 | 8,071 | 2,693 | 2,812 | |
| Expected credit loss rate | | 2% | 3% | 6% | 42% | |
| Expected credit loss | | 378 | 277 | 168 | 1,167 | 1,990 |

Note 10. Other Assets

| CONSOLIDATED GROUP | 2020 \$'000 | 2019 \$'000 |
|---------------------------|------------------------|------------------------|
| CURRENT | | |
| Prepayments | 995 | 945 |
| Bonds | 509 | 270 |
| | 1,504 | 1,215 |

Prepayments relate to prepaid operating expenses (such as insurance) and these prepayments will be realised within 12 months (the period of time that these services relate to). Bonds are rental bonds for the property leases. See note 11 for more details on leases.

Notes to the Financial Statements

Note 11. Leases

The Group has various property leases used in its operations. Property leases have lease terms of less than 5 years. There are several lease contracts that include extension options.

Set out below are the carrying amounts of right-of-use assets recognised and the movement during the year:

| | \$'000 |
|--------------------------------------|---------------|
| As at 1 July 2019 | 2,708 |
| Additions | 2,354 |
| Amortisation expense | (1,871) |
| As at 30 June 2020 (Adjusted) | 3,191 |

Set out below are the carrying amounts of lease liabilities and the movement during the year:

| | \$'000 |
|--------------------------------------|---------------|
| As at 1 July 2019 (Adjusted) | 3,405 |
| Additions | 2,354 |
| Accretion of interest | 135 |
| Payments | (2,035) |
| As at 30 June 2020 (Adjusted) | 3,859 |

The lease liabilities as at 1 July 2019 can be reconciled to the operating lease commitments as of 30 June 2019, as follows:

| | \$'000 |
|---|---------------|
| Operating lease commitments as at 30 June 2019 | 3,898 |
| Weighted average incremental borrowing rate as at 1 July 2019 | 3.19% |
| Discounted operating lease commitments as at 1 July 2019 | 3,405 |

The Group has several lease contracts that include extension options. These options are negotiated by management to provide flexibility in managing the leased-asset portfolio and align with the Group's business needs. Management exercises significant judgment in determining whether these extension options are reasonably certain to be exercised.

The group does not have any short term, variable or low value leases.

Notes to the Financial Statements

Impact on consolidated statement of cash flows (increase/(decrease):

| | \$'000 |
|---|---------------|
| Payments to vendors/customers and employees | 2,035 |
| Interest paid | (142) |
| Net cash provided by/(used in) operating activities | 1,893 |
| Payment of principal portion of lease liabilities | (1,893) |
| Net cash (used in)/provided by financing activities | (1,893) |

Note 12. Property, Plant and Equipment

Each class of property, plant and equipment is carried at cost less, where applicable, any accumulated depreciation and impairment losses.

Property Plant and equipment

Plant and equipment is measured on the cost basis and therefore carried at cost less accumulated depreciation and any accumulated impairment. In the event the carrying amount of plant and equipment is greater than the estimated recoverable amount, the carrying amount is written down immediately to the estimated recoverable amount and impairment losses are recognised either in profit or loss. A formal assessment of the recoverable amount is made when impairment indicators are present (refer to Note 1(e) for details of impairment of assets).

Depreciation

The depreciable amount of all fixed assets including buildings and capitalised leased assets, but excluding freehold land, is depreciated on a straight-line basis over the asset's useful life to the Group commencing from the time the asset is held ready for use. Leasehold improvements are depreciated over the shorter of either the unexpired period of the lease or the estimated useful lives of the improvements.

The depreciation rates used for each class of depreciable assets are:

| Class of Fixed Asset | Depreciation rate |
|-----------------------------|--------------------------|
| Computer Equipment | 25% – 33% |
| Furniture & Fittings | 13% – 33% |
| Leasehold Improvements | 20% – 33% |

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at the end of each reporting period.

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount.

Gains and losses on disposals are determined by comparing proceeds with the carrying amount. These gains and losses are recognised in profit or loss in the period in which they arise.

Notes to the Financial Statements

Movements in Carrying Amounts

Movements in carrying amounts between the beginning and the end of the current financial year.

| Consolidated Group | Computer Equipment \$'000 | Furniture & Fittings \$'000 | Leasehold Improvements \$'000 | Total \$'000 |
|--|------------------------------|--------------------------------|-------------------------------------|-----------------|
| Cost at 30 June 2018 | 1,044 | 171 | 719 | 1,934 |
| Additions | 606 | 55 | 28 | 689 |
| Disposals | - | - | - | - |
| Cost at 30 June 2019 | 1,650 | 225 | 748 | 2,623 |
| Accumulated depreciation at 30 June 2018 | (608) | (87) | (322) | (1,017) |
| Depreciation expense | (316) | (24) | (157) | (497) |
| Disposals | - | - | - | - |
| Accumulated depreciation at 30 June 2019 | (923) | (111) | (480) | (1,514) |
| Balance at 30 June 2019 | 727 | 115 | 268 | 1,110 |
| Cost at 30 June 2019 | 1,650 | 225 | 748 | 2,623 |
| Additions | 460 | 12 | 899 | 1,371 |
| Disposals | - | - | - | - |
| Cost at 30 June 2020 | 2,110 | 237 | 1,647 | 3,994 |
| Accumulated depreciation at 30 June 2019 | (923) | (111) | (480) | (1,514) |
| Depreciation expense | (434) | (31) | (211) | (676) |
| Disposals | - | - | - | - |
| Accumulated depreciation at 30 June 2020 | (1,357) | (142) | (691) | (2,190) |
| Balance at 30 June 2020 | 753 | 95 | 956 | 1,804 |

Notes to the Financial Statements

Note 13. Intangible Assets

Goodwill

Goodwill is carried at cost less any accumulated impairment losses. Goodwill is calculated as the excess of the sum of:

- (i) The consideration transferred
- (ii) Any non-controlling interest (determined under either the full goodwill or proportionate interest method); and
- (iii) The acquisition date fair value of any previously held equity interest, less
- (iv) The acquisition date fair value of net identifiable assets acquired.

The acquisition date fair value of the consideration transferred for a business combination plus the acquisition date fair value of any previously held equity interest forms the cost of the investment in the separate financial statements.

The amount of goodwill recognised on acquisition of each subsidiary in which the Group holds less than a 100% interest will depend on the method adopted in measuring the non-controlling interest. The Group can elect in most circumstances to measure the non-controlling interest in the acquiree either at fair value (full goodwill method) or at the non-controlling interest's proportionate share of the subsidiary's identifiable net assets (proportionate interest method). In such circumstances, the Group determines which method to adopt for each acquisition and this is stated in the respective notes to these financial statements disclosing the business combination.

Goodwill is tested for impairment annually (refer to Note 1(e) for details of impairment) and is allocated to the Group's cash-generating units or groups of cash-generating units, representing the lowest level at which goodwill is monitored being not larger than an operating segment. Gains and losses on the disposal of an entity include the carrying amount of goodwill related to the entity disposed of.

Research and development

Expenditure during the research phase of a project is recognised as an expense when incurred. Development costs are capitalised only when:

1. The technical feasibility of completing the asset so that it will be available for use or sale
2. Intention to complete the asset and use or sell it
3. Ability to use or sell the asset
4. How the asset will generate probable future economic benefits
5. Availability of adequate technical, financial and other resources to complete the development
6. Ability to measure reliably the expenditure attributable to the asset during its development.

Software development costs have a finite useful life and are amortised on a straight-line basis over their estimated useful lives. The estimated useful life and amortisation method are reviewed at the end of each reporting period, with the effect of any changes in estimate being accounted for on a prospective basis.

