

Appendix 4D
Prime Financial Group Ltd and its Controlled Entities
ABN 70 009 487 674
Half Year Report for the period ended 31 December 2017

Reporting Period

Reporting Period	
Current reporting period	Half-year ended 31 December 2017
Previous corresponding reporting period	Half-year ended 31 December 2016

Results for Announcement to the Market

Results for announcement to the market			
Revenue from ordinary activities	up	25% to	11,172,383
Profit (loss) from ordinary activities after tax attributable to members	down	185% to	(1,308,830)
Net profit (loss) for the period attributable to members	down	185% to	(1,308,830)
Dividend		Amount per security	Franked amount per security
Interim dividend		0.45 cents	0.45 cents
Previous corresponding period		0.40 cents	0.40 cents
Record date for determining entitlements to the dividend			3 April 2018
Payment date for Interim dividend			27 April 2018

Results were extracted from the Half Year Financial Report for the six-month period ended 31 December 2017 which was subject to an independent review.

Commentary on the results for the half year ended 31 December 2017 is included in the Directors' Report section of the Half Year Financial Report for the six-month period ended 31 December 2017.

The information is to be read in conjunction with the most recent annual financial report for the year ended 30 June 2017.

Net Tangible Assets Per Security

	31 December 2017	30 June 2017
Net tangible assets per security		
Net tangible asset backing per ordinary security	(1.65) cents	0.03 cents

Dividends

Dividends		
Dividends	Date of Payment	Total amount of dividend
Final dividend – Year ended 30 June 2018	26 October 2017	0.45 cents
Interim dividend – Year ended 30 June 2018	27 April 2018	0.45 cents
Amount per security	Amount per security	Franked amount per security at % tax
Current Year	0.45 cents	100%
Previous Year	0.40 cents	100%
Total dividend on all securities	2018	2017
Ordinary Securities	\$833,914	\$718,257
Total	\$833,914	\$718,257

The figures above exclude dividends on shares purchased by employees through the Employee Share Plan where the dividend entitlements are deducted from employee loan balances.

Details of Associates and Joint Venture Entities

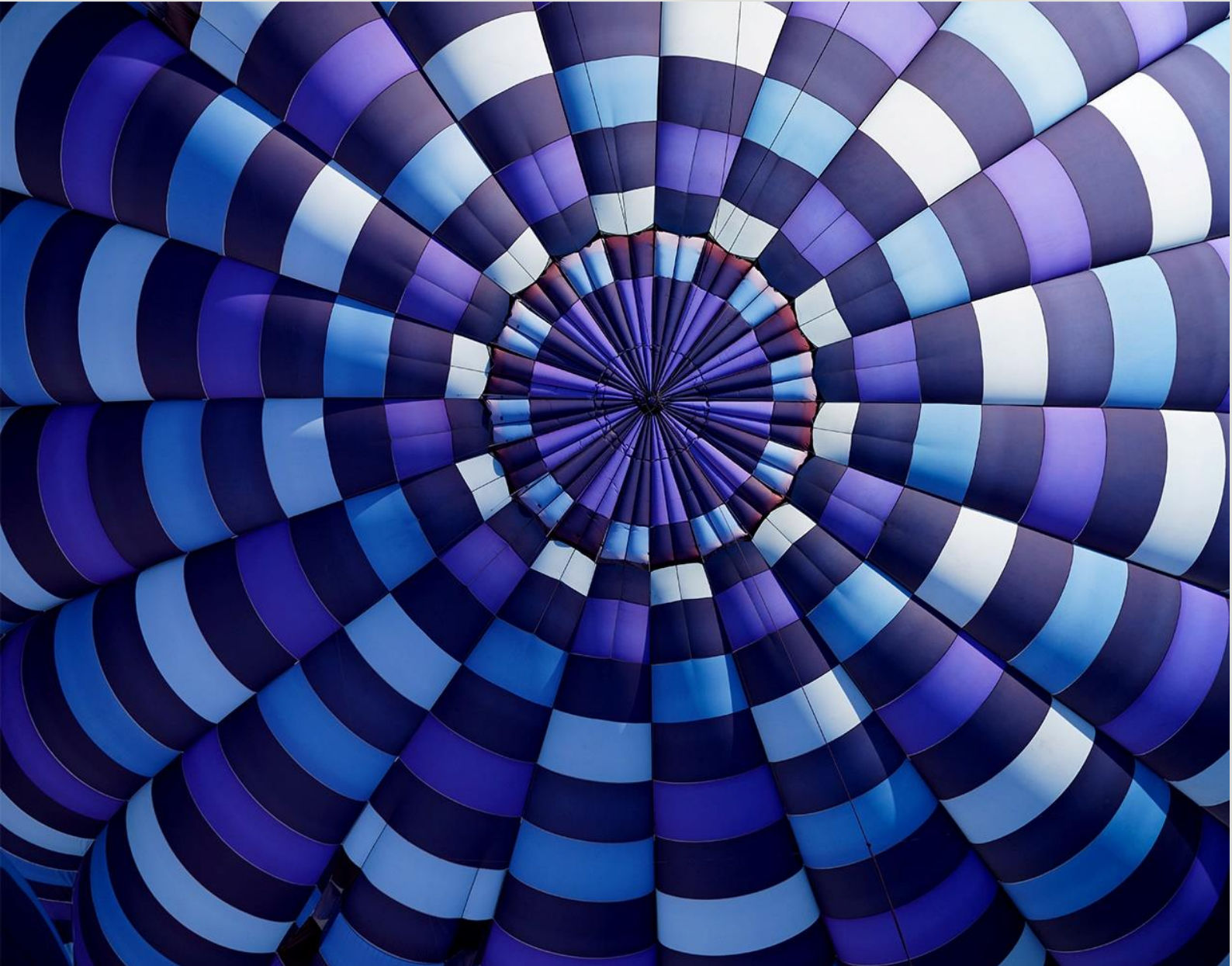
Name of Associates		
Name of associate	31 December 2017 % Securities held	30 June 2017 % Securities held
Pacifica Pty Ltd	35%	35%
Rundles Prime Pty Ltd	50%	50%
BStar Pty Ltd	0%	15%

At 31 December 2017, BStar Pty Ltd was reclassified from an equity accounted investment to a financial asset during the period as the Group assessed that it did not have significant influence over the company. As a result, BStar Pty Ltd is not classified as an associate at 31 December 2017.

