

Techniche Limited and its Controlled Entities

ABN 83 010 506 162

Appendix 4E

Preliminary Consolidated Final Report

For the Year ended 30 June 2020

(previous corresponding period: Year ended 30 June 2019)

Results for Announcement to the Market

Key Information	2020 \$	2019 \$	Change \$	Change %
Subscription and other recurring revenues	9,594,104	8,895,603	681,501	7.9%
Professional services and other non-recurring revenues	1,038,918	908,120	130,798	14.4%
Total revenue from IT Services	10,633,022	9,803,723	829,299	8.5%
Interest and other income	201,567	64,017	137,550	214.9%
Total Group revenue	10,834,589	9,867,740	966,849	9.8%
Net profit before tax	616,927	(1,088,227)	1,705,154	156.7%
Profit after tax from ordinary activities	571,006	(1,250,398)	1,821,404	145.7%
Net profit attributable to members	571,006	(1,250,398)	1,821,404	145.7%
Other comprehensive income / (loss)	(105,727)	(24,029)	(81,698)	340%
Total comprehensive income / (loss)	465,279	(1,274,427)	1,739,706	136.5%

Dividends (distributions)	Amount per security	Franked amount per security
2020 final dividend	nil	nil
Record date for determining entitlement to the interim dividend		
No interim dividend has been declared		
Dividend Reinvestment Plans		
The Group does not have any dividend reinvestment plans in operation.		

NTA backing	Current Period	Previous Corresponding Period
Net tangible asset backing per ordinary security	(0.24) cents	(0.6) cents
<p>The net tangible assets backing per ordinary security of (0.24) cents presented above is inclusive of right-of-use assets and lease liabilities. The net tangible asset backing per security, as at 30 June 2020, would reduce to (0.38) cents if right-of-use assets were excluded, and lease liabilities were included in the calculation.</p> <p>Net tangible assets are showing a negative value for the reporting and comparative periods due to the majority of recorded assets being intangible.</p>		

PRELIMINARY CONSOLIDATED FINAL REPORT

Management Commentary

Techniche have a number of metrics that we track including Revenue Growth, Annual Recurring Revenue Growth, EBITDA margin, Gross Profit margin, as well as Group expenses. Expense function categories are "Sales and Marketing", "Research and Development" and "General and Administration".

Non-GAAP measures have been included, as we believe they provide useful information for readers to assist in understanding Techniche's financial performance. Non-GAAP financial measures should not be viewed in isolation or considered as substitutes for measures reported in accordance with the Australian equivalents to International Financial Reporting Standards.

Business performance – Earnings Before Interest, Tax, Depreciation and Amortisation (EBITDA)

EBITDA disclosures (which are non-GAAP financial measures) have been included, as we believe they provide useful information for readers in understanding Techniche's financial performance. EBITDA is calculated by adding back depreciation, amortisation, net finance expense, and income tax expense to net profit/loss.

<i>Twelve months to 30 June</i>	2020	2019	change
Net profit/(loss) before tax	616,927	(1,088,227)	156.7%
Add back: Interest ¹	28,968	-	
Add back: Depreciation ¹	333,530	55,323	
Add back: Amortisation	257,998	257,998	
Earnings Before interest, tax, depreciation & amortisation	1,237,422	(774,906)	259.7%
<i>EBITDA margin</i>	<i>11.6%</i>	<i>(7.9%)</i>	<i>19.6%</i>

- From 1 July 2019, Techniche has implemented AASB 16 – Leases. Future cash flows from contractual commitments such as office leases will be capitalised to create a "Right of Use" asset and an interest-bearing "Lease liability". While the impact on the Net Profit After Tax has been minimal, it has resulted in operating expenses that were previously recognised as occupancy costs restated to a combination of depreciation of the "Right of Use" asset and interest on the "Lease Liability". The impact of implementing AASB 16 – Leases has been to increase the reported measure of EBITDA by \$279,029, consisting of interest on Lease Liabilities of \$24,016 and depreciation of Right-of-Use assets of \$252,013.

Revenue Growth

Techniche generates revenues from two products, Urgent and Statseeker. Techniche has many Fortune 500 customers, with our products sold and supported by staff in each of our key geographical subsidiaries - Techniche EMEA (covering Europe, Middle East & Africa), Techniche Americas and Techniche APAC (covering Asia & the Pacific).