Notes to the Financial Statements

| Consolidated Group | Goodwill \$'000 | Customer Relationships \$'000 | Trademarks & Licences \$'000 | WIP Software Development \$'000 | Software Development \$'000 | Total \$'000 |
|--|--------------------|-------------------------------------|------------------------------------|---------------------------------------|-----------------------------------|-----------------|
| Cost at 30 June 2018 | 19,897 | - | 10 | - | 5,140 | 25,047 |
| Additions | - | - | - | 2,278 | - | 2,278 |
| Additions - business combination | 7,434 | 792 | - | - | - | 8,226 |
| Transfers | - | - | - | (2,193) | 2,193 | - |
| Disposals | - | - | (10) | - | - | (10) |
| Cost at 30 June 2019 | 27,331 | 792 | - | 85 | 7,333 | 35,541 |
| Accumulated amortisation at 30 June 2018 | - | - | - | - | (1,584) | (1,584) |
| Amortisation expense | - | (53) | - | - | (1,235) | (1,288) |
| Disposals | - | - | - | - | - | - |
| Accumulated amortisation at 30 June 2019 | - | (53) | - | - | (2,819) | (2,872) |
| Balance at 30 June 2019 | 27,331 | 739 | - | 85 | 4,514 | 32,669 |
| Cost at 30 June 2019 | 27,331 | 792 | - | 85 | 7,333 | 35,541 |
| Additions | - | - | - | 2,906 | - | 2,906 |
| Additions - business combination | 1,395 | - | - | 4,687 | - | 6,082 |
| Transfers | - | - | - | (2,781) | 2,781 | - |
| Disposals | - | - | - | - | - | - |
| Cost at 30 June 2020 | 28,726 | 792 | - | 4,897 | 10,114 | 44,529 |
| Accumulated amortisation at 30 June 2019 | - | (53) | - | - | (2,819) | (2,872) |
| Impairment expense | (3,425) | - | - | - | - | (3,425) |
| Amortisation expense | - | (152) | - | - | (1,469) | (1,621) |
| Disposals | - | - | - | - | - | - |
| Accumulated impairment amortisation at 30 June 2020 | (3,425) | (205) | - | - | (4,288) | (7,918) |
| Balance at 30 June 2020 | 25,301 | 587 | - | 4,897 | 5,826 | 36,611 |

Notes to the Financial Statements

Goodwill and Customer Relationship additions arose due to business combination, please refer to note 3 (Business combination) for more details. The amount of all software development costs are amortised on a straight-line basis over the estimated useful life to the Company commencing from the time the asset is held ready for use.

The amortisation rates used for each class of depreciable assets are:

| | Amortisation rate |
|-----------------------|--------------------------|
| Software development | 20% |
| Customer relationship | 20% |

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at the end of each reporting period. An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount. Intangible assets, other than goodwill and trademarks and licences, have an indefinite useful lives. The current amortisation charges for intangible assets are included under Sales and marketing expense per the statement of profit or loss. Goodwill and trademarks and licences have an indefinite useful life.

Goodwill is allocated to the group of cash-generating units ("CGU") which is the level at which goodwill is monitored and is based on the Group's reporting regions.

| | 2020 | 2019 |
|---------------------|---------------|---------------|
| | \$'000 | \$'000 |
| Asia Pacific region | 25,301 | 27,331 |

Goodwill impairment testing

The recoverable amount of the Asia Pacific region, includes three CGUs, Licencing, Support and DBITS, to which goodwill is recognised at 30 June 2020, was calculated on the basis of value-in-use using a discounted cash flow model. Management has based the value-in-use calculations on board approved budgets for the 2021 financial year for the cash-generating unit. This budget is adjusted for future years and uses an initial growth rate of 28% (30 June 2019: 30%) decreasing over five years to a terminal growth of 1% (30 June 2019: 3.5%) and a real pre-tax discount rate of 13.5% (30 June 2019: 13.5%). The terminal growth rate is determined based on the long-term anticipated growth rate of the business. The forecast financial information is based on both past experience and future expectations of cash-generating unit performance. The major inputs and assumptions used in performing an impairment assessment that require judgment include revenue forecasts, operating cost projections, customer numbers, customer churn, discount rates and growth rates.

Determining whether goodwill is impaired requires an estimation of the recoverable amount of the cash-generating units to which goodwill has been allocated. The value-in-use calculation requires the Directors to estimate the future cash flows expected to arise from the cash-generating unit and a suitable discount rate in order to calculate present value. Where the actual future cash flows are less than expected, a material impairment loss may arise.

Notes to the Financial Statements

During the year ended 30 June 2020 an impairment of goodwill arose as a result of the review of goodwill allocated to DBITS CGU. The company underperformed during FY20 partially due to the impact of COVID-19 which resulted in a number of consulting projects being postponed or cancelled. The impact of COVID-19 on DBITS is expected to continue into FY21. The internal valuation projection illustrates a current value lower than the carrying value of the company \$7,434,000. As a result, a \$3,425,000 has been recognised as an impairment loss.

No impairment losses arose as a result of Goodwill impairment testing of other CGUs.

Note 14. Trade and Other Payables

Trade and other payables represent the liabilities for goods and services received by the entity that remain unpaid at the end of the reporting period. The balance is recognised as a current liability with the amounts normally paid within 30 days of recognition of the liability.

No interest is charged on trade payables. The Group has financial risk management policies in place to ensure that all payables are paid within the pre-agreed credit terms.

| CONSOLIDATED GROUP | Note | 2020 \$'000 | 2019 \$'000 |
|--|------|----------------|----------------|
| CURRENT | | | |
| Unsecured liabilities | | | |
| Trade payables | | 42,211 | 35,794 |
| Sundry payables and accrued expenses | | 5,736 | 5,548 |
| Total trade and other payables | 27 | 47,947 | 41,342 |
| (a) Financial liabilities at amortised cost classified as trade and other | | | |
| Trade and other payables, unearned revenue and employee benefits | | | |
| - Total current | | 47,947 | 41,342 |
| - Total non-current | | - | - |
| Financial liabilities as trade and other payables | 27 | 47,947 | 41,342 |

Note 15. Contract Liabilities

| CONSOLIDATED GROUP | 2020 \$'000 | 2019 \$'000 |
|--------------------|----------------|----------------|
| CURRENT | | |
| Unearned revenue | 274 | 252 |

Unearned revenue relates to Solutions revenue that is invoiced in advance and recognised in Profit and Loss when certain milestones are completed.