Aggregate Share of Profits (losses) of Associates and Joint Venture Entities

Aggregate share of profits (losses) of associates	Six-month period ended 31 December 2017	Six-month period ended 31 December 2016
Profit (loss) from ordinary activities before tax	446,259	568,230
Income tax on ordinary activities	(138,878)	(170,469)
Profit (loss) from ordinary activities after tax	312,381	397,761

The financial information provided in the Appendix 4D is based on the half year condensed financial report, which has been prepared in accordance with Australian equivalent to International Financial Reporting Standards.



Prime Financial Group Ltd

Half Year Financial Report
For The Six Months Ended 31 December 2017

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Directors' Report

Your directors submit their report for the half year ended 31 December 2017 together with the consolidated financial statements of Prime Financial Group Ltd ('Prime' or 'the Company') and the entities it controlled ('the Group') at the end of, or during, the six months ended 31 December 2017, and independent review report thereon.

Directors

The names of the Company's directors in office during the half-year and until the date of this report are set out below. Directors were in office for this entire period.

P. Cowan	Chairman & Non-Executive Director
S. Madder	Managing Director & Chief Executive Officer
P. Madder	Executive Director & Chief Financial Officer
T. Carroll	Non-Executive Director

Review and Results of Operations

In the six months ended 31 December 2017 ('H1 2018'), Prime's revenue increased by \$2.2 million (25%) to \$11.2 million. The increase in revenue was driven by the impact of the acquisition of Altezza Partners and strong organic growth.

The loss before tax for members of the parent entity was \$1.8 million (Group: \$0.9 million) and the loss after tax for members of the parent entity was \$1.3 million (Group: \$0.6 million). The loss was impacted by \$2.3 million of impairment losses and a \$0.8 million loss on the disposal of an investment.

In H1 2018, Prime made continued progress on delivering its strategy. Key highlights include the following:

Investments in Growth Initiatives

In H1 2018, as reported in the FY17 investor presentation, Prime has continued to invest in future growth through:

1. **New Products & Services** – in H1 2018, five new products and services were developed to increase organic growth;
2. **Building a Scalable Platform For Growth** – Prime has invested in Finance, IT and Data teams and systems to build the infrastructure to maximise value from the current and future acquisitions; and
3. **Prime has enhanced its Business Development investment.**

The initiatives are yielding results and are expected to accelerate over the next 12-18 months through increased revenue and enhanced revenue/expense synergies.

Organic Growth

- **New Products & Services** – attract new clients and deliver more value to existing clients.
- **Accounting & Advisory Partnerships** – provide additional services to network of 30+ partner firms
- **Efficiency Benefits** - reduction in overheads as scale and efficiency initiatives are delivered
- **Separately Managed Accounts (SMA) strategy** - successfully delivered with benefits including scalability, margin efficiencies and an enhanced product offering for clients
- **Brand** - increased brand presence including sponsorships of associations, partnerships and community based initiatives

Acquisitions

- **Integration of Acquisitions** - completed the onboarding and integration of FY17 acquisitions

- **Acquisition Pipeline** - advanced discussions with acquisitions that would deliver scale, expertise and earnings growth

Building Partnerships

Prime is investing in the future by creating strategic partnerships with Groups which provide both:

1. **Sources of Capital** for Prime's business owner and entrepreneur clients; and
2. **Alternative Investment Opportunities** for Prime's wealth management clients.

Two new capital partnerships were agreed in H1 2018 with VentureCrowd (a crowdfunding and alternative asset investment platform) and Investible (an early-stage investment group that supports high potential founders)

These partnerships are expected to deliver organic growth in Prime's Accounting & Business Advisory, Wealth Management and Capital divisions

Underlying Profitability

In this report, certain non-IFRS information, such as EBIT and EBITDA is used. This non-IFRS information is not audited.

Underlying EBITDA is a key measure used by management and the Board to assess and review business performance. Underlying EBITDA is defined as earnings before interest, tax, depreciation and amortisation adjusted to exclude the following items:

- One-off non-operational items (including business acquisition and restructuring costs, non-recurring professional fees, impairment losses, fair value adjustments on contingent consideration and gains/losses on the sale of investments); and
- Share based payment expenses/benefits.

The following table provides a reconciliation between statutory net profit after tax and Underlying EBITDA for H1 2017 and H1 2018.

	H1 2018	H1 2017
	\$	\$
Profit after tax from operations	(636,709)	2,147,958
Add: Tax expense	(272,875)	603,154
Add: Interest expense/(income)	246,625	140,020
EBIT *	(662,959)	2,891,132
Add: Depreciation	116,789	41,608
Add: Amortisation	337,557	-
EBITDA **	(208,613)	2,932,740
Adjustments:		
Business acquisition costs, restructuring costs and non-recurring professional fees	328,952	33,322
Share based payment expenses/(benefit)	(47,822)	154,629
Fair value adjustment on contingent consideration	45,960	-
Loss on disposal of investment	773,104	-
Impairment losses	2,302,853	-
Underlying EBITDA **	3,194,434	3,120,691
Underlying EBITDA attributable to members	2,310,731	2,251,332

* EBIT is defined as earnings before interest and tax

** EBITDA is defined as earnings before interest, tax, depreciation and amortisation

Employee Share Plan Accounting, Prior Period Restatements and H1 2018 Impairments

In H1 2018, Prime made a significant investment in its finance function and, in January 2018, appointed Ernst & Young as its auditor. The benefits of these changes included an increased level of scrutiny and governance in financial reporting, a stronger focus on data analytics and business intelligence and enhanced systems. The increased scrutiny resulted in certain prior period restatements and H1 2018 impairments. In aggregate the prior period restatements increased profit after tax for the year ended 30 June 2017 by \$325,666 and increase net assets at 30 June 2016 and 30 June 2017 by \$943,992 and \$1,654,050 respectively. These adjustments are not expected to recur and provide a more robust baseline for growth.