<i>Twelve months to 30 June</i>	2020	2019	change
Total Revenues			
Urgent			
Subscription and other recurring revenues	4,735,941	4,234,720	11.8%
Professional services and other non-recurring revenues	887,983	681,088	30.4%
Statseeker			
Subscription and other recurring revenues	4,858,163	4,660,883	4.2%
Professional services and other non-recurring revenues	150,936	227,032	(33.5%)
Total Group Revenues			
Subscription and other recurring revenues	9,594,104	8,895,603	7.9%
Professional services and other non-recurring revenues	1,038,918	908,120	14.4%
Total revenue from IT services	10,633,022	9,803,723	8.5%

Consolidated Group revenue from wholly owned subsidiaries for the period increased by 8.5% to \$10,633,022, Total Urgent revenues increased by 14.4%. Recurring revenue increased by 11.8% to \$4,735,941, while continued demand for professional services from mobilisation of new customers and services to existing resulted in non-recurring Urgent revenues increasing by 30.4% to \$887,983.

PRELIMINARY CONSOLIDATED FINAL REPORT

Management Commentary

Statseeker product revenues were maintained with a 2.5% increase to \$5,009,099 for the period. Continued conversion of customers from a perpetual licence resulted in a subdued but pleasingly positive growth of 4.2% from recurring business. Non-recurring revenues decreased by 33.5%, as the sale of perpetual licences was minimal but is being replaced by a small but growing capability to deliver professional services.

Gross Profit

Gross profit represents operating revenue less cost of sales. Cost of sales consists of expenses directly associated with securely hosting Techniche's services and providing support to subscribers. The costs include hosting, personnel and related expenses directly associated with cloud infrastructure and customer support, related depreciation and amortisation and allocated overheads.

Gross Profit increased by 15.5% for the period. The increase in Group revenues were supplemented by an 8.7% decrease in Cost of Sales following the previous year's restructure of Urgent's global support team.

<i>Twelve months to 30 June</i>	2020	2019	change
Total revenue from IT services	10,633,022	9,803,723	8.5%
Cost of sales	2,602,068	2,849,895	(8.7%)
Gross profit	8,030,955	6,953,828	15.5%
Gross margin (%)	75.5%	70.9%	4.6%

Expenses

Techniche presents Group expenses based on their 'nature' rather than their 'function'. The Company views this as a more appropriate format for a technology business. Expense function categories include, "Sales and Marketing", "Research and Development" and "General and administration".

Sales and Marketing

Sales and marketing expenses consist of personnel and related expenses directly associated with the sales and marketing teams. Costs also include relationship management costs incurred to support the existing subscriber base. Other costs included are external advertising costs, marketing costs and promotional events, as well as allocated overheads.

Sales & Marketing expenses were lower both in overall terms and as a percentage of revenues. Key marketing activities such as annual trade shows that the Company attends are typically incurred in the second half of the year. These were cancelled due to the global COVID-19 pandemic and other marketing campaigns were deferred until business conditions improved.

<i>Twelve months to 30 June</i>	2020	2019	change
Sales and marketing expense	2,397,608	3,284,434	(27%)
Percentage of operating revenue	22.5%	33.5%	(11%)

Research and Development

Research and Development costs consist of personnel and related expenses directly associated with the product design, development and quality assurance as well as allocated overheads. Where software development costs meet the requirements to be capitalised as an intangible asset, it will be subsequently amortised over the useful life of the asset created. The amount amortised is included in research and development expenses.

Research & Development expenses were higher in overall terms and as a percentage of revenue as the company invested in additional development resources in both Urgent and Statseeker products.

<i>Twelve months to 30 June</i>	2020	2019	change
Research and development expense (excl. amortisation)	2,803,671	2,216,804	26.5%
Amortisation	257,998	257,998	-
Research and development expense	3,061,669	2,474,802	23.7%
Percentage of operating revenue	28.8%	25.2%	3.8%

PRELIMINARY CONSOLIDATED FINAL REPORT

Management Commentary

General and Administration

General and administration expenses consist of personnel and related expenses for executive, finance and administrative employees and the Techniche Board. It also includes costs associated with being a listed public company, legal, accounting and other professional services fees, insurance premiums, other corporate expenses and allocated overheads.