Notes to the Financial Statements

Note 16. Tax

| CONSOLIDATED GROUP | 2020 | 2019 |
|---------------------------|---------------|---------------|
| | \$'000 | \$'000 |
| CURRENT | | |
| Income tax payable | 1,688 | 2,885 |
| | 1,688 | 2,885 |

Reflected in the statement of financial position as:

| CONSOLIDATED GROUP | 2020 | 2019 |
|---------------------------|---------------|---------------|
| | \$'000 | \$'000 |
| Deferred tax assets | 2,660 | 1,141 |
| Deferred tax liabilities | (72) | (264) |
| Deferred tax assets (net) | 2,588 | 877 |

| CONSOLIDATED GROUP | Opening Balance \$'000 | Recognised To Income \$'000 | Recognised To Equity \$'000 | Acquisition of subsidiary \$'000 | Closing Balance \$'000 |
|---|---------------------------------------|--|--|---|---------------------------------------|
| Balance at 30 Jun 2018 - NET DEFERRED TAX LIABILITIES | (359) | (566) | 157 | 47 | (721) |
| Provisions - employee benefits | 608 | 471 | - | - | 1,079 |
| Provisions - doubtful debt | 176 | 70 | - | - | 246 |
| Accrued revenue | (1,219) | 1,219 | - | - | - |
| DTL arising on business combination | - | - | - | (237) | (237) |
| Other | (286) | 75 | - | - | (211) |
| Balance at 30 June 2019 - NET DEFERRED TAX LIABILITIES | (721) | 1,835 | - | (237) | 877 |
| Provisions - employee benefits | 1,079 | 44 | - | - | 1,123 |
| Provisions - doubtful debts | 246 | 351 | - | - | 597 |
| DTL arising on business combination | (237) | 61 | - | - | (176) |
| Share-based payments | - | 505 | 37 | - | 542 |
| Other | (211) | 275 | 438 | - | 502 |
| Balance at 30 June 2020 - NET DEFERRED TAX ASSETS | 877 | 1,236 | 475 | - | 2,588 |

Note 17. Provisions

Provisions are recognised when the Group has a legal or constructive obligation, as a result of past events, for which it is probable that an outflow of economic benefits will result and that outflow can be reliably measured. Provisions are measured using the best estimate of the amounts required to settle the obligation at the end of the reporting period.

Notes to the Financial Statements

Provision for Employee Benefits

Provision for employee benefits represents amounts accrued for annual leave and long service leave. The non-current portion for this provision includes amounts accrued for long service leave entitlements that have not yet vested in relation to those employees who have not yet completed the required period of service.

The probability of long service leave being taken is based on historical data. The measurement and recognition criteria relating to employee benefits have been detailed in Note 1(g).

| | 2020 \$'000 | 2019 \$'000 |
|---------------------------|----------------|----------------|
| CONSOLIDATED GROUP | | |
| CURRENT | | |
| Employee Benefits | 1,158 | 1,037 |
| NON CURRENT | | |
| Employee Benefits | 501 | 257 |

| | Opening Balance \$'000 | Additional Provision for the Year \$'000 | Utilisation Of Provision During The Year \$'000 | Closing Balance \$'000 |
|---------------------------------|---------------------------|---|--|---------------------------|
| | 1 Jul 2018 | | | 30 Jun 2019 |
| Employee benefits – Current | 679 | 1,297 | (939) | 1,037 |
| Employee benefits – Non-Current | 185 | 72 | - | 257 |
| | 1 Jul 2019 | | | 30 Jun 2020 |
| Employee benefits – Current | 1,037 | 1,895 | (1,774) | 1,158 |
| Employee benefits – Non-Current | 257 | 244 | - | 501 |

Note 18. Deferred Contingent Consideration

| | 2020 \$'000 | 2019 \$'000 |
|---------------------------|----------------|----------------|
| CONSOLIDATED GROUP | | |
| CURRENT | | |
| Contingent consideration | 939 | 1,750 |
| NON CURRENT | | |
| Contingent consideration | 1,878 | 1,750 |

Total contingent consideration of up to \$3,990,000 will be paid in number of instalments, some in cash and some in shares. Cash portion of \$2,817,000 is disclosed in the balance sheet and are re-measured each reporting period. Equity portion of \$1,174,000 is in equity and it is not remeasured. First, second and third instalments are payable after 2, 4 and 6 years respectively from completion date and are tied to sales volume of SmartEncrypt licences. Prior year deferred consideration relates to DBITS which was fully written off during this financial year as a result of company not achieving the required target.

Notes to the Financial Statements

Note 19. Issued Capital

| RHIPE LIMITED | 2020 | 2019 |
|--|---------------|---------------|
| | \$'000 | \$'000 |
| CURRENT | | |
| 161,132,639 (2019: 138,982,996) fully paid ordinary shares | 77,438 | 43,320 |
| | 77,438 | 43,320 |

(a) Movement in ordinary shares on issue

| RHIPE LIMITED | 2020 | 2020 | 2019 | 2019 |
|--|--------------------|---------------|--------------------|---------------|
| | No. | \$'000 | No. | \$'000 |
| rhipe Limited shares as at 30 June 2019 | 138,982,996 | 43,320 | 135,429,383 | 39,287 |
| Shares issued upon exercise of options | 632,343 | 758 | 1,508,344 | 3,085 |
| Shares issued upon exercise of performance rights | 500,000 | - | 2,840,000 | - |
| Shares issued as part of consideration | - | - | 931,677 | - |
| Share buy back | - | - | (1,726,408) | (2,056) |
| Capital raised | 21,017,300 | 33,628 | - | - |
| Deferred tax asset on capital raising | - | 315 | - | - |
| Transfer from equity settled employee benefits reserve | - | 475 | - | 3,013 |
| Share issue costs, net tax | - | (1,058) | - | (8) |
| Closing balance at 30 June 2020 | 161,132,639 | 77,438 | 138,982,996 | 43,320 |

Ordinary shares participate in dividends and the proceeds on winding-up of the parent entity in proportion to the number of shares held. At shareholders' meetings each ordinary share is entitled to one vote when a poll is called, otherwise each shareholder has one vote on a show of hands.

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

(b) Capital Management

Management controls the capital of the Group in order to maintain a sustainable debt to equity ratio, generate long-term shareholder value and ensure that the Group can fund its operations and continue as a going concern.

The Group's debt and capital include ordinary share capital and financial liabilities, supported by financial assets.

Management effectively manages the Group's capital by assessing the Group's financial risks and adjusting its capital structure in response to changes in these risks and in the market. These responses include the management of debt levels, distributions to shareholders, share issues and share buy-backs.

Notes to the Financial Statements

(c) Franking Account

| RHIPE LIMITED | 2020 | 2019 |
|---|---------------|---------------|
| | \$'000 | \$'000 |
| The amount of franking credits available for the subsequent financial year are: | | |
| - Franking account balance as at the end of the financial year at 30% | 8,687 | 6,880 |
| - Franking credits that will arise from the payment of income tax payable as at the end of the financial year | 575 | 1,827 |
| - Franking debits that will arise from the payment of dividends as a the end of the financial year | (1,381) | (1,783) |
| | 7,881 | 6,924 |

Note 20. Reserves

(a) Equity-settled employee benefits reserve

Equity-settled employee benefits reserve relates to share options granted by the Company to its employees under its employee share option plan. Further information about share-based payments to employees is set out in Note 22.

(b) Foreign Currency Translation Reserve

Exchange differences relating to the translation of the results and net assets of the Group's foreign operations from their functional currencies to the Group's presentation currency (i.e. Australian dollars) are recognised directly in other comprehensive income and accumulated in the foreign currency translation reserve. Exchange differences previously accumulated in the foreign currency translation reserve (in respect of translating both the net assets of foreign operations and hedges of foreign operations) are reclassified to profit or loss on the disposal of the foreign operation.

(c) General Reserve

The general reserve is used from time to time to account for Deferred tax liability arising from acquisitions.

Note 21: Dividends

| | Amount per ordinary share (cents) | Franked amount per ordinary share (cents) | Dividend Declared | Payment date |
|-----------------------|---|---|-------------------|-------------------|
| 2019 Final dividend | 2.0 | 2.0 | 16 August 2019 | 24 October 2019 |
| 2020 Interim dividend | 1.2 | 1.2 | 17 February 2020 | Withdrawn |
| 2020 Final dividend | 2.0 | 2.0 | 24 August 2020 | 24 September 2020 |

Payment of 2020 Interim dividend was cancelled on 27 March 2020 due to uncertainty around COVID-19.