Prime's previous auditors, William Buck Audit (Vic) Pty Ltd, issued a Disclaimer of Opinion Audit Report on Prime's FY17 Annual Report. The disclaimer was limited to queries in relation to the accounting for the Prime Financial Group Employee Share Plan ('PFG ESP'). The accounting treatment of the PFG ESP has now been finalized. The prior period adjustments referenced above include adjustments in relation to the accounting for the PFG ESP. These PFG ESP related restatements resulted in net assets increasing at 30 June 2016 and 30 June 2017 and a reduction in profit in FY17. The adjustments are substantially non-cash items. Please see Notes 7 and 9 of the financial report for further details.

Dividends

The Board has resolved to declare a fully franked interim dividend of 0.45 cents per share. This is a 12.5% increase on the prior year interim dividend of 0.40 cents per share.

Significant events after balance date

There are no matters or circumstances which have arisen since the end of the financial period, that have significantly affected, or may significantly affect the operations of the Group, or the state of affairs of the Group in future periods.

Auditor's Independence Declaration

A copy of the auditor's independence declaration as required under section 307C of the Corporations Act 2001 is set out on page 6.

Signed in accordance with a resolution of the directors:



Paul Cowan
Chairman

Melbourne, 28 February 2018

Auditor's Independence Declaration



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Auditor's Independence Declaration to the Directors of Prime Financial Group Limited

As lead auditor for the review of Prime Financial Group Limited for the half-year ended 31 December 2017, 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 review; and
- b. no contraventions of any applicable code of professional conduct in relation to the review.

This declaration is in respect of Prime Financial Group Limited and the entities it controlled during the financial period.

Ernst & Young

T M Dring
Partner
Melbourne
28 February 2018

Consolidated Statement of Profit or Loss and Other Comprehensive Income

For the six months ended 31 December 2017

	Six months ended 31 December 2017 \$	Six months ended 31 December 2016 Restated * \$
Revenue		
Wealth management	5,002,009	4,757,432
Accounting, business advisory and capital	5,275,851	3,519,468
Share of profit of associates	446,259	568,230
Other income	448,264	120,957
	11,172,383	8,966,087
Expenses		
Employee benefits	(5,663,977)	(4,132,018)
Depreciation	(116,789)	(41,608)
Amortisation	(337,557)	-
Finance costs	(273,170)	(172,212)
IT and communication expenses	(572,006)	(581,211)
Insurance	(204,407)	(161,800)
Occupancy	(478,645)	(340,117)
Professional fees	(292,667)	(126,673)
Other expenses	(1,068,654)	(504,707)
Share based payment (expense)/benefit (Note 7)	47,822	(154,629)
Fair value movement on contingent consideration	(45,960)	-
Loss on disposal of investment (Note 6)	(773,104)	-
Impairments (Note 8)	(2,302,853)	-
	(12,081,967)	(6,214,975)
(Loss)/profit before tax from continuing operations	(909,584)	2,751,112
Attributable to:		
- Members of the parent entity	(1,793,287)	1,881,753
- Non-controlling interests	883,703	869,359
Income tax expense	272,875	(603,154)
(Loss)/profit after tax from continuing operations	(636,709)	2,147,958
Attributable to:		
- Members of the parent entity	(1,308,830)	1,539,376
- Non-controlling interests	672,121	608,582
Total comprehensive income	(636,709)	2,147,958
Earnings per share attributable to ordinary equity holders of the parent		
Basic earnings per share (cents)	(0.78)	0.98
Diluted earnings per share (cents)	(0.76)	0.98

* Certain amounts shown here do not correspond to the FY17 financial statements and reflect adjustments made, refer to Note 9.

Consolidated Statement of Financial Position

As at 31 December 2017

	31 December 2017 \$	30 June 2017 Restated * \$	30 June 2016 Restated * \$
Current assets			
Cash and cash equivalents	592,435	624,289	1,262,750
Trade and other receivables	2,941,319	3,589,047	1,605,321
Other current assets	2,540,743	2,703,291	1,411,758
Total current assets	6,074,497	6,916,627	4,279,829
Non-current assets			
Property, plant and equipment	528,051	494,690	-
Investments accounted for using the equity method	5,057,776	7,775,261	11,362,738
Financial assets (Note 11)	1,498,975	884,938	1,089,397
Intangible assets	47,632,269	47,491,031	35,434,610
Deferred tax assets	896,615	547,135	207,870
Total non-current assets	55,613,686	57,193,055	48,094,615
Total assets	61,688,183	64,109,682	52,374,444
Current liabilities			
Payables	2,519,603	2,078,362	771,874
Current tax payable	755,426	907,189	1,322,742
Employee benefits	937,346	769,124	342,655
Borrowings – hire purchase	248,804	183,631	-
Balance outstanding on acquisition of investments	1,366,944	580,213	466,153
Total current liabilities	5,828,123	4,518,519	2,903,424
Non-current liabilities			
Borrowings – bank facility	8,290,808	8,018,025	3,584,583
Borrowings – hire purchase	454,225	417,245	-
Deferred tax liabilities	1,225,520	999,671	-
Financial liability – share based payments	896,139	943,961	132,081
Balance outstanding on acquisition of investments	544,379	1,669,500	-
Total non-current liabilities	11,411,071	12,048,402	3,716,664
Total liabilities	17,239,194	16,566,921	6,620,088
Net assets	44,448,989	47,542,761	45,754,356
Equity			
Contributed equity	67,967,256	67,967,256	68,252,826
Treasury shares	(3,500,291)	(3,500,291)	(6,386,627)
Non-controlling interests	5,530,650	5,895,744	6,606,924
Accumulated losses	(25,548,626)	(22,819,948)	(22,718,767)
Total equity	44,448,989	47,542,761	45,754,356

* Certain amounts shown here do not correspond to the FY17 financial statements and reflect adjustments made, refer to Note 9