General & Admin costs were lower for the period, reflecting a streamlining of Group administration and the comparative period including some restructure costs.

<i>Twelve months to 30 June</i>	2020	2019	change
General and administration expense	2,126,309	2,346,836	(9.4%)
Percentage of operating revenue	20%	23.9%	(3.9%)

COVID-19

Since the emergence of the global COVID-19 pandemic, Techniche has been actively working with our customers to assist them where-ever possible and to monitor the potential for risk to our revenue base. Techniche has maintained a high level of retained business and shows no current deterioration in receivables.

Techniche staff have been largely unaffected other than most are currently working from home. Techniche has not required government assistance in support of staff employment.

Techniche has no external debt, adequate cash reserves and are well positioned should there be a further deterioration in economic conditions.

Audit/Review Status

This report is based on accounts to which one of the following applies: (Tick one)			
The accounts have been audited		The accounts have been subject to review	
The accounts are in the process of being audited or subject to review	✓	The accounts have not yet been audited or reviewed	
If the accounts have not yet been audited or subject to review and are likely to be subject to dispute or qualification, a description of the likely dispute or qualification:			
The accounts are in the process of being audited and there are no likely disputes or qualifications.			

Attachments Forming Part of Appendix 4E

Attachment #	Details
1	Preliminary Consolidated Financial Report for the year ended 30 June 2020

Karl Phillip Jacoby
Chairman
27 August 2020

**Attachment # 1 to Preliminary Consolidated Final Report (Appendix 4E)
Preliminary Consolidated Financial Report
for the Year Ended 30 June 2020**

Techniche Limited

**and its Controlled Entities
ABN 83 010 506 162**

Note:

The Preliminary Consolidated Financial Report does not include all the notes of the type normally included in an Annual Consolidated Financial Report. Accordingly, it is recommended that this Preliminary Consolidated Financial Report is read in conjunction with the Annual Consolidated Financial Report for Techniche Limited for the Financial Year ended 30 June 2019, the December 2019 Half Year Report and any public announcements made by Techniche Limited and its controlled entities during the year ended 30 June 2020 in accordance with the continuous disclosure requirements of the Listing Rules of the Australian Securities Exchange.

Karl Phillip Jacoby
Chairman
27 August 2020

Consolidated Statement of Comprehensive Income

for the year ended 30 June 2020
Techniche Limited and Controlled Entities

	Note	2020	2019
		\$	\$
Revenue from IT services	2	10,633,022	9,803,723
Cost of sales		<u>(2,602,068)</u>	<u>(2,849,895)</u>
Gross profit		8,030,954	6,953,828
Foreign exchange gain		88,164	44,654
Other income		112,363	19,363
Operating expenses	3		
General and administration		(2,126,309)	(2,346,836)
Sales and marketing		(2,397,608)	(3,284,434)
Research and development		(3,061,669)	(2,474,802)
Total operating expenses		(7,585,586)	(8,106,072)
Operating profit / (loss) from ordinary activities		645,895	(1,108,227)
Interest income		1,040	-
Interest expense (includes interest on lease liabilities)		(30,008)	-
		<u>(28,968)</u>	-
Profit / (loss) before income tax		616,927	(1,088,227)
Income tax (expense) / benefit		(45,921)	(162,171)
Profit / (loss) for the year attributable to the members of the parent entity		571,006	(1,250,398)
Other comprehensive income			
<i>Items that may be reclassified to profit or loss</i>			
Exchange differences arising on translation of foreign operations		(105,727)	(24,029)
Other comprehensive income / (loss) for the year		(105,727)	(24,029)
Total comprehensive income / (loss) attributable to members of the parent entity		465,279	(1,274,427)
Earnings per share			
Basic earnings per share (cents per share)	4	0.27	(0.58)
Diluted earnings per share (cents per share)	4	0.27	(0.58)

The accompanying notes form part of these financial statements.