Notes to the Financial Statements

Note 22. Share-based Payments

Equity-settled compensation

Share-based payments to employees are measured at the fair value of the instruments issued at the grant date and amortised over the vesting periods. The corresponding amount is recorded to the equity-settled employee benefits reserve. The fair value of options is determined using the Black-Black-Scholes pricing model. A Monte Carlo simulation approach was used to value awards subject to the TSR performance conditions. For the awards with non-market vesting condition the number of options and performance rights expected to vest is reviewed and adjusted at the end of each reporting period such that the amount recognised for services received as consideration for the equity instruments granted is based on the number of equity instruments that eventually vest.

The Group has an ownership-based compensation scheme for executives and senior employees. In accordance with the terms of the plan, as approved by shareholders at a previous annual general meeting, Executives and senior employees of the Group may be granted options or performance rights to purchase ordinary shares. Each employee share option or performance right converts into one ordinary share of rhipe Limited on exercise. No amounts are paid or payable by the recipient on receipt of the option or performance right. The options or rights carry neither rights to dividends nor voting rights. Options and rights may be exercised at any time from the date of vesting to the date of their expiry.

In addition, rhipe has launched an Employee Share Plan In March 2020 for employees in Australia and New Zealand whereby the Plan allows ANZ employees (subject to service criteria) to salary sacrifice up to \$5,000 per annum to purchase shares in the Company.

rhipe has set up an Employee Share Trust ("EST") solely to facilitate the long term incentive plans for executives and employee share plans for other employees. The commercial purpose of this trust is to hold shares that have been bought by EST on the open market or directly from the Company and to issue the shares to employees under agreed share plans.

(a) Options

(i) Information relating to the rhipe Limited employee option plan, including details of options issued, exercised and lapsed during the financial year and the options outstanding at year-end is disclosed below.

As at 30 June 2020, there were 100,000 options under issue (30 June 2019: 870,000) exercisable on a 1:1 basis for 100,000 ordinary shares in the Company (2019: 870,000). These options are exercisable as follows:

| Details | Date Of Grant | Number Of Options | Date Of Expiry | Exercise Price (\$) |
|------------------------------|---------------|-------------------|----------------|---------------------|
| Management incentive options | 13/09/2017 | 50,000 | 12/09/2021 | 0.50 |
| | 13/09/2017 | 50,000 | 12/09/2022 | 0.50 |
| | | 100,000 | | |

The weighted average conversion price of the above options is \$0.50 (2019: \$0.78)

Notes to the Financial Statements

| | 2020 No. Of Options | 2019 No. Of Options |
|----------------------------------|------------------------|------------------------|
| Balance at beginning of the year | 870,000 | 3,673,334 |
| Granted during the year | - | - |
| Exercised during the year | (770,000) | (1,585,834) |
| Expired during the year | - | (1,217,500) |
| Balance at end of year | 100,000 | 870,000 |

| CONSOLIDATED GROUP | No Of Options | Weighted Average Exercise Price |
|---|------------------|------------------------------------|
| Options outstanding as at 30 June 2018 | 3,673,334 | \$0.745 |
| Granted | - | - |
| Exercised | (1,585,834) | \$0.384 |
| Expired | (1,217,500) | \$1.191 |
| Options outstanding as at 30 June 2019 | 870,000 | \$0.780 |
| Granted | - | - |
| Exercised | (770,000) | \$0.817 |
| Expired | - | - |
| Options outstanding as at 30 June 2020 | 100,000 | \$0.500 |
| Options exercisable as at 30 June 2020 | 100,000 | \$0.500 |
| Options exercisable as at 30 June 2019 | 820,000 | \$0.797 |

As at the date of exercise, the weighted average share price of options exercised during the year was \$0.817.

The weighted average remaining contractual life of options outstanding at year end was 1.71 years (2019: 2.38 years). The exercise price of outstanding options at the end of the reporting period was \$0.50.

There has been no alteration to the terms and conditions of any share-based payments arrangements since the grant date.

Options are forfeited after the holder ceases to be employed by the Group, unless the Board determines otherwise.

(b) Performance rights

As at 30 June 2020, there were 3,184,118 performance rights to acquire shares (30 June 2019: 2,258,755). These performance rights are exercisable as follows:

| Details | Date Of Grant | Number Of Rights | Date Of Expiry | Exercise Price (\$) |
|----------|---------------|------------------|----------------|---------------------|
| FY20 LTI | 30/01/2020 | 884,203 | 31/05/2034 | Nil |
| FY19 LTI | 31/05/2019 | 2,299,915 | 31/05/2034 | Nil |

Notes to the Financial Statements

| | 2020 No. of Rights | 2019 No. Of Rights |
|---|--------------------|--------------------|
| Balance at beginning of the year | 2,258,755 | 3,440,000 |
| Additional rights due to assumption of stretch performance achieved | 541,160 | |
| Granted during the year | 884,203 | 1,758,755 |
| Exercised during the year | (500,000) | (2,840,000) |
| Forfeited during the year | - | (100,000) |
| Balance at end of year | 3,184,118 | 2,258,755 |

Fair value of performance rights granted in the year

On 30 January 2020, 884,203 performance rights were granted to executives as part of a management incentive plan. The performance rights vest on the satisfaction vesting conditions and each right has a term of 15 years and if not exercised within that term the rights will lapse. The Company expensed \$799,413 in relation to these performance rights in FY20. The fair value of the performance rights which have been determined by a third party has been determined using the following assumptions:

| No. of performance rights | 884,203 |
|-----------------------------|-----------------|
| Grant date | 30/01/2020 |
| Share price at grant date | \$2.20 |
| Vesting conditions | (a) (b) (c) (d) |
| Expected volatility | 49% |
| Risk free interest rate | 0.64% |
| Dividend yield | 1.14% |
| Value per performance right | (d) |

- (a) Total Shareholder Return (TSR) is a measure of investment return in percentage terms, adjusted for dividends and capital movements, from the start to the end of the measurement period. The vesting of Performance Rights will be determined by comparing the Company's total shareholder return (TSR) over the Measurement Period with the movement in the ASX Small Industrials Index over the Measurement Period
- (b) Earning per share growth (EPSG) is a measure of the increase in the amount of profit generated by a Company divided by the number of shares on issue. It will be calculated by comparing the reported EPS for the final year of the Measurement Period with the reported EPS for the year immediately prior to the commencement of the Measurement Period and determining the implied CAGR (compound annual growth rate)
- (c) Gross profit growth will be calculated by comparing the audited gross profit for the final year of the Measurement Period with the audited gross profit for the year immediately prior to the commencement of the Measurement Period and determining the implied CAGR.

| (d) Tranche | No. of Performance rights | Vesting condition | Fair value | Vesting Date |
|-------------|---------------------------|---------------------|------------|--------------|
| Tranche 1 | 204,046 | EPS Hurdle | \$2.15 | 1 July 2022 |
| Tranche 2 | 408,095 | TSR Hurdle | \$0.86 | 1 July 2022 |
| Tranche 3 | 272,062 | Gross Profit Hurdle | \$2.15 | 1 July 2022 |