Consolidated Statement of Changes in Equity

For the six months ended 31 December 2017

	Contributed equity	Retained earnings	Non- controlling interests	Total
	\$	\$	\$	\$
Balance at 1 July 2016	60,117,402	(21,913,962)	6,606,924	44,810,364
Adjustments to previously lodged financial statements (Note 9)	1,748,797	(804,805)	-	943,992
Balance at 1 July 2016 (Restated *)	61,866,199	(22,718,767)	6,606,924	45,754,356
Total comprehensive income for the period	-	1,539,376	608,582	2,147,958
Transactions with equity holders in their capacity as equity holders:				
Dividends paid	-	(718,317)	(414,403)	(1,132,720)
Shares issued	1,620,000	-	-	1,620,000
Purchase of treasury shares for PFG ESP	(118,331)	-	-	(118,331)
Sale of treasury shares from PFG ESP	92,164	-	-	92,164
Transactions with non-controlling interests	-	(470,359)	(1,165,810)	(1,636,169)
Other	-	44,344	-	44,344
Total transactions with equity holders in their capacity as equity holders	1,593,833	(1,144,332)	(1,580,213)	(1,130,712)
Balance at 31 December 2016 (Restated *)	63,460,032	(22,323,723)	5,635,293	46,771,602
Balance at 1 July 2017	61,619,620	(21,626,653)	5,895,744	45,888,711
Adjustments to previously lodged financial statements (Note 9)	2,847,345	(1,193,295)	-	1,654,050
Balance at 1 July 2017 (Restated *)	64,466,965	(22,819,948)	5,895,744	47,542,761
Total comprehensive income for the period	-	(1,308,830)	672,121	(636,709)
Transactions with equity holders in their capacity as equity holders:				
Dividends paid	-	(833,914)	(1,037,215)	(1,871,129)
Transactions with non-controlling interests	-	(585,934)	-	(585,934)
Total transactions with equity holders in their capacity as equity holders	-	(1,419,848)	(1,037,215)	(2,457,063)
Balance at 31 December 2017	64,466,965	(25,548,626)	5,530,650	44,448,989

* Certain amounts shown here do not correspond to the FY17 financial statements and reflect adjustments made, refer to Note 9.

Consolidated Statement of Cash flows

For the six months ended 31 December 2017

	Six months ended 31 December 2017	Six months ended 31 December 2016
	\$	\$
Cash flows from operating activities		
Receipts from customers	10,782,354	9,083,677
Receipts from associates	386,376	386,209
Payments to employees and suppliers	(9,035,463)	(6,612,161)
Interest received	-	-
Interest paid	(273,170)	(172,212)
Income tax paid	(199,545)	(773,561)
Net cash provided by operating activities	1,660,552	1,911,952
Cash flows from investing activities		
Receipts from business disposals	586,369	1,669,881
Payments for business acquisitions	(1,026,342)	(1,800,000)
Dividends advanced to non-controlling interests	(361,534)	(901,182)
Development expenditure	(281,769)	(123,393)
Payments for plant and equipment	(150,150)	(186,150)
Other transactions with non-controlling interests	-	(818,075)
Net cash provided by / (used in) investing activities	(1,233,426)	(2,158,919)
Cash flows from financing activities		
Sale / (purchase) of shares for the PFG employee share plan	-	(56,701)
Dividends paid	(833,915)	(767,166)
Capital raising / (reduction) by subsidiary company	-	(1,096,787)
Net proceeds from / (repayment of) borrowings	374,935	1,212,000
Net cash provided by / (used in) financing activities	(458,980)	(708,654)
Net increase / (decrease) in cash and cash equivalents	(31,854)	(955,621)
Cash and cash equivalents at beginning of the half-year	624,289	1,262,750
Cash and cash equivalents at end of the half-year	592,435	307,129

Notes to the Half Year Financial Report

Note 1 Corporate information

The half-year consolidated financial statements of Prime Financial Group Ltd ('Prime' or 'the Company') and its controlled entities ('the Group') for the six months ended 31 December 2017 were authorised for issue in accordance with a resolution of the directors on 28 February 2018.

Prime Financial Group Ltd is a for profit company limited by shares and incorporated and domiciled in Australia. The Company's shares are publicly traded on the Australian Securities Exchange ('ASX').

Note 2 Basis of preparation of the half year financial report

Note 2.1 Basis of preparation

The half-year consolidated financial statements for the half year ended 31 December 2017 have been prepared in accordance with AASB 134 'Interim Financial Reporting' and the Corporations Act 2001, Australian Accounting Standards and other authoritative pronouncements of the Australian Accounting Standards Board.

The half-year consolidated financial statements are presented in Australian dollars and have been prepared on a historical cost basis. It complies with International Financial Reporting Standards as issued by the International Accounting Standards Board.

The half-year consolidated financial statements do not include all the information and disclosures required in the annual financial statements. It is recommended that the half-year consolidated financial statements be read in conjunction with the consolidated financial statements for the year ended 30 June 2017 and any public announcements made by Prime Financial Group Ltd during the half-year in accordance with any continuous disclosure obligations arising under the ASX listing rules.

Note 2.2 Share based payments accounting policy

Prime's accounting policy for share based payments is below. This accounting policy was not included in the financial statements for the year ended 30 June 2017.

Employees and directors of the Group receive remuneration in the form of share-based payments whereby they can acquire shares pursuant to a loan scheme. On the basis that the employees and directors have the option to require the Company to buy back the shares, the awards are being accounted for as share options under cash settled share based payment awards.

A liability is recognised for the fair value of cash-settled transactions. The fair value is measured initially and at each reporting date up to and including the settlement date, with changes in fair value recognised in profit and loss. The fair value is expensed over the period until the vesting date with recognition of a corresponding liability. The fair value is determined using a Black Scholes model, further details of which are given in Note 7.

Note 2.3 New standards, interpretations and amendments

The accounting policies adopted in the preparation of the half-year consolidated financial statements are consistent with those applied in the preparation of the Group's annual consolidated financial statements for the year ended 30 June 2017, except for the adoption of the new standards and interpretations effective as of 1 July 2017 and the prior period restatements included in Note 9. The Group has determined that the new standards and interpretations do not have a material impact on the half-year consolidated financial statements.