Consolidated Statement of Financial Position as at 30 June 2020

Techniche Limited and Controlled Entities

	Note	30 June 2020 \$	30 June 2019 \$
ASSETS			
Current assets			
Cash and cash equivalents		4,468,562	2,355,523
Trade and other receivables		2,093,872	2,025,212
Other current assets		179,597	246,114
Total current assets		6,742,031	4,626,849
Non-current assets			
Property, plant and equipment		121,553	150,294
Right-of-use assets	8	313,013	-
Deferred tax asset		-	-
Intangible assets	7	12,157,530	12,467,503
Total non-current assets		12,592,096	12,617,797
Total assets		19,334,127	17,244,646
LIABILITIES			
Current liabilities			
Trade and other payables		1,138,254	549,197
Unearned income		5,877,202	5,218,978
Current tax liabilities		101,089	(6,261)
Short term provisions		204,443	267,793
Lease liabilities	8	214,337	-
Total current liabilities		7,535,325	6,029,707
Non-current liabilities			
Long term provisions		48,886	33,372
Lease liabilities		93,271	-
Total non-current liabilities		142,157	33,372
Total liabilities		7,677,482	6,063,079
NET ASSETS		11,656,645	11,181,567
Equity			
Issued capital		69,838,778	69,838,778
Reserves		343,945	449,673
Accumulated losses		(58,526,078)	(59,106,884)
TOTAL EQUITY		11,656,645	11,181,567

The accompanying notes form part of these financial statements.

Consolidated Statement of Changes in Equity for the year ended 30 June 2020 Techniche Limited and Controlled Entities

	Note	Ordinary shares \$	Accumulated losses \$	FX translation reserve \$	Total \$
Balance at 1 July 2018		70,211,280	(57,856,486)	473,702	12,828,496
Loss attributable to members of the parent entity		-	(1,250,398)	-	(1,250,398)
Total other comprehensive income		-	-	(24,029)	(24,029)
Sub total		-	(1,250,398)	(24,029)	(1,274,426)
Share capital reduction		(372,502)	-	-	(372,502)
Dividends paid or provided for		-	-	-	-
Balance at 30 June 2019		69,838,778	(59,106,884)	449,673	11,181,567
Adjustment for change in accounting policy for leases	1	-	9,800	-	9,800
Balance at 1 July 2019 - restated		69,838,779	(59,097,084)	449,673	11,191,367
Profit attributable to members of the parent entity		-	571,006	-	571,006
Total other comprehensive income		-	-	(105,727)	(105,727)
Sub total		68,838,779	(58,526,078)	343,945	11,656,645
Dividends paid or provided for		-	-	-	-
Balance at 30 June 2020		69,838,778	(58,526,078)	343,945	11,656,645

The accompanying notes form part of these financial statements.

Consolidated Statement of Cash Flows for the year ended 30 June 2020 Techniche Limited and Controlled Entities

	Note	2020 \$	2019 \$
Cash flows from operating activities			
Receipts from customers		11,256,331	10,918,585
Payments to suppliers and employees		(9,009,830)	(11,299,677)
Other income / Interest received		113,403	19,363
Income tax refund / (paid)		61,429	172,335
Interest and other financing		(30,008)	-
Net cash provided by (used in) operating activities		2,391,325	(189,394)
Cash flows from investing activities			
Purchase of plant and equipment		(29,849)	(140,196)
Net cash provided by (used in) investing activities		(29,849)	(140,196)
Cash flows from financing activities			
Consideration paid – Share buy back		-	(372,502)
Repayment of lease liabilities		(257,313)	-
Net cash provided by (used in) financing activities		(257,313)	(372,502)
Net increase (decrease) in cash held		2,104,163	(702,092)
Effects of functional currency exchange rate changes		8,876	(58,057)
Cash at the beginning of the year		2,355,523	3,115,672
Cash at the end of the year		4,468,562	2,355,523

The accompanying notes form part of these financial statements.

Notes to the Preliminary Consolidated Financial Report

Techniche Limited and its Controlled Entities Preliminary Consolidated Financial Report for the Year Ended 30 June 2020

Note 1. Statement of significant accounting policies

Statement of Compliance

The preliminary financial report has been prepared in accordance with ASX Listing Rule 4.3A, the disclosure requirements of ASX Appendix 4E, Australian Accounting Standards and the Corporations Act 2001.

The preliminary financial report complies with Australian Accounting Standards and Interpretations of the Australian Accounting Standards Board and in compliance with International Financial Reporting Standards as issued by the International Accounting Standards Board.

