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Company Announcements Office  
Australian Securities Exchange Limited

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### **Prime Financial Group Ltd - FY17 Annual Report & Appendix 4E Report Update**

Integrated Accounting & Business Advisory, Wealth Management and Capital Advisory firm Prime Financial Group Ltd (Prime – ASX code PFG) today provides an update to the previously announced Full Year Profit for the year ended 30 June 2017. The update includes changes to the Appendix 4E Preliminary Financial Report (4E Report) which was released on 28 August 2017.

Importantly, the changes, which Prime's auditors (William Buck) advised were required, are non-cash items and relate to technical accounting entries for goodwill impairment and amortisation of intangibles. The changes do not impact revenue but reduce FY17 profit before tax attributable to members of the parent entity by \$0.99 million from \$4.38 million to \$3.39 million (Consolidated: reduction of \$0.99 million from \$5.98 million to \$4.99 million).

The impact of the items on certain key metrics in the 4E Report is as follows:

<i>Currency: AUD million</i>	<b>FY 2017 Reported in 4E Report</b>	<b>Adjustment</b>	<b>FY 2017 Reported in Annual Report</b>
Revenue	\$19.3m	No change	\$19.3m
<b>Consolidated entity</b>			
Profit before tax	\$5.98m	\$(0.99)m	\$4.99m
Profit after tax	\$4.74m	\$(0.99)m	\$3.75m
<b>Attributable to members of the parent entity</b>			
Profit before tax	\$4.38m	\$(0.99)m	\$3.39m
Profit after tax	\$3.59m	\$(0.99)m	\$2.60m
Basic earnings per share (cents)	2.24	(0.62)	1.62
Diluted earnings per share (cents)	2.24	(0.62)	1.62
Dividend Paid & Proposed (cents per share) (Fully franked)	0.85	No change	0.85

*Please see the Appendix to this document for further details of the impact of the changes*

These unexpected adjustments, which were finally determined just prior to completing the Annual Report, have occurred against a backdrop of one of the most positive years of growth, consolidation and development in Prime's recent past. In the last year Prime team numbers have doubled and revenue has increased 40%, substantially due to the acquisitions of MPR Accountants & Advisors Pty Ltd (MPR) and Altezza Partners Pty Ltd (Altezza). Funds Under Management (FUM) also increased substantially by \$131m (13%) to \$1.108 billion and the final dividend has increased by 12.5%.

The non-cash adjustments to profit relate to the following items:

- **Goodwill impairment expense (\$485k)** – this non-cash item related to the sale of an equity accounted investment (30% interest in Rothsay Accounting Services Pty Ltd). The sale proceeds of \$1.67 million equalled the purchase price of \$1.67 million and the disposal occurred 18 months after the acquisition. Prime initially assessed that the profit/loss on sale was zero as the sale price equalled the purchase price. Prime's auditors, William Buck, stated a goodwill impairment of \$485k was required under the relevant accounting standards. This impairment adjustment is not intuitive as the sale price of the investment was the same as the purchase price.
- **Amortisation of customer relationship intangible assets (\$506k)** – this non-cash item relates to amortisation of intangible assets for customer relationships mainly relating to the acquisition of MPR in FY17. Whilst the directors acknowledge that this is the correct accounting treatment for this item, the adjustment of \$506k required by William Buck was higher than Prime's best estimate calculation.

In addition to the above, William Buck has issued a Disclaimer of Opinion Audit Report on Prime's FY17 Annual Report. The disclaimer of opinion is limited to queries raised in relation to the accounting for the Prime Employee Share Plan (ESP). William Buck's Audit Report states that they have been unable to obtain sufficient appropriate audit evidence in relation to the accounting of the ESP. As a result, William Buck concluded that it was not able to express an opinion on Prime's FY17 financial report or FY17 remuneration report.

The directors of Prime are deeply disappointed, particularly considering William Buck's issuance of unqualified audit opinions in each of the last four years since the first grants under the ESP.

- Prime believes it has provided all information requested by William Buck in relation to the ESP;
- Prime believes the late identification of the potential issues by William Buck contributed to it not being able to obtain sufficient appropriate audit evidence by the reporting deadline;
- The audit report states that the Group has not kept all financial records pertaining to and associated with the ESP – this is factually inaccurate and Prime strongly disagrees with this statement; and
- There have only been 25 grants since the inception of the ESP of which 15 expired without being exercised. William Buck has been provided with information in relation to all grants.