Note 3 Dividends paid and proposed

	Six months ended 31 December 2017	Six months ended 31 December 2016
	\$	\$

Cash dividends to the equity holders of the parent:

Dividends on ordinary shares declared and paid:

Final fully franked dividend for the year ended 30 June 2017: 0.45 cents per share (2016: 0.40 cents per share)	833,914	718,257
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Proposed dividends on ordinary shares (not recognised at the end of the half year):

Interim fully franked dividend for the year ended 30 June 2018: 0.45 cents per share (2017: 0.40 cents per share)	833,914	718,257
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The proposed interim dividend for the six-month period ended 31 December 2017 was approved on 28 February 2018 and is not recognised as a liability at 31 December 2017.

The figures above exclude dividends on shares purchased by employees through the Employee Share Plan where the dividend entitlements are deducted from the employee loan balances. Please see Note 7 for details of awards to employees.

Note 4 Segment information

The Group operates in one reportable segment providing integrated advice solely in Australia.

Note 5 Commitments & Contingencies

Prime Development Fund Pty Ltd continues to provide cross guarantees to Pacifica Pty Ltd for \$444,500 (30 June 2017: \$444,500) and Rundles Prime Pty Ltd for \$580,000 (30 June 2017: \$580,000).

The Group has committed to purchase \$300,000 of ordinary shares in VentureCrowd Holdings Pty Ltd subject to certain conditions being met.

Note 6 Business combinations

In October 2017, the Group disposed of its rights to revenue from services provided to certain SMSF clients. This investment was accounted for as an equity accounted investment. As part of the same transaction, the Group purchased 50% of the ordinary share capital in NP Wealth Management Pty Ltd (formerly Nexia Perth Financial Planning Pty Ltd), a wealth management joint venture in which the Group already owned 50% of the ordinary share capital. The net proceeds from the transaction were \$200,000. The proceeds from the disposal of the equity accounted investment were calculated as \$586,369. This resulted in the loss on the disposal of the related equity accounted investment of \$773,104. The consideration for the purchase of 50% of the ordinary share capital in NP Wealth Management Pty Ltd was calculated as \$386,369.

Note 7 Share-based payments

In 2008, Prime established the PFG ESP. The purpose of the PFG ESP is to provide eligible employees with the ability to acquire shares in Prime Financial Group Ltd pursuant to a loan scheme. The PFG Employee Share Plan Trust ('ESP Trust') was established to effect the awards of shares under the ESP. PFG Employee Share Plan Pty Ltd is the trustee of the Trust ('the Trustee'). Prime made the first offers of shares from the ESP to employees and directors in FY13 and made further offers in FY15, FY16, FY17 and FY18.

Note 7a. Types of share-based payment plans

i. Awards to Mr S. Madder

Mr S. Madder was awarded shares under the PFG ESP in May 2013, December 2015 and December 2016 at an allocation price of 19.3 cents, 10.6 cents and 10.5 cents respectively. The acquisition of shares was funded by loans from the Trustee who administers the plan. The loans, which have four-year terms, are full recourse and supported by a personal guarantee from Mr S. Madder plus a General Security Agreement over his related entity.

While Mr S. Madder's PFG ESP loans are full recourse in nature, the arrangements provide that at any time prior to the expiry of the loans, Mr S. Madder may require the Trustee to buy back the shares that are the subject of his loans at a price per share that is equal to the greater of:

1. 75% of the allocation price;
2. the volume weighted average price of a share during the 30 days immediately preceding the date Mr S. Madder issues a buy-back notice; and
3. an amount determined by an independent expert appointed at the request of Mr S. Madder (the identity of whom must be agreed to in writing by the Company) as being the reasonable value of the shares as at the date Mr S. Madder issues a buy-back notice.

In May 2017, the directors agreed to extend the term of the 2013 award for another four years and to also extend the term of the December 2015 and December 2016 awards to align with the term of the 2013 award. In an Extraordinary General Meeting ('EGM') on 14 July 2017, a resolution was approved to modify the terms of the loan provided to Mr S. Madder in 2013, by reducing the allocation price of 4,800,000 shares from 19.3 cents to 9.72 cents and amending the buy-back price above to refer to 50% of the allocation price. As communicated at the EGM on 14 July 2017, the change was in accordance with the contractual entitlements of the executive service agreement entered into between the Company and Mr S. Madder in November 2009.

On the basis that Mr. S. Madder has the option to require the Company to buy back the shares at any time during the term of the loan for a price per share based on the above formula, the awards are being accounted for as share options under cash settled share based payment awards.

ii. Awards to Employee

The PFG ESP allows participating staff members to acquire shares pursuant to a loan scheme. Under the PFG ESP, participants are allocated shares on the basis that the acquisition cost of the Shares is funded via a non-recourse loan provided by the Trustee who administers the plan.

The loans have a fixed term and shares are allocated on the basis that they are held by the Trustee. In these circumstances, participants may not deal with the shares that have been allocated to them until the loan amount that is attributable to the shares has been repaid. The loan may be repaid at any time during the loan term.

At the end of the loan term, participants are required to repay an amount equal to the loan balance that is outstanding in respect of the plan shares unless alternative arrangements are entered into with the Trustee. At that time participants may:

- pay the Trustee an amount equal to the amount of the loan that is then outstanding in respect of the plan shares. Upon making this payment the vested plan shares will be transferred to the participant; or
- if a participant elects not to take a transfer of the plan shares or fails to make any election on or before the repayment date then the participant shall be deemed to have agreed to transfer its plan shares back to the Trustee and the Trustee shall either:
 - sell the plan shares; or
 - purchase the vested plan shares for a price equal to the then current market value of the vested plan shares and hold them pending their future allocation under the plan.

The Trustee will accept the transfer of the vested plan shares in full satisfaction of the amount of the loan that remains outstanding. If the net proceeds of the sale or purchase exceed the amount of the loan that is then outstanding in respect of the vested plan shares then the surplus will be remitted to the participant. If the net proceeds of the sale or purchase do not exceed the amount of the loan that is still outstanding in respect of the vested plan shares then no amount will be paid to the participant.

On the basis that the employees have the option to require the Company to buy back the shares at the end of the term of the loan for the difference between the share price at the time and the outstanding loan balance, the awards are being accounted for as share options under cash settled share based payment awards.