The preliminary financial report does not include all the notes of the type normally included in an annual financial report and should be read in conjunction with the annual financial report for Techniche Limited for the financial year ended 30 June 2019, the December 2019 half-year report and any public announcements made by Techniche Limited during the year ended 30 June 2020 in accordance with the continuous disclosure requirements of the ASX Listing Rules.

The preliminary financial report was authorised for issue by the Directors on 27 August 2020.

Basis of preparation

The preliminary financial report has been prepared on an accruals and going concern basis and are based on historical costs, modified, where applicable, by the measurement at fair value of selected non-current assets, financial assets and financial liabilities. All amounts are presented in Australian dollars, unless otherwise noted.

Comparative figures have been adjusted to conform with changes in presentation for the current financial period.

Significant accounting policies

The accounting policies and methods of computation adopted in the preparation of this preliminary consolidated financial report are consistent with those adopted and disclosed in the Company's 2019 annual financial report for the year ended 30 June 2019, except for the policy set out below:

New and amended standards adopted by the group

A new or amended standard became applicable for the current reporting period and the group had to change its accounting policies as a result of adopting the following standard:

AASB 16: Leases

The Group has adopted AASB 16: Leases with a date of initial application of 1 July 2019.

The standard replaces AASB 117 'Leases' and for lessees eliminates the classifications of operating leases and finance leases. Except for short-term leases and leases of low-value assets, right-of-use assets and corresponding lease liabilities are recognised in the statement of financial position. Straight-line operating lease expense recognition is replaced with a depreciation charge for the right-of-use assets (included in operating costs) and an interest expense on the recognised lease liabilities (included in finance costs). In the earlier periods of the lease, the expenses associated with the lease under AASB 16 will be higher when compared to lease expenses under AASB 117. However, EBITDA (Earnings Before Interest, Tax, Depreciation and Amortisation) results improve as the operating expense is now replaced by interest expense and depreciation in profit or loss. For classification within the statement of cash flows, the interest portion is disclosed in operating activities and the principal portion of the lease payments are separately disclosed in financing activities.

Notes to the Preliminary Consolidated Financial Report

Techniche Limited and its Controlled Entities Preliminary Consolidated Financial Report for the Year Ended 30 June 2020

Note 1. Statement of significant accounting policies (continued)

Impact of adoption

AASB 16 was adopted using the modified retrospective approach and as such the comparatives have not been restated. The impact of adoption on opening retained profits as at 1 July 2019 was as follows:

	1 July 2019 \$
Operating lease commitments as at 30 June 2019	806,219
Leases with remaining lease term of less than 12 months	(147,850)
Operating lease commitments before discounting	658,369
Discounts using incremental borrowing rate	(93,448)
Total lease liabilities recognised under AASB 16 at 1 July 2019	564,921
Right-of-use assets (AASB 16)	562,417
Lease liabilities - current (AASB 16)	(227,189)
Lease liabilities - non-current (AASB 16)	(337,732)
Make good provisions	(14,363)
Other current assets	(32,772)
Other provisions	59,439
Increase in opening retained profits as at 1 July 2019	9,800

Right-of-use assets

A right-of-use asset is recognised at the commencement date of a lease. The right-of-use asset is measured at cost, which comprises the initial amount of the lease liability, adjusted for, as applicable, any lease payments made at or before the commencement date net of any lease incentives received, any initial direct costs incurred, and, except where included in the cost of inventories, an estimate of costs expected to be incurred for dismantling and removing the underlying asset, and restoring the site or asset.

Right-of-use assets are depreciated on a straight-line basis over the unexpired period of the lease or the estimated useful life of the asset, whichever is the shorter. Where the consolidated entity expects to obtain ownership of the leased asset at the end of the lease term, the depreciation is over its estimated useful life. Right-of use assets are subject to impairment or adjusted for any remeasurement of lease liabilities.

The consolidated entity has elected not to recognise a right-of-use asset and corresponding lease liability for short-term leases with terms of 12 months or less and leases of low-value assets. Lease payments on these assets are expensed to profit or loss as incurred.