Notes to the Financial Statements

Note 23. Cash Flow Information

| CONSOLIDATED GROUP | 2020 | 2019 |
|---|---------------|---------------|
| | \$'000 | \$'000 |
| (a) Reconciliation of Cash Flow from Operating Activities with Profit after Income Tax | | |
| Profit after income tax | 4,799 | 6,214 |
| Cash flows excluded from profit attributable to operating activities | | |
| Non-cash flows in profit: | | |
| Share-based payments expense | 3,112 | 2,623 |
| Interest on lease liabilities | 142 | - |
| Amortisation | 1,621 | 1,288 |
| Depreciation | 676 | 497 |
| Net foreign exchange (gain)/ loss | 97 | (291) |
| Fair value adjustment of a contingent consideration | (3,500) | - |
| Impairment of goodwill | 3,425 | - |
| Provision for expected credit losses | 1,171 | 232 |
| Changes in operating assets and liabilities: | | |
| Increase in trade and term receivables and unearned revenue | (3,975) | (9,657) |
| Increase in other current assets | (289) | (638) |
| Increase in trade payables and accruals | 6,606 | 11,643 |
| Income taxes payable | 1,197 | 1,313 |
| (Decrease)/Increase in deferred taxes payable | (192) | (660) |
| Increase in deferred taxes receivable | (1,519) | (939) |
| Increase in provisions | 365 | 430 |
| Net cash provided by operating activities | 13,736 | 12,055 |

(b) Bank Guarantees

The Group has the following bank guarantee in place:

| Provider | Guarantee | Utilised Total | Security |
|-----------------|------------------|-----------------------|--|
| CBA | AUD 3,000,000 | AUD 2,778,381 | General Security Interest by rhipe Australia Pty Ltd and rhipe Limited comprising: First ranking charge over All Present & After Acquired Property |

Notes to the Financial Statements

The guarantee requires compliance with certain conditions and the Group was in compliance with the covenants governing this guarantee during the year. Toward the end of FY19 the covenants associated with the guarantee was removed given the strong trading performance and cash position of the Group.

Note 24. Related Party Transactions

Related Parties

(a) The Group's main related parties are as follows

i. Key Management Personnel:

Any person(s) having authority and responsibility for planning, directing and controlling the activities of the entity, directly or indirectly, including any director (whether executive or otherwise) of that entity are considered key management personnel.

Refer to the Remuneration Report contained in the Directors' Report for details of the remuneration paid or payable to each member of the Group's Key Management Personnel (KMP) for the year ended 30 June 2020.

The totals of remuneration paid to KMP of the Company and the Group during the year are as follows:

| CONSOLIDATED GROUP | 2020 (\$) | 2019 (\$) |
|-------------------------------|------------------|------------------|
| Short-term employee benefits | 2,982,612 | 3,884,440 |
| Post-employment benefits | 76,191 | 105,898 |
| Other Long-Term benefits | 2,693,589 | 2,411,311 |
| Termination benefits | - | 45,838 |
| Total KMP compensation | 5,752,392 | 6,447,487 |

Further information in relation to KMP remuneration can be found in the Remuneration Report.

ii. Other Related Parties

Other related parties include entities controlled by the ultimate parent entity, entities over which key management personnel have joint control, and entities that Directors are common Directors of.

| CONSOLIDATED GROUP | 2020 (\$) | 2019 (\$) |
|---|-----------|-----------|
| Other related parties | | |
| Marketing consulting services provided by Breakfast Epiphanies Consulting | - | 30,199 |

2019 fees relate to one off marketing related project provided by an entity partially owned and operated by Inese Kingsmill, a NED of rhipe Limited.

Notes to the Financial Statements

Note 25. Auditors' Remuneration

| CONSOLIDATED GROUP | 2020 | 2019 |
|---|----------------|----------------|
| | (\$) | (\$) |
| Fees to Ernst & Young (Australia) | | |
| Fees for auditing the statutory financial report of the parent covering the Group and auditing the statutory financial reports of any controlled entities | 230,000 | 185,000 |
| Fees for assurance services that are required by legislation to be provided by the auditor | - | - |
| Fees for other assurance and agreed-upon-procedures services under other legislation or contractual arrangements where there is discretion as to whether the service is provided by the auditor or another firm | - | - |
| Fees for other services | | |
| - Due diligence | - | 170,000 |
| - Tax compliance | 55,132 | 42,000 |
| - AASB 15 implementation | - | 25,000 |
| - Set up of ESS Trust and application for tax ruling | 54,500 | - |
| Total fees to Ernst & Young (Australia) | 339,632 | 422,000 |
| Fees to other overseas member firms of Ernst & Young (Australia) | | |
| Fees for auditing the financial report of any controlled entities | 56,500 | 55,000 |
| Fees for assurance services that are required by legislation to be provided by the auditor | - | - |
| Fees for other assurance and agreed-upon-procedures services under other legislation or contractual arrangements where there is discretion as to whether the service is provided by the auditor or another firm | - | - |
| Fees for other services | | |
| - Due diligence | - | - |
| - Tax compliance | - | - |
| - AASB 15 implementation | - | - |
| Total fees to overseas member firms of Ernst & Young (Australia) | 56,500 | 55,000 |
| Total auditor's remuneration | 396,132 | 477,000 |

Note 26. Contingent Liabilities and Contingent Assets

A proceeding has been filed in the Supreme Court of New South Wales against two members of the Group, rhipe Cloud Solutions and rhipe Solutions Australia, along with 10 other defendants. rhipe Limited is the ultimate holding company of rhipe Cloud Solutions Pty Ltd and rhipe Solutions Australia Pty Ltd who are named as defendants in the proceedings. rhipe Limited is not a named defendant. rhipe has reviewed the allegations with its legal advisors and understands that all of the events which are the subject of the litigation pre-date the acquisition by rhipe of rhipe Cloud Solutions and rhipe Solutions in December 2014. At this time, it is not possible to reliably estimate the possible financial effect on the two companies, however the Board considers this not to be material. The Group has provided for the legal costs expected to be incurred in the defence of the claims.

Notes to the Financial Statements

Note 27. Financial Risk Management

The totals for each category of financial instruments, measured in accordance with AASB 9 as detailed in the accounting policies to these financial statements, are as follows:

| CONSOLIDATED GROUP | Note | 2020 \$'000 | 2019 \$'000 |
|--|------|----------------|----------------|
| FINANCIAL ASSETS | | | |
| Cash and cash equivalents | 8 | 60,925 | 25,530 |
| Receivables | 9 | 42,281 | 39,308 |
| Bonds & deposits | 10 | 509 | 270 |
| Total Financial Assets | | 103,715 | 65,108 |
| FINANCIAL LIABILITIES | | | |
| Trade and other payables | 14 | 47,948 | 41,342 |
| Deferred consideration payable in cash | 18 | 2,817 | 3,500 |
| Total Financial Liabilities | | 50,765 | 44,842 |
| Net Financial Assets | | 52,950 | 20,266 |

Financial Risk Management Policies

Specific Financial Risk Exposures and Management

The main risks the Group is exposed to through its financial instruments are credit risk, liquidity risk and market risk consisting of interest rate risk and foreign currency risk. There have been no substantive changes in the types of risks the Group is exposed to, how these risks arise, or the Board's objectives, policies and processes for managing or measuring the risks from the previous period.

(a) Credit risk

Although the Group's clients are credit-worthy, exposure to credit risk relating to financial assets arises from the potential non-performance by counter parties of contract obligations that could lead to a financial loss to the Group.

Credit risk is managed through the maintenance of procedures (such procedures include the review of customer business activities, regular monitoring of exposures and monitoring of the financial stability of significant customers and counter parties), ensuring to the extent possible, that customers and counter parties to transactions are of sound credit worthiness. Such monitoring is used in assessing receivables for impairment. Depending on the division within the Group, credit terms are generally 14 to 30 days from the invoice date.

The maximum exposure to credit risk by class of recognised financial assets at the end of the reporting period, excluding the value of any collateral or other security held, is equivalent to the carrying amount and classification of those financial assets (net of any provisions) as presented in the statement of financial position.

For details on concentration of credit risk and geographic break down of trade receivables refer to Note 9.