In the July 2017, employees were allocated 9,920,000 shares funded by non-recourse loans provided on the basis described above. The allocation price of the shares was 12 cents. 33% of the shares granted vest after one year, 33% after two years with the remaining 34% of shares vesting after three years.

Note 7b. Recognised share-based payment expenses/benefits

The expense/(benefit) recognized during the six-month period is shown in the following table:

	Six months ended 31 December 2017 \$	Six months ended 31 December 2016 * Restated \$
Expense/(benefit) arising from cash-settled share-based payment transactions	(47,822)	154,629
Total expense arising from share-based payment transactions	(47,822)	154,629

* Certain amounts shown here do not correspond to the FY17 financial statements and reflect adjustments made, refer to Note 9

Note 7c. Movements during the year

The following table illustrates the number and weighted average exercise price (WAEP) of, and movements in, share options during the six-month period ended 31 December 2017:

	Number Six months ended 31 December 2017	WAEP (cents) Six months ended 31 December 2017	Number Six months ended 31 December 2016	WAEP (cents) Six months ended 31 December 2016
Outstanding at 1 July	11,208,833	15.5	15,601,508	22.3
Granted during period	9,920,000	13.7	1,661,002	13.8

	Number	WAEP (cents)	Number	WAEP (cents)
	Six months ended 31 December 2017	Six months ended 31 December 2017	Six months ended 31 December 2016	Six months ended 31 December 2016
Forfeited during period	-	-	-	-
Exercised during period	-	-	-	-
Expired during period	-	-	-	-
Outstanding at 31 December	21,128,833	14.7	17,262,510	21.4
Exercisable at 31 December	21,128,833	14.7	17,262,510	21.4

The WAEP in the above table is based on the expected exercise price at the vesting / loan repayment date.

Note 7d. Share option valuation model

The fair value of the share options are calculated at each reporting date using the Black-Scholes model.

The following table lists key inputs to the models used for the plans at 30 June 2017 and 31 December 2017:

At 31 December 2017	Awards to Mr S. Madder				Awards to Employees		
Grant date	1 May 13	1 May 13	18 Dec 15	21 Dec 16	July 17		
Vesting / loan repayment date	2 May 21	2 May 21	2 May 21	2 May 21	33% July 18	33% July 19	33% July 20
Expected life of share options (years)	3.34	3.34	3.34	3.34	0.5	1.5	2.5
Exercise price at vesting / loan repayment date (cents):	25.0	12.6	15.2	14.1	12.8	13.7	14.7
Fair value at reporting date (cents)	7.4	4.2	6.4	6.8	4.4	6.4	6.9
Share price at reporting date (cents)	15.5	15.5	15.5	15.5	15.5	15.5	15.5
Risk-free interest rate	2.24%	2.24%	2.24%	2.24%	2.24%	2.24%	2.24%
Dividend yield	0%	0%	0%	0%	0%	0%	0%
Expected Volatility	55.4%	55.4%	55.4%	55.4%	49.2%	61.3%	54.6%
Loan interest rate	6.98%	6.98%	6.98%	6.98%	6.98%	6.98%	6.98%

At 30 June 2017	Awards to Mr S. Madder			
Grant date	1 May 13	1 May 13	18 Dec 15	21 Dec 16
Vesting / loan repayment date	2 May 21	2 May 21	2 May 21	2 May 21
Expected life of share options (years)	3.84	3.84	3.84	3.84
Exercise price at vesting / loan repayment date (cents):	25.0	12.6	15.2	14.1
Fair value at reporting date (cents)	9.4	5.6	8.4	8.8
Share price at reporting date (cents)	18.0	18.0	18.0	18.0
Risk-free interest rate	2.06%	2.06%	2.06%	2.06%
Dividend yield	0%	0%	0%	0%
Expected Volatility	51.2%	51.2%	51.2%	51.2%
Loan interest rate	6.98%	6.98%	6.98%	6.98%

The expected life of the share options is based on historical data and current expectations and is not necessarily indicative of exercise patterns that may occur. The expected volatility reflects the assumption that the historical volatility over a period similar to the life of the options is indicative of future trends, which may not necessarily be the actual outcome.

Note 8 Impairments

In the six months ended 31 December 2017, the Group recognized the following impairment losses:

- Impairment of trade receivables and other related assets - \$1,222,458;
- Impairment of equity accounted investments – Bstar Pty Ltd – \$795,723; and
- Impairment of equity accounted investments – other individually immaterial associates - \$284,672.

At 31 December 2017, BStar Pty Ltd was also reclassified from an equity accounted investment to a financial asset during the period as the Group assessed that it did not have significant influence over the company.

Note 9 – Adjustments to previously lodged financial statements

The following five adjustments have been made to previously lodged financial statements. In aggregate the adjustments increase profit after tax for the year ended 30 June 2017 by \$325,666 and increase net assets at 30 June 2016 and 30 June 2017 by \$943,992 and \$1,654,050 respectively.

1. Employee share plan

Prime's previous auditors, William Buck Audit (Vic) Pty Ltd ('William Buck'), issued a Disclaimer of Opinion Audit Report on Prime's Annual Report for the year ended 30 June 2017. The disclaimer of opinion was limited to queries in relation to the accounting for the PFG ESP. William Buck's Audit Report stated that it was unable to obtain sufficient appropriate audit evidence in relation to the accounting of the PFG 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. Prime was very disappointed with the disclaimer audit report, particularly considering William Buck's issuance of unqualified audit opinions in each of the last four years since the first grants under the PFG ESP. Prime also believed it provided all information requested by William Buck in relation to the PFG ESP.

The accounting treatment adopted for the grants to the directors and employee is as follows:

Arrangements	Summary of arrangements	Adjusted accounting treatment
2013, 2015 and 2016 grants to Mr P. Madder (Director and Chief Financial Officer)	Prime provided full recourse loans to a nominee company of Mr P. Madder to fund the purchase of shares in Prime. The loans are supported by general securities agreements over the nominee company and a personal guarantee from Mr P. Madder. The term of the loans was extended in the year ended 30 June 2017. In FY17, the Remuneration Committee recommended that the 2013 loan was further modified in accordance with the contractual entitlements of the executive service agreement entered into between the Company and Mr P. Madder. The modification was approved in the EGM on 14 July 2017.	The loans are included within financial assets in the consolidated statement of financial position. The modification to the loan at the Extraordinary General Meeting on 14 July 2017 was recognised as an expense of \$392,960 in the statement of profit or loss and other comprehensive income for the year ended 30 June 2017.