Lease liabilities

A lease liability is recognised at the commencement date of a lease. The lease liability is initially recognised at the present value of the lease payments to be made over the term of the lease, discounted using the interest rate implicit in the lease or, if that rate cannot be readily determined, the consolidated entity's incremental borrowing rate. Lease payments comprise of fixed payments less any lease incentives receivable, variable lease payments that depend on an index or a rate, amounts expected to be paid under residual value guarantees, exercise price of a purchase option when the exercise of the option is reasonably certain to occur, and any anticipated termination penalties. The variable lease payments that do not depend on an index or a rate are expensed in the period in which they are incurred.

Lease liabilities are measured at amortised cost using the effective interest method. The carrying amounts are remeasured if there is a change in the following: future lease payments arising from a change in an index or a rate used; residual guarantee; lease term; certainty of a purchase option and termination penalties. When a lease liability is remeasured, an adjustment is made to the corresponding right-of use asset, or to profit or loss if the carrying amount of the right-of-use asset is fully written down.

Notes to the Preliminary Consolidated Financial Report

Techniche Limited and its Controlled Entities Preliminary Consolidated Financial Report for the Year Ended 30 June 2020

Note 2. Revenue from IT Services

	2020 \$	2019 \$
Revenue from contracts with customers		
Subscription & other recurring revenues	9,594,104	8,895,604
Professional services	60,001	685,799
Software sales	978,917	222,320
Total revenue from IT Services	10,633,022	9,803,723

Note 3. Expenses

Techniche has changed its method of managing and presenting Group expenses from based on their 'nature' to based on their 'function'. Mapping of expenses by nature to expenses by function is determined by classifying expense transactions to functions. Significant expenses such as "Employee benefits expense" are typically mapped to functions based on the classification of staff roles, while other types of expense are assessed at a transaction level.

	2020 \$	2019 \$
<i>Cost of sales and operating expenses</i>		
Auditor remuneration	109,438	109,259
Consulting Fees	384,434	773,148
Commission & other direct costs	881,480	917,607
Directors remuneration	278,466	235,370
Employee benefits expense	6,389,790	6,296,012
Insurance	120,558	129,613
Travel expenses	210,545	361,488
Premises expenses	202,927	446,695
Sales and Marketing	584,068	871,649
Share registry and listing fees	54,708	50,644
Other expenses	379,714	451,161
Interest expense	30,008	-
Total Cost of sales and operating expenses excluding amortisation & depreciation	9,626,135	10,642,646
<i>Depreciation and amortisation</i>		
Amortisation of software	260,488	261,580
Depreciation of right-of-use assets	252,012	-
Depreciation of property, plant & equipment	79,027	51,741
Total depreciation & amortisation expense	591,527	313,321
Total cost of sales & operating expenses	10,217,663	10,955,967
<i>Depreciation and amortisation included in function expenses as follows:</i>		
Cost of sales	24,252	-
General and administration	181,754	55,323
Sales and marketing	44,281	-
Research and development	341,240	257,998
Total depreciation & amortisation expense	591,527	313,321

Notes to the Preliminary Consolidated Financial Report

Techniche Limited and its Controlled Entities Preliminary Consolidated Financial Report for the Year Ended 30 June 2020

Note 4. Earnings per share

	2020 \$	2019 \$
a. Reconciliation of earnings to profit or loss		
Earnings used to calculate basic & diluted earnings per share – continuing operations	571,006	(1,250,398)
b. Weighted average number of ordinary shares		
Weighted average number of ordinary shares outstanding during the year used in calculating basic earnings per share	213,749,270	213,749,270
Weighted average number of ordinary shares outstanding during the year used in calculating dilutive earnings per share	213,749,270	213,749,270
Earnings per share	cents	cents
Basic earnings per share (cents per share)	0.27	(0.58)
Diluted earnings per share (cents per share)	0.27	(0.58)

Note 5. Contingent liabilities and contingent assets

There are no other contingent liabilities or contingent assets at the date of this preliminary financial report.

Note 6. Foreign Entities

The financial information for the wholly owned subsidiaries, Techniche EMEA Ltd and both Techniche Americas LLC and Statseeker Inc. are domiciled in the United Kingdom and the United States of America respectively, have been prepared in accordance with International Financial Reporting Standards.