Notes to the Financial Statements

(b) Liquidity risk

Liquidity risk arises from the possibility that the Group might encounter difficulty in settling its debts or otherwise meeting its obligations related to financial liabilities. The Group manages this risk through the following mechanisms:

- Preparing forward-looking cash flow analyses in relation to its operating, investing and financing activities
- Maintaining a reputable credit profile
- Managing credit risk related to financial assets
- Only investing surplus cash with major financial institutions; and
- Comparing the maturity profile of financial liabilities with the realisation profile of financial assets.

The table below reflects an undiscounted contractual maturity analysis for financial liabilities. Cash flows realised from financial assets reflect management's expectation as to the timing of realisation. Actual timing may therefore differ from that disclosed. The timing of cash flows presented in the table to settle financial liabilities reflect the earliest contractual settlement dates and do not reflect management's expectations that banking facilities will be rolled forward.

| | Within 1 Year | | Over 1 Year | | No Maturity | | Total | |
|--|----------------|---------------|----------------|----------------|-------------|-------------|----------------|---------------|
| | 2020 \$'000 | 2019 \$'000 | 2020 \$'000 | 2019 \$'000 | 2020 \$'000 | 2019 \$'000 | 2020 \$'000 | 2019 \$'000 |
| CONSOLIDATED GROUP | | | | | | | | |
| Financial liabilities due for payment | | | | | | | | |
| Trade and other payables | 47,948 | 41,342 | - | - | - | - | 47,948 | 41,342 |
| Lease liabilities | 1,656 | - | 2,203 | - | - | - | 3,859 | - |
| Deferred consideration | 939 | 1,750 | 1,878 | 1,750 | - | - | 2,817 | 3,500 |
| Total expected outflows | 50,543 | 43,092 | 4,081 | 1,750 | - | - | 54,624 | 44,842 |
| Financial Assets – cash flows realisable | | | | | | | | |
| Cash and cash equivalents | 60,925 | 25,530 | - | - | - | - | 60,925 | 25,530 |
| Trade and other receivables | 42,281 | 39,308 | - | - | - | - | 42,281 | 39,308 |
| Bonds and deposits | 509 | 270 | - | - | - | - | 509 | 270 |
| Total anticipated inflows | 103,715 | 65,108 | - | - | - | - | 103,715 | 65,108 |
| Net inflow on financial instruments | 53,172 | 22,016 | (4,081) | (1,750) | - | - | 49,091 | 20,266 |

(c) Market Risk

i. Interest rate risk

Exposure to interest rate risk arises on financial assets and financial liabilities recognised at the end of the reporting period whereby a future change in interest rates will affect future cash flows or the fair value of fixed rate financial instruments.

The Group's exposure to the risk of changes in market interest rates relates primarily to the Group's cash at bank balances with floating interest rates.

Notes to the Financial Statements

The movement in interest rates would not have any material impact on the Group's profit as the Group is debt free. In addition, any changes to fixed term interest rate on cash balances would not materially impact the Group's results.

ii. Foreign exchange risk

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

The Group has invested in businesses in Australia, New Zealand, Singapore and other Asian countries. In addition, the Group is billed from a number of software vendors in US dollars whereas for some customers it bills in local currency and this creates an exchange rate risk. Hedging these risks in Asian countries is expensive and in certain countries not possible hence the Group currently undertakes no hedging of these positions. Exposure to foreign exchange risk may result in the fair value or future cash flows of a financial instrument fluctuating due to movement in foreign exchange rates of currencies in which the Group holds financial instruments which are other than the AUD functional currency of the Parent.

In addition to the US exchange risk identified the Group has material operations in Singapore, where functional currency is US Dollar and New Zealand and fluctuations in the US Dollar and New Zealand Dollar may impact on the Group's financial results unless those exposures are appropriately hedged. The Group has not hedged its exposure to the above currencies.

Foreign currency sensitivity analysis

The Group is mainly exposed to the US Dollar and New Zealand Dollar from a net asset perspective.

The following table details the Group's sensitivity to a 10% increase and decrease in the Australian dollar against the relevant foreign currencies.

| | NZD | | USD | |
|--------|----------------|----------------|----------------|----------------|
| | 2020 \$'000 | 2019 \$'000 | 2020 \$'000 | 2019 \$'000 |
| Equity | 68 | 8 | 85 | 80 |

(d) Fair Value

The Directors consider that the carrying amounts of financial assets and financial liabilities recognised in the consolidated financial statements approximate their fair values.

Notes to the Financial Statements

Note 28. Interests in Subsidiaries

(a) Information about Subsidiaries

The subsidiaries listed below have share capital consisting solely of ordinary shares or ordinary units which are held directly by the Group. The proportion of ownership interests held equals the voting rights held by the Group. Each subsidiary's principal place of business is also its country of incorporation.

| Name of Subsidiary | Principal Place Of Business | Ownership Interest Held By Group | | Proportion Of Non-Controlling Interest | |
|---|-----------------------------|----------------------------------|----------|--|----------|
| | | 2020 (%) | 2019 (%) | 2020 (%) | 2019 (%) |
| rhipe Australia Pty Ltd ¹ | Australia | 100% | 100% | - | - |
| rhipe Dynamics Pty Ltd ¹ | Australia | 100% | 100% | - | - |
| NewLease G2M Pty Ltd ³ | Australia | 63% | 63% | 37% | 37% |
| rhipe Cloud Solutions Pty Ltd ¹ | Australia | 100% | 100% | - | - |
| rhipe Solutions Australia Pty Ltd ¹ | Australia | 100% | 100% | - | - |
| Dynamic Business IT Solutions Pty Limited ¹ | Australia | 100% | 100% | - | - |
| Smartencrypt Pty Ltd (Former name Network2Share Pty Ltd) ^{1,2} | Australia | 100% | - | - | - |
| Data Confidence Solutions Pty Ltd ^{1,2} | Australia | 100% | - | - | - |
| rhipe Japan K.K. ⁴ | Japan | 80% | - | 20% | - |
| rhipe New Zealand Limited | New Zealand | 100% | 100% | - | - |
| rhipe Singapore Pte. Ltd | Singapore | 100% | 100% | - | - |
| rhipe Technology (Thailand) Co., Ltd | Thailand | 100% | 100% | - | - |
| rhipe Malaysia Sdn Bhd | Malaysia | 100% | 100% | - | - |
| rhipe Hong Kong Limited | Hong Kong | 100% | 100% | - | - |
| rhipe Philippines, Inc | Philippines | 100% | 100% | - | - |
| rhipe Philippines Technology, Inc | Philippines | 100% | 100% | - | - |
| PT rhipe International Indonesia | Indonesia | 100% | 100% | - | - |
| rhipe Lanka (Private) Limited | Sri Lanka | 100% | 100% | - | - |
| rhipe UK Pty Ltd ⁵ | United Kingdom | - | 100% | - | - |
| rhipe Licencing Technology Korea Ltd. | Republic of Korea | 100% | 100% | - | - |
| rhipe Solutions LLC (formerly Online SC LLC) | United States | 100% | 100% | - | - |

Subsidiary financial statements used in the preparation of these consolidated financial statements have also been prepared as at the same reporting date as the Group's financial statements.

¹ These companies are part of the Australian tax consolidated group.

² This company is a wholly-owned subsidiary which was acquired on 2 August 2019.

³ This company is dormant.

⁴ This company was incorporated in August 2019.

⁵ This company was deregistered on 8 October 2019.

Notes to the Financial Statements

(b) Significant Restrictions

There are no significant restrictions over the Group's ability to access or use assets, and settle liabilities, of the Group.