In the light of the disclaimer of opinion audit report, the Directors have determined it appropriate to engage external specialists to review the accounting treatment of the ESP and disclosures in the financial statements and the remuneration report since inception. The outcome of the review will be communicated to shareholders and the market at the earliest opportunity.

## FY17 Analysis of Financial Performance

Prime believes that reversing the impact on profit of certain, predominantly non-cash items, enables a better understanding of Prime's operating result.

The below table presents Prime's result after reversing the profit impact of the following items:

- FY17 goodwill impairment expense (\$485k);
- FY17 amortisation of customer relationship intangible assets (\$506k); and
- FY16 net benefit from restructuring investments (\$834k).

*Results for members of the parent entity for the year ended 30 June 2017 (FY17):*

	FY17	Variance v FY16
Profit Before Tax (PBT)	\$4.38 million	Up 26%
Profit After Tax (PAT)	\$3.59 million	Up 30%
Earnings Per Share (EPS)	2.24 cents per share	Up 18%
Final Dividend	0.45 cents per share	Up 12.5%

The FY17 results in the above table are the same as the equivalent FY17 figures presented on page two of the 4E Report. On the above basis:

- PBT for members of the parent entity increased by 26% (Consolidated: 9%);
- PAT for members of the parent entity increased by 30% (Consolidated: 15%); and
- EPS increased by 18%.

Prime has continued to reposition its growth strategy and business plan to simplify operations through a reduction of minority equity investments in favour of consolidating, acquiring and integrating high growth businesses under one unified brand and client offering. Prime directors are very pleased with its progress during the FY17 year, the current position of the business and its future prospects.

## About Prime Financial Group

Prime is an Integrated Accounting, Wealth Management and Capital Advisory firm that operates a B2C direct client advice model and a B2B partnership model with Accounting and Advisory firms. Prime's goal is for clients to receive complete Accounting, Wealth Management and Capital Advice.

For more information on this announcement please contact **Simon Madder (Managing Director / CEO) on (03) 9827 6999**.

## **Appendix – Reconciliation of Financial Information in 4E Report and FY17 Annual Report**

### **Adjustments between 4E Report and FY17 Annual Report**

During the period between the release of the Appendix 4E Preliminary Financial Report for the year ended 30 June 2017 on 28 August 2017 and the date of release of the Annual Report for the year ended 30 June 2017 on 29 September 2017, the following items changed in the consolidated statement of comprehensive income and consolidated statement of financial position:

- Intangible assets at 30 June 2017 decreased by \$1,294,150 from \$47,153,706 to \$45,859,556;
- Total expenses for the year ended 30 June 2017 increased by \$990,995 from \$13,323,564 to \$14,314,559; and
- Accumulated losses at 30 June 2017 increased by \$1,294,150 from \$20,332,503 to \$21,626,653.

The changes were due to the following:

- Amortisation of intangible assets – \$505,677 (as described above);
- Goodwill impairment – \$485,318 (as described above); and
- Finalisation of acquisition accounting for MPR - \$303,155 of goodwill was derecognized following the finalization of the acquisition accounting for MPR. The amount was an adjustment to retained earnings and did not impact profit.

### Consolidated Statement of Comprehensive Income

The following provides a reconciliation of the consolidated statement of comprehensive income in the 4E Report and FY17 Annual Report:

<i>Currency: AUD</i>	FY17 Reported in 4E Report	Adjustments	FY17 Reported in Annual Report
<b>Income</b>			
Wealth management	9,365,421		9,365,421
Accounting, business advisory and capital advisory	8,486,708		8,486,708
Equity accounted profit	974,370		974,370
Other income	475,161		475,161
<b>Total income</b>	<b>19,301,660</b>	<b>-</b>	<b>19,301,660</b>
<b>Expenses</b>			
Employee benefits	(8,814,579)		(8,814,579)
Depreciation	(121,540)		(121,540)
Amortisation	-	(505,677)	(505,677)
Finance costs	(402,724)		(402,724)
Information technology and communication	(1,333,964)		(1,333,964)
Insurance	(329,060)		(329,060)
Occupancy	(738,477)		(738,477)
Professional fees	(292,957)		(292,957)
Other expenses	(1,290,263)		(1,290,263)
Goodwill impairment	-	(485,318)	(485,318)
<b>Total expenses</b>	<b>(13,323,564)</b>	<b>(990,995)</b>	<b>(14,314,559)</b>
<b>Profit before tax</b>	<b>5,978,096</b>	<b>(990,995)</b>	<b>4,987,101</b>
Members of the parent entity	4,384,230	(990,995)	3,393,235
Non-controlling interest	1,593,866		1,593,866
Income tax expense	(1,230,973)		(1,230,973)
<b>Profit after tax</b>	<b>4,747,123</b>	<b>(990,995)</b>	<b>3,756,128</b>
Members of the parent entity	3,587,489	(990,995)	2,596,494
Non-controlling interest	1,159,634		1,159,634
<b>Total comprehensive income</b>	<b>4,747,123</b>	<b>(990,995)</b>	<b>3,756,128</b>
<b>Other Items</b>			
Earnings Per Share (cents per share)	2.24	(0.62)	1.62

## Consolidated Statement of Financial Position

The following provides a reconciliation of the consolidated statement of financial position in the 4E Report and FY17 Annual Report:

Currency: AUD	FY17 Reported in 4E Report	Adjustment	FY 17 Reported in Annual Report
<b>Current assets</b>			
Cash and cash receivables	624,289		624,289
Trade and other receivables	3,589,047		3,589,047
Other current assets	2,703,291		2,703,291
<b>Total current assets</b>	<b>6,916,627</b>	<b>-</b>	<b>6,916,627</b>
<b>Non-current assets</b>			
Property, plant and equipment	494,690		494,690
Investments accounted for using the equity method	7,775,261		7,775,261
Intangible assets	47,153,706	(1,294,150)	45,859,556
Deferred tax assets	167,954		167,954
<b>Total non current assets</b>	<b>55,591,611</b>	<b>(1,294,150)</b>	<b>54,297,461</b>
<b>Total Assets</b>	<b>62,508,238</b>	<b>(1,294,150)</b>	<b>61,214,088</b>
<b>Current liabilities</b>			
Payables	2,078,362		2,078,362
Current tax payable	1,929,255		1,929,255
Provisions	449,146		449,146
Balance outstanding on acquisition of investments	580,213		580,213
<b>Total current liabilities</b>	<b>5,036,976</b>	<b>-</b>	<b>5,036,976</b>
<b>Non-current liabilities</b>			
Borrowings - Bank Facility	8,018,025		8,018,025
Borrowings - Hire Purchase	600,876		600,876
Balance outstanding on acquisition of investments	1,669,500		1,669,500
<b>Total non current liabilities</b>	<b>10,288,401</b>	<b>-</b>	<b>10,288,401</b>
<b>Total liabilities</b>	<b>15,325,377</b>	<b>-</b>	<b>15,325,377</b>
<b>Net Assets</b>	<b>47,182,861</b>	<b>(1,294,150)</b>	<b>45,888,711</b>
<b>EQUITY</b>			
Contributed equity	61,619,620		61,619,620
Non-controlling interest	5,895,744		5,895,744
Accumulated losses	(20,332,503)	(1,294,150)	(21,626,653)
<b>Total equity</b>	<b>47,182,861</b>	<b>(1,294,150)</b>	<b>45,888,711</b>

## Equity

The following provides a reconciliation of the consolidated total equity in the 4E Report and FY17 Annual Report:

<i>Currency: AUD</i>	Contributed equity	Retained earnings	Non-controlling interest	Total
Balance at 30 June 2017 Reported in 4E Report	61,619,620	(20,332,503)	5,895,744	47,182,861
Adjustment		(1,294,150)		(1,294,150)
Balance at 30 June 2017 Reported in Annual Report	61,619,620	(21,626,653)	5,895,744	45,888,711

## Net Tangible Assets Per Share

The following provides a reconciliation of the consolidated net tangible assets per share in the 4E Report and FY17 Annual Report:

<i>Currency: AUD</i>	FY17 Reported in 4E Report	Adjustment	FY17 Reported in Annual Report
Net assets	47,182,861	(1,294,150)	45,888,711
Less: Intangible assets	(47,153,706)	1,294,150	(45,859,556)
Net tangible assets	29,155	-	29,155
Net tangible assets backing per ordinary share	0.02 cents		0.02 cents