Notes to the Preliminary Consolidated Financial Report

Technique Limited and its Controlled Entities Preliminary Consolidated Financial Report for the Year Ended 30 June 2020

Note 7. Intangibles

	2020 \$	2019 \$
Goodwill		
Goodwill acquired	4,722,851	4,722,851
	<u>4,722,851</u>	<u>4,722,851</u>
Intellectual property rights		
Carrying value	5,370,569	5,420,054
	<u>5,370,569</u>	<u>5,420,054</u>
Software / Source Code		
Software / Source Code – at cost	2,582,596	2,582,596
Accumulated depreciation	<u>(518,486)</u>	<u>(257,998)</u>
	<u>2,064,110</u>	<u>2,324,598</u>
Total Intangible assets	<u>12,157,530</u>	<u>12,467,503</u>

Movement in carrying values

Movement in the carrying amounts of each class of intangible asset between the beginning and end of the financial period

	2020 \$	2019 \$
Goodwill		
Opening Balance	4,722,851	5,246,290
Provisional goodwill attributed to software / source code	-	(523,439)
Closing balance	<u>4,722,851</u>	<u>4,722,851</u>
Intellectual property rights		
Opening Balance	5,420,054	5,324,814
Foreign currency revaluation	<u>(49,485)</u>	<u>95,240</u>
Closing balance	<u>5,370,569</u>	<u>5,420,054</u>
Software / Source Code		
Opening Balance	2,324,598	2,062,739
Software amortisation	<u>(260,488)</u>	<u>(261,580)</u>
Provisional goodwill attributed to software	-	523,439
Closing balance	<u>2,064,110</u>	<u>2,324,598</u>

Notes to the Preliminary Consolidated Financial Report

Techniche Limited and its Controlled Entities Preliminary Consolidated Financial Report for the Year Ended 30 June 2020

Note 7. Intangibles (Continued)

The recoverable amount of each cash-generating unit above is determined based on value-in-use calculations. Value-in-use is calculated based on the present value of cash flow projections utilising financial budgets approved by the directors over a five-year period and where justified an additional five-year terminal value discounted at a pre-tax discount rate of 18.0%. The growth rate does not exceed the long-term average growth rate for the business in which the cash generating unit operates. Management has based the value-in-use calculations on budgets for each reporting segment. These budgets use historical data to project revenues, costs and net profit positions before management fees for the relevant reporting segment.

Note 8. Non-current assets – right of use assets

	2020 \$	2019 \$
Land and buildings – right-of-use	967,032	-
Less: Accumulated depreciation	<u>(654,020)</u>	<u>-</u>
	<u>313,012</u>	<u>-</u>

The consolidated entity leases buildings for its offices under agreements of between three to five years with, in some cases, options to extend. The leases have various escalation clauses. On renewal, the terms of the leases are renegotiated.

As outlined in Note 1, the recognition of right-of-use-assets was offset by recognition of both current and non-current lease liabilities relating to the leased assets.

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Note 9. Net Current Asset Deficiency

As at 30 June 2020, the Group has reported a net current assets deficiency of \$793,294 (30 June 2019: \$1,402,858). However, the current liabilities include unearned income of \$5,877,202 for customers who paid in advance for the software licence subscription and support fees. The unearned income is not required to be funded with cash, and revenue is recognised when it is earned over the contracted periods.

Note 10. Operating segments

Commencing 1 July 2019, the Group changed the basis of managing its' operating segments from product-based business units to geographical regions and a corporate head office. Each region will now offer all software product lines and professional services. Their performance will be assessed and used to determine the allocation of resources.

Based on these criteria, the Group has identified the following segments:

- i. Corporate / Techniche Ltd undertaking a role in managing investments, Group intellectual property and undertaking overall direction of strategy including acquisitions and divestments
- ii. APAC is managed from the Techniche office in Milton, Australia and covers Asia and the Pacific
- iii. The Americas region is based in San Diego, California and is focused on selling and services customers in the North and south American region
- iv. EMEA is managed from the United Kingdom office in Milton Keynes and covers Europe, Middle East and Africa

The following is an analysis of the revenue and results for the periods ending 30 June 2020 and 30 June 2019, analysed by geographical region operating segments, which is Techniche Limited's primary basis of segmentation.