Note 29. Parent Information

The following information has been extracted from the books and records of rhipe Limited and has been prepared in accordance with Australian Accounting Standards:

| | 2020 \$'000 | 2019 \$'000 |
|---|----------------|----------------|
| STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME | | |
| Total profit/(loss) | 3,568 | (3,985) |
| Total comprehensive income | 3,568 | (3,985) |
| STATEMENT OF FINANCIAL POSITION | | |
| ASSETS | | |
| Current Assets | 33,000 | 17,156 |
| Non-current Assets | 38,082 | 27,909 |
| Total assets | 71,082 | 45,065 |
| LIABILITIES | | |
| Current Liabilities | 538 | 3,760 |
| Non-current Liabilities | 10,017 | – |
| Total Liabilities | 10,555 | 3,760 |
| EQUITY | | |
| Issued Capital | 139,429 | 105,625 |
| Retained Earnings | (83,974) | (66,754) |
| Reserves | 5,072 | 2,435 |
| Total Equity | 60,527 | 41,306 |

Contractual commitments

At 30 June 2020, rhipe Limited had not entered into any contractual commitments for the acquisition of property, plant and equipment (2019: \$Nil).

Notes to the Financial Statements

Note 30. Events After the Reporting Period

Final dividend of two cents per share, fully franked, is declared subsequent to balance sheet date, on 24 August 2020 and will be paid on 24 September 2020.

30,000 options were exercised on 3 August 2020 at \$0.50 exercise price per option.

Apart from these, there has not been any other matter or circumstances occurring subsequent to the end of the financial year that has significantly affected, or may significantly affect the operations of the Group, the results of those operations, or the state of affairs of the Group in future financial years.

Note 32. Company Details

The registered office and principal place of business of the Company is:

rhipe Limited

Level 19, 100 Miller Street
North Sydney NSW 2060

Notes to the Financial Statements

Directors' Declaration

In accordance with a resolution of the directors of rhipe Limited, the Directors of the Company declare that:

1. The financial statements and notes, as set out on pages 52 to 100, are in accordance with the *Corporations Act 2001* and:
 - a. Comply with Australian Accounting Standards, which, as stated in accounting policy Note 1 to the financial statements, constitutes compliance with International Financial Reporting Standards (IFRS); and
 - b. Give a true and fair view of the financial position as at 30 June 2020 and of the performance for the year ended on that date of the Group;
2. In the Directors' opinion there are reasonable grounds to believe that the Company will be able to pay its debts as and when they become due and payable; and
3. The Directors have been given the declarations required by section 295A of the *Corporations Act 2001* from the Managing Director and Chief Financial Officer.



Dominic O'Hanlon

Managing Director

Dated this 25th day of August 2020

Independent Auditor's Report

To the members of rhipe limited and controlled entities (formerly rhipe limited)



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Ernst & Young
200 George Street
Sydney NSW 2000 Australia
GPO Box 2646 Sydney NSW 2001

Tel: +61 2 9248 5555
Fax: +61 2 9248 5959
ey.com/au

Independent Auditor's Report to the Members of rhipe Limited

Report on the Audit of the Financial Report

Opinion

We have audited the financial report of rhipe Limited (the Company) and its subsidiaries (collectively the Group), which comprises the consolidated statement of financial position as at 30 June 2020, the consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, notes to the financial statements, including a summary of significant accounting policies, and the directors' declaration.

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

- a) giving a true and fair view of the consolidated financial position of the Group as at 30 June 2020 and of its consolidated financial performance for the year ended on that date; and
- b) complying with Australian Accounting Standards and the Corporations Regulations 2001.

Basis for Opinion

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

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

Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial report of the current year. These matters were addressed in the context of our audit of the financial report as a whole, and in forming our opinion thereon, but we do not provide a separate opinion on these matters. For each matter below, our description of how our audit addressed the matter is provided in that context.

We have fulfilled the responsibilities described in the Auditor's Responsibilities for the Audit of the Financial Report section of our report, including in relation to these matters. Accordingly, our audit included the performance of procedures designed to respond to our assessment of the risks of material misstatement of the financial report. The results of our audit procedures, including the procedures performed to address the matters below, provide the basis for our audit opinion on the accompanying financial report.

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Independent Auditor's Report



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Impairment of Goodwill and other intangible assets

Why significant

At 30 June 2020 the Group's consolidated statement of financial position included goodwill and other intangible assets amounting to \$36.6 million, representing 25% of total assets.

As disclosed within Note 13 to the financial statements, the assessment of the Group's goodwill and other intangible assets for impairment incorporate estimates, including forecast cashflows, discount rates and terminal growth rates. An impairment of \$3.4m was recorded in relation to the DBITs CGU.


These estimates and assumptions are impacted by future performance, market and economic conditions. Minor changes in certain assumptions can lead to significant changes in the recoverable amount of these assets.

How our audit addressed the key audit matter

Our audit procedures included the following:

- Assessment of whether the models used by the Directors in their impairment testing of the carrying values intangible assets met the requirements of Australian Accounting Standards.
- Evaluation of the determination of the cash generating units (CGUs) with respect to the independent cash inflows generated by each CGU as well as our understanding of the Group's businesses and the economic environment in which they operate.;
- Assessed the cash flow forecasts, assumptions and estimates used by the Group, as outlined in Note 13 to the financial statements, by considering the accuracy of the Group's historical cash flow forecasts, our knowledge of the business and corroborating data with external information, where possible;
- Evaluated the appropriateness of discount and terminal growth rates applied;
- Tested the mathematical accuracy of the impairment testing models including the consistency of relevant data with latest Board approved forecasts;
- Assessment of the key assumptions including discount rates, terminal growth rates and EBIT forecasts for the DBITs CGU, with the involvement of our valuation specialists; and
- Assessed the adequacy of the financial report disclosures, including those made with respect to judgements and estimates.

Independent Auditor's Report

| | |
|---|---|
| 3 | |
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| Revenue recognition | |
| Why significant | How our audit addressed the key audit matter |
| <p>For the year ended 30 June 2020, the Group generated revenue of \$55.8 million, from the sale of vendor owned software products, rebates and concierge services.</p> <p>The process for recognising accrued revenue, at year end, relies upon manual processing of transactions which is susceptible to error.</p> <p>Rebates are a significant component of revenue. Rebates are earned throughout the year and are based upon a variety of factors including sales volume and customer adds and are therefore subject to estimation, particularly at year-end.</p> | <p>Our audit procedures included the following:</p> <ul style="list-style-type: none"> • Evaluated the design and operating effectiveness of relevant controls over the sale of vendor owned software products • Used data analysis techniques to analyse the relationship between revenue, accounts receivable and cash collections. • Obtained external confirmation from a sample of sales partners regarding products purchased, usage and amounts billed. • Compared accrued revenue to actual reported usage subsequent to 30 June 2020. • Confirmed a sample of rebates due from suppliers to third party evidence and where appropriate, cash received. • Assessed the adequacy of the revenue disclosures in Note 4 of the financial report. |
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Independent Auditor's Report



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Capitalised development costs

Why significant

At 30 June 2020 the Group's consolidated statement of financial position includes capitalised development costs of \$10.7 million, representing 7% of total assets. This primarily relates to the Group's core technology platform, PRISM, which is utilised to enable sales of cloud-based licences as well as the ongoing development of SmartEncrypt.

Note 13 of the financial report discloses the Group's accounting policy for capitalising development costs. Given the level of expenditure and the judgement required when determining the amounts to be capitalised, amortisation periods and recoverability, this was considered to be a key audit matter.