Arrangements	Summary of arrangements	Adjusted accounting treatment
<p>2013, 2015 and 2016 grants to Mr S. Madder (Managing Director and Chief Executive Officer)</p>	<p>Prime provided full recourse loans to a nominee company of Mr S. Madder to fund the purchase of shares in Prime. The loans are supported by general securities agreements over a related entity of Mr S. Madder and a personal guarantee from Mr S. Madder. The term of the loans was extended in the year ended 30 June 2017. In FY17, the Remuneration Committee recommended that the 2013 loan was further modified in accordance with the contractual entitlements of the executive service agreement entered into between the Company and Mr S. Madder. The modification was approved in the EGM on 14 July 2017.</p> <p>While Mr S. Madder's loans are full recourse in nature, the arrangements provide that prior to the expiry of the loan term Mr S. Madder may require the Trustee to buy back the Shares that are the subject of his ESP Loan at a price per share that is equal to the greater of:</p> <p>(a) 50% of the allocation price;</p> <p>(b) the volume weighted average price of a Share during the 30 days immediately preceding the date Mr S. Madder issues a buy-back notice; and</p> <p>(c) an amount determined by an independent expert appointed at the request of Mr S. Madder (the identity of whom must be agreed to in writing by the Company) as being the reasonable value of the Shares as at the date Mr S. Madder issues a buy-back notice.</p>	<p>Due to the buy-back option, the arrangements are cash settled share based payments within the scope of AASB 2 Share based payments. The share options vested on or prior to the grant date.</p> <p>On the grant date a share based payment expense and share based payment liability are recognised. The liability is valued using a share option pricing model. The liability is subsequently remeasured at each reporting date resulting in a share based expense or benefit in profit and loss.</p>
<p>2013 and 2015 grants to employees</p>	<p>Prime provided non-recourse loans to employees to fund the purchase of shares in Prime. The employees have the option to settle the arrangements in cash.</p>	<p>The arrangements are cash settled share based payments within the scope of AASB 2 Share based payments. The share options vested on or prior to the grant date.</p> <p>On the grant date a share based payment expense and share based payment liability are recognised. The liability is</p>

Arrangements	Summary of arrangements	Adjusted accounting treatment
		valued using a share option pricing model. The liability is subsequently remeasured at each reporting date resulting in a share based expense or benefit in profit and loss.

In the financial statements for the year ended 30 June 2017 and prior periods, Prime recognised the loans provided to directors and employees within treasury shares and adjusted for the modifications to the loans in the year ended 30 June 2017 in consolidated equity. Treasury shares and consolidated equity have been restated to reflect the revised accounting treatment.

2. Reversal of goodwill impairment

In August 2016, the Group disposed of its 30% interest in in Rothsay Accounting Services Pty Ltd. The sale proceeds of \$1,669,881 equalled the purchase price and the disposal occurred 18 months after the acquisition in February 2015. In addition, no goodwill was recognised as part of this acquisition. Prime's previous auditors stated that a goodwill impairment of \$485,318 was required and the impairment was recognised in the statement of profit or loss and other comprehensive income for the year ended 30 June 2017. Prime has reversed this impairment adjustment as a prior period restatement, as no impairment was deemed appropriate for the reasons described above.

3. Customer relationship intangible assets

The Group recognised customer relationship intangible assets in relation to the acquisitions of MPR Accountants & Advisors Pty Ltd ('MPR') and Watermans International Holdings Pty Ltd in the year ended 30 June 2017. The customer relationship intangible assets have been restated as follows:

- Prime has reassessed the acquisition date value of the MPR customer relationship intangible asset. Prime's previous auditors required that a valuation which was higher than Prime's best estimate be included in the financial statements for the year ended 30 June 2017. The acquisition date valuation of the MPR customer relationship intangible asset has been reduced by \$2,172,909 from \$4,621,939 to \$2,449,030 and the amortisation period has been reduced from 10 years to eight years. This has resulted in a \$156,065 reduction in the amortisation included in profit and loss for the year ended 30 June 2017.
- In the financial statements for the year ended 30 June 2017, deferred tax liabilities were not recognised on the customer relationship intangible assets. The financial statements for the year ended 30 June 2017 have been restated to include deferred tax liabilities in relation to the customer relationship intangible assets.

4. Long service leave employee benefits

At 30 June 2016 and 30 June 2017, the Group's long service leave provision related to employees which had been employed by the Group for more than 10 years. The employee benefits provision has been restated to recognise a liability for the present value of expected future payments to be made in respect of services provided by all employees up to the reporting date using the projected unit credit method. Consideration is given to expected future wage and salary levels, experience of employee departures, and periods of service. Expected future payments are discounted using market yields at the reporting date on high quality corporate bonds with terms to maturity and currencies that match, as closely as possible, the estimated future cash outflows.

5. Tax

At 30 June 2017, the current tax payable was overstated. This provision has been reassessed resulting in a reduction in current tax payable partly offset by an increase in deferred tax liabilities.