Basis of accounting for purposes of reporting by operating segments

a. Accounting policies adopted

Unless stated otherwise, all amounts reported to the Board of Directors as the chief decision makers with respect to operating segments are determined in accordance with accounting policies that are consistent to those adopted in the annual financial statements of the Group.

b. Inter-segment transactions

From 1 July 2019, an internally determined transfer price is set for all inter-segment sales. This price is re-set regularly and is based on what would be realised in the event the sale was made to an external party at arm's length. All such transactions are eliminated on consolidation for the Group's financial statements.

Corporate charges are allocated to reporting segments based on the segments overall proportion of revenue generation within the Group. The Board of Directors believes this is representative of likely consumption of head office expenditure that should be used in assessing segment performance and cost recoveries.

Inter-segment loans payable and receivable are initially recognised at the consideration received/to be received net of transaction costs. If inter-segment loans receivable and payable are not on commercial terms, these are not adjusted to fair value based on market interest rates. This policy represents a departure from that applied to the statutory financial statements.

c. Segment assets

Where an asset is used across multiple segments, the asset is allocated to that segment that receives the majority of economic value from that asset. In the majority of instances, segment assets are clearly identifiable on the basis of their nature and physical location.

d. Segment liabilities

Liabilities are allocated to segments where there is a direct nexus between the incurrence of the liability and the operations of the segment. Segment liabilities include trade and other payables, tax related liabilities and certain direct borrowings.

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Note 10. Operating segments (Continued)

Consolidated – 30 June 2020	TCN Corporate 2020 \$	APAC 2020 \$	Americas 2020 \$	EMEA 2020 \$	Total 2020 \$
Revenue from IT services	-	2,989,904	2,034,045	5,609,074	10,633,022
Intra-segment sales	-	-	-	-	-
Inter-segment sales	4,410,520	923,028	897,930	1,295,329	7,526,806
Segment sales revenue	4,410,520	3,912,932	2,931,975	6,904,402	18,159,828
Interest & Other income	71,369	72,829	46,084	11,285	201,567
Total segment revenue before elimination	4,481,888	3,985,761	2,978,059	6,915,688	18,361,395
Reconciliation of segment revenue to group revenue:					
Elimination entries for revenue on consolidation	(4,410,520)	(923,028)	(897,930)	(1,295,329)	(7,526,806)
Total revenue	71,369	3,062,733	2,080,129	5,620,359	10,834,589
Profit/(loss) with inter-segment charges	292,759	124,172	118,135	81,860	616,927
Income tax expense					(45,921)
Segment result after tax					571,006
Intra-group charges					-
Total contribution after tax					571,006
Total consolidated assets	14,003,108	293,032	949,720	4,088,267	19,334,127
Total consolidated liabilities	348,752	979,450	2,310,918	4,038,362	7,677,482

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Note 10. Operating segments (Continued)

Consolidated – 30 June 2019	TCN Corporate 2019 \$	APAC 2019 \$	Americas 2019 \$	EMEA 2019 \$	Total 2019 \$
Revenue from IT services	-	4,951,479	934,548	3,917,696	9,803,723
Intra-segment sales	-	-	-	-	-
Inter-segment sales	136,307	-	-	363,264	499,571
Segment sales revenue	136,307	4,951,479	934,548	4,280,961	10,303,294
Interest & Other income	270,400	(39,169)	40,930	(18,412)	253,749
Total segment revenue before elimination	406,707	4,912,310	975,478	4,280,961	10,557,044
Reconciliation of segment revenue to group revenue:					
Elimination entries for revenue on consolidation	(326,040)	-	-	(363,264)	(689,304)
Total revenue	80,668	4,912,310	975,478	3,899,285	9,867,740
Profit/(loss) with inter-segment charges	(726,080)	(852,551)	320,008	170,396	(1,088,227)
Income tax expense	-	(353,007)	(49,383)	240,219	(162,171)
Segment result after tax	(726,080)	(1,205,558)	270,626	410,615	(1,250,398)
Intra-group charges					-
Total contribution after tax					(1,250,398)
Total consolidated assets	13,297,910	1,315,988	452,719	2,178,029	17,244,645
Total consolidated liabilities	157,448	3,075,285	281,767	2,548,578	6,063,079

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Note 11. After balance date events

There are no matters or circumstances that have arisen since the end of the financial period which significantly affected or could significantly affect the operations of the consolidated group, the results of those operations, or the state of affairs of the consolidated group in future financial periods.