How our audit addressed the key audit matter

Our audit procedures included the following:

- Assessment of whether the Group's accounting policy in relation to the capitalisation of software development costs met the requirements of Australian Accounting Standards.
- Evaluated the effectiveness of relevant controls over additions to capitalised development costs
- Selected a sample of capitalised costs and determined whether they met the capitalisation criteria set out in Australian Accounting Standards.
- Agreed a sample of capitalised labour costs to payroll records and capitalised contractor costs to invoices and then considered the related development activities that were undertaken and whether the costs capitalised were directly involved in developing software.
- Assessed the useful life, recoverability and amortisation rate allocated to capitalised development costs taking into consideration the economic life of the software.
- Assessed the adequacy of the disclosures included in Note 13 of the financial report.

Accounting for acquired business

Why significant

During the year ended 30 June 2020 the Group acquired a business, Network2Share Pty Limited, for a total consideration of \$5.9 million, as detailed in Note 3.

The provisional accounting for the acquired business was considered a key audit matter as there was judgement involved in the determination of the transaction purchase price and recognition of the fair value of the acquired intangible assets and goodwill.

How our audit addressed the key audit matter

Our audit procedures included the following:

- Assessed the determination of the transaction purchase price, including consideration of future potential payments.
- With the involvement of our valuation specialists we evaluated the recognition and determination of fair value of separately identifiable intangible assets and their useful lives; and
- Assessed the adequacy of the related disclosures within the financial report.

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Information Other than the Financial Report and Auditor's Report Thereon

The directors are responsible for the other information. The other information comprises the information included in the Company's 2020 Annual Report but does not include the financial report and our auditor's report thereon.

Our opinion on the financial report does not cover the other information and accordingly we do not express any form of assurance conclusion thereon, with the exception of the Remuneration Report and our related assurance opinion.

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

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

Responsibilities of the Directors for the Financial Report

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

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

Auditor's Responsibilities for the Audit of the Financial Report

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

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

- Identify and assess the risks of material misstatement of the financial report, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

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- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.
- Conclude on the appropriateness of the directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial report or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial report, including the disclosures, and whether the financial report represents the underlying transactions and events in a manner that achieves fair presentation.

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

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

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

Report on the Audit of the Remuneration Report

Opinion on the Remuneration Report

We have audited the Remuneration Report included in pages 31 to 50 of the directors' report for the year ended 30 June 2020.

In our opinion, the Remuneration Report of rhipe Limited for the year ended 30 June 2020, complies with section 300A of the Corporations Act 2001.

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Independent Auditor's Report



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Responsibilities

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

A handwritten signature in black ink that reads 'Ernst & Young'.

Ernst & Young

A handwritten signature in black ink that reads 'Graham Leonard'.

Graham Leonard
Partner
Sydney
25 August 2020

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Additional Information for Listed Public Companies

rhipe Limited and Controlled Entities

The following information is current as at 22 July 2020

1. Shareholding

a. Distribution of Shareholders

| Distribution of Shareholders | | | Ordinary Shares |
|------------------------------|--------------------|---------------------|-------------------|
| Size of Holding | Number of Shares | % of Issued Capital | Number of Holders |
| 100,001 and Over | 133,215,117 | 82.91 | 68 |
| 10,001 to 100,000 | 18,095,694 | 11.26 | 808 |
| 5,001 to 10,000 | 5,135,620 | 3.20 | 657 |
| 1,001 to 5,000 | 3,677,658 | 2.29 | 1,267 |
| 1 to 1,000 | 542,711 | 0.34 | 1,634 |
| Total | 160,666,800 | 100 | 4,434 |

b. The number of shareholdings held in less than marketable parcels is 873

c. The names of the substantial shareholders listed in the holding company's register are:

| Shareholder | Number of Ordinary Fully Paid Shares Held |
|---|---|
| HSBC CUSTODY NOMINEES (AUSTRALIA) LIMITED | 27,002,580 |
| TUTUS MCDONAGH PTY LTD | 23,910,730 |
| J P MORGAN NOMINEES AUSTRALIA PTY LIMITED | 18,789,302 |
| CITICORP NOMINEES PTY LIMITED | 15,021,275 |
| NATIONAL NOMINEES LIMITED | 14,815,346 |

d. Voting Rights

The voting rights attached to each class of equity security are as follows: Ordinary Shares.

Each ordinary share is entitled to one vote when a poll is called, otherwise each member present at a meeting or by proxy has one vote on a show of hands.

e. 20 Largest Shareholders – Ordinary Shares

| Name | Number of Ordinary Fully Paid Shares Held | % Held of Issued Ordinary Capital |
|---|---|-----------------------------------|
| 1 HSBC CUSTODY NOMINEES (AUSTRALIA) LIMITED | 27,002,580 | 16.81 |
| 2 TUTUS MCDONAGH PTY LTD | 23,910,730 | 14.88 |
| 3 J P MORGAN NOMINEES AUSTRALIA PTY LIMITED | 18,789,302 | 11.69 |
| 4 CITICORP NOMINEES PTY LIMITED | 15,021,275 | 9.35 |
| 5 NATIONAL NOMINEES LIMITED | 14,815,346 | 9.22 |
| 6 UBS NOMINEES PTY LTD | 4,714,671 | 2.93 |
| 7 BNP PARIBAS NOMS PTY LTD | 2,366,844 | 1.47 |
| 8 DAWN EDMONDS | 2,000,000 | 1.24 |
| 9 MIRRABOOKA INVESTMENTS LIMITED | 1,979,635 | 1.23 |
| 10 MR DOMINIC OHANLON & MRS KAREN OHANLON | 1,757,840 | 1.09 |
| 11 MR DOMINIC JOHN OHANLON | 1,300,000 | 0.81 |
| 12 NEWECONOMY COM AU NOMINEES PTY LIMITED | 1,227,595 | 0.76 |
| 13 WARBONT NOMINEES PTY LTD | 1,156,028 | 0.72 |
| 14 MR WARREN NOLAN | 1,028,487 | 0.64 |
| 15 ROBERT GOUDIE FINANCIAL ADVISERS PTY LTD | 1,000,000 | 0.62 |
| 16 PRM INVESTMENTS PTY LTD | 850,680 | 0.53 |
| 17 NATIONAL NOMINEES LIMITED | 826,197 | 0.51 |
| 18 CHRIS SHARP | 779,225 | 0.48 |
| 19 EDMONDS WALLIS PTY LTD | 702,294 | 0.44 |
| 20 JOHN LEON SAYERS | 700,000 | 0.44 |
| | 121,928,729 | 75.86 |

2. The name of the company secretary is

Marika White.

3. The address of the principal registered office in Australia is

Level 19, 100 Miller Street, North Sydney New South Wales, 2060.

Telephone: 1300 732 009

4. Registers of Securities are held at the following addresses

Link Market Services Limited

Tower 4, 747 Collins Street, Docklands VIC 3008

Investor Enquiries: 1300 554 474

Facsimile: +61 2 9287 0303

5. Stock Exchange Listing

Quotation has been granted for all the ordinary shares of the Company on all Member Exchange of the Australian Securities Exchange Limited.

6. Unquoted Securities

Options over Unissued Shares

A total of 100,000 options are on issue to 1 employee.



ABOUT RHIFE

We are the Cloud Channel Company.

We provide licencing, business development and knowledge services that support services providers, system integrators and software vendors accelerate the adoption of the cloud by end customers.

We are Cloud first, Channel first. Everything we do is in partnership with our connected ecosystem of service providers.

A Cloud 1st, Channel 1st focus, constantly reinventing our value-add to drive success for our customers.

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