The adjustments have been corrected by restating each of the affected financial statement line items for the prior periods as follows:

	30 June 2017 \$	31 December 2016 \$	30 June 2016 \$
Impact on equity (increase/(decrease) in equity):			
Adjustment 1 - Employee share plan			
Financial assets	884,938	1,241,983	1,089,397
Deferred tax assets	283,188	86,013	39,624
Financial liability	(943,961)	(286,710)	(132,081)
Adjustment 2 - Reversal of goodwill impairment			
Intangible assets - Goodwill	485,318	-	-
Adjustment 3 - Customer relationship intangible assets			
Intangible assets - Customer relationship intangible assets	(2,016,844)	-	-
Intangible assets - Goodwill	3,061,707	-	-
Deferred tax liabilities	(781,551)	-	-
Adjustment 4 - Long service leave employee benefits			
Deferred tax assets	95,993	70,975	22,692
Intangible assets - Goodwill	101,294	101,294	0
Employee benefits	(319,978)	(236,583)	(75,640)
Adjustment 5 - Tax			
Deferred tax liabilities	(218,120)	-	-
Current tax payable	1,022,066	-	-
Total assets	2,895,594	1,500,265	1,151,713
Total liabilities	(1,241,544)	(523,293)	(207,721)
Net impact on equity	1,654,050	976,972	943,992

	Year ended 30 June 2017 \$	Six months ended 31 December 2016 \$
Impact on Consolidated Statement of Profit and Loss and Other Comprehensive Income (increase/(decrease) in profit):		
Adjustment 1 - Employee share plan		
Interest income	(195,893)	(99,808)
Share based payment income/(expenses)	(811,880)	(154,629)
Loan modification expense	(392,960)	-
Income tax benefit/(expense)	243,564	46,389
Adjustment 2 - Reversal of goodwill impairment		
Goodwill impairment	485,318	-
Adjustment 3 - Customer relationship intangible assets		
Amortisation	156,065	-
Income tax benefit/(expense)	107,248	-
Adjustment 4 - Long service leave		
Employee benefits	(99,632)	(16,237)
Income tax benefit/(expense)	29,890	4,871
Adjustment 5 - Current tax payable		
Income tax benefit/(expense)	803,946	-
Total adjustment to profit and loss	325,666	(219,414)
Attributable to: Members of the parent entity	325,666	(219,414)

Diluted earnings per share has been restated to include an adjustment for shares issued to directors and employees for no consideration when they exercise their rights under the share option plan.

For the year ended 30 June 2017, the above items increased basic and diluted earnings per share by 0.19 cents per share from 1.62 cents per share to 1.81 cents per share. The adjustments did not impact other comprehensive income or the operating, investing and financing cash flows for the period.

Note 10 Significant events after balance date

On 28 February 2018, the Board resolved to declare a fully franked interim dividend of 0.45 cents per share. This is a 12.5% increase on the prior year interim dividend of 0.40 cents per share.

There are no other matters or circumstances which have arisen since the end of the financial period, that have significantly affected, or may significantly affect the operations of the Group, or the state of affairs of the Group in future periods

Note 11 Financial assets

The financial assets at the period end are as follows:

	31 December 2017 \$	30 June 2017 * Restated \$
Loan receivable	911,483	884,938
Investment in Bstar Pty Ltd	337,500	-
Other	249,992	-
	<u>1,498,975</u>	<u>884,938</u>

* Certain amounts shown here do not correspond to the FY17 financial statements and reflect adjustments made, refer to Note 9

The loan receivable relates to a loan to Madder Corporate Pty Ltd, a nominee company of Mr P. Madder. The loan was provided by the PFG ESP to fund the allocation of 6,224,156 Shares (30 June 2017: 6,224,156 Shares) in Prime. During the six-month period ended 31 December 2017 the interest payable on the loan was \$26,545.

At 31 December 2017, BStar Pty Ltd was also reclassified from an equity accounted investment to a financial asset during the period as the Group assessed that it did not have significant influence over the company. Bstar Pty Ltd is classified as a Level 3 financial asset and is measured at fair value through profit and loss. The fair value technique used was a capitalization of earnings approach. The key inputs in this valuation were the underlying earnings and the earnings multiple.

Directors' Declaration

The directors declare that the financial statements and notes set out on pages 7 to 21 are in accordance with the Corporations Act 2001, including:

- (a) Complying with Accounting Standard AASB 134 "Interim Financial Reporting" and the Corporations Regulations 2001, and
- (b) Giving a true and fair view of the financial position of the consolidated entity as at 31 December 2017 and of its performance as represented by the results of its operations and its cash flows, for the half-year ended on that date.

In the directors' opinion there are reasonable grounds to believe that Prime Financial Group Ltd will be able to pay its debts as and when they become due and payable.

This declaration is made in accordance with a resolution of the directors.



Paul Cowan
Chairman



Simon Madder
Managing Director & CEO

Melbourne
Date: 28 February 2018

Independent Auditor's Report



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Independent Auditor's Review Report to the Members of Prime Financial Group Ltd

Report on the Half-Year Financial Report

Conclusion

We have reviewed the accompanying half-year financial report of Prime Financial Group Ltd (the Company) and its subsidiaries (collectively the Group), which comprises the consolidated statement of financial position as at 31 December 2017, the consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the half-year ended on that date, notes comprising a summary of significant accounting policies and other explanatory information, and the directors' declaration.

Based on our review, which is not an audit, nothing has come to our attention that causes us to believe that the half-year financial report of the Group is not in accordance with:

- a) the *Corporations Act 2001*, including:
 - i. giving a true and fair view of the consolidated financial position of the Group as at 31 December 2017 and of its consolidated financial performance for the half-year ended on that date; and
 - ii. complying with Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*; and

Directors' Responsibility for the Half-Year Financial Report

The directors of the Company are responsible for the preparation of the half-year 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 half-year financial report that is free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express a conclusion on the half-year financial report based on our review. We conducted our review in accordance with Auditing Standard on Review Engagements ASRE 2410 *Review of a Financial Report Performed by the Independent Auditor of the Entity*, in order to state whether, on the basis of the procedures described, anything has come to our attention that causes us to believe that the half-year financial report is not in accordance with the *Corporations Act 2001* including: giving a true and fair view of the Group's consolidated financial position as at 31 December 2017 and its consolidated financial performance for the half-year ended on that date; and complying with Accounting Standard AASB 134 *Interim Financial Reporting*, and the *Corporations Regulations 2001*. As the auditor of the Group, ASRE 2410 requires that we comply with the ethical requirements relevant to the audit of the annual financial report.



A review of a half-year financial report consists of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Australian Auditing Standards and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Independence

In conducting our review, we have complied with the independence requirements of the *Corporations Act 2001*.

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

Ernst & Young

A handwritten signature in black ink, appearing to be 'T M Dring', with a long horizontal flourish extending to the right.

T M Dring
Partner
Melbourne
28 February 2018

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