Mitula Group Limited

Summary of significant accounting policies

The main accounting policies and measurement criteria applied in the preparation of financial statements are described below.

Basis of preparation

The consolidated financial statements of the Company have been prepared in accordance International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board (IASB).

New IFRS standards, amendments and IFRIC interpretations issued

The standards, interpretations and amendments that have been published by the IASB and will be effective in later periods after 31 December 2014 (and have not been early adopted by the Company), are the following:

Standard	Title	Effective date
IFRS 1	Modification September 2014 - Sale or transfer of assets between an investor and its associates or joint ventures	01/01/2016
IFRS 5	Improvements to IFRSs - Cycle 2012-2014 (September 2014)	01/07/2016
IFRS 7	Improvements to IFRSs - Cycle 2012-2014 (September 2014)	01/07/2016
IFRS 9	Financial instruments (Full Version) (July 2014)	01/01/2018
IFRS 10	Modification December 2014 - Investment Entities: Applying the exception to consolidation	01/01/2016
IFRS 11	Modification May 2014 - Accounting for acquisitions of interests in joint ventures	01/01/2016
IFRS 12	Modification December 2014 - Investment Entities: Applying the exception to consolidation	01/01/2016
IFRS 14	Regulatory deferral accounts	01/01/2016
IFRS 15	Revenue from contracts with customers	01/01/2017
IAS 1	Modification December 2014 - Disclosure Initiative	01/01/2016
IAS 16	Modification May 2014 - Clarification of acceptable methods of depreciation and amortization	01/01/2016
	Modification June 2014 - Agriculture: Plants that need to produce fruit	01/01/2016
IAS 19	Improvements Project - Cycle 2012-2014 (September 2014)	01/07/2016
IAS 27	Modification August 2014 - Equity method in separate financial statements	01/01/2016
IAS 28	Modification September 2014 - Sale or transfer of assets between an investor and its associates or joint ventures	01/01/2016
	Modification December 2014 - Investment Entities: Applying the exception to consolidation	01/01/2016
IAS 34	Improvements to IFRSs - Cycle 2012-2014 (September 2014)	01/07/2016
IAS 38	Modification May 2014 - Clarification of acceptable methods of depreciation and amortization	01/01/2016
IAS 41	Modification June 2014 - Agriculture: Plants that need to produce fruit	01/01/2016

The Company is currently evaluating the potential impacts in the financial statements derived from the application of the above mentioned standards.

Segment reporting

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision maker, who is responsible for allocating resources and assessing performance of the operating segments. The chief operating decision maker has been identified as the CEO that makes strategic decisions.

The business is being monitored in an operating income basis distinguishing by geography (EMEA, AMERICAS and APAC). Given the nature of the services rendered by the Company, consisting of rendering vertical search engine for classifieds in internet services, it is not possible neither separate assets and liabilities by client nor allocate operating or financial results and taxes, following this criteria.

Foreign currency translation

a) Functional and presentation currency

The Company operates in different countries and with different currencies.

Items including the financial statements of each of the Company's entities are measured using the currency of the primary economic environment in which the entities operates (functional currency). The functional currency of the consolidated financial statements is Euro but have been presented in Australian dollars, which is the Company's presentation currency.

b) Transactions and balances

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions or valuation where items are re-measured. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currency are recognised in the income statement.

Translation differences on non-monetary financial assets and liabilities such as equities held at fair value through profit or loss are recognised in profit or loss as part of the fair value gain or loss.

c) Group companies

The results and financial position of foreign operations (none of which has the currency of a hyperinflationary economy) that have a functional currency different from the presentation currency are translated into the presentation currency as follows:

- assets and liabilities for each balance sheet presented are translated at the closing rate at the date of that balance sheet
- income and expenses for each income statement and statement of comprehensive income are translated at average exchange rates (unless this is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case income and expenses are translated at the dates of the transactions), and
- all resulting exchange differences are recognised in other comprehensive income

On consolidation, exchange differences arising from the translation of any net investment in foreign entities, and of borrowings and other financial instruments designated as hedges of such investments, are recognised in other comprehensive income. When a foreign operation is sold or any borrowings forming part of the net investment are repaid, the associated exchange differences are reclassified to profit or loss, as part of the gain or loss on sale.

Goodwill and fair value adjustments arising on the acquisition of a foreign operation are treated as assets and liabilities of the foreign operation and translated at the closing rate.

Property, plant, software and equipment

Property, plant, software and equipment are recognised at historical cost less depreciation and cumulative impairment losses.

Historical cost includes expenditure directly attributable to the acquisition of the asset. Subsequent costs are included in the carrying amount of the asset or recognised as a separate asset, as appropriate, only when it is probable that the future economic benefits associated with the asset will flow to the Company and its cost may be reliably determined.

Depreciation is calculated on a straight-line basis in order to allocate the difference between cost and residual value over the asset's estimated useful life as follows:

	Depreciation rate
Furniture, software, fitting and equipment	10% - 33%

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

When an asset's carrying amount exceeds its estimated recoverable amount, the carrying amount is written down immediately to the recoverable amount.

Gains and losses on disposals of property, plant and equipment are calculated by comparing the proceeds with the carrying amount and are recognised in the income statement within "other income".

Impairment of non-financial assets

Assets that are subject to depreciation are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognized for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs of disposal and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are largely independent cash inflows (cash-generating units). Prior impairments of non-financial assets are reviewed for possible reversal at each reporting date.

Financial Assets

Classification

The Company classifies its financial assets in the following categories: loans and receivables and financial assets at fair value through profit or loss. The classification depends on the purpose for which the financial assets were acquired. Management determines the classification of its financial assets at initial recognition.

a) Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are included in current assets, except for maturities greater than 12 months after the end of the reporting period. These are classified as non-current assets. The Company's loans and receivables comprise 'trade and other receivables' in the balance sheet.

b) Financial assets at fair value through profit or loss

Financial assets at fair value through profit or loss are financial assets held for trading. A financial asset is classified in this category if acquired principally for the purpose of selling in the short term. Derivatives are also categorized as held for trading unless they are designated as hedges. Assets in this category are classified as current assets if expected to be settled within 12 months, otherwise they are classified as non-current.

Recognition and measurement

Regular purchases and sales of financial assets are recognised on the trade-date – the date on which the group commits to purchase or sell the asset. Investments are initially recognised at fair value plus transaction costs for all financial assets not carried at fair value through profit or loss. Financial assets carried at fair value through profit or loss are initially recognised at fair value, and transaction costs are expensed in the income statement. Financial assets are derecognised when the rights to receive cash flows from the investments have expired or have been transferred and the group has transferred substantially all risks and rewards of ownership. Loans and receivables are subsequently carried at amortised cost using the effective interest method.

Gains or losses arising from changes in the fair value of the 'financial assets at fair value through profit or loss' category are presented in the income statement within 'Finance income/ costs' in the period in which they arise. Dividend income from financial assets at fair value through profit or loss is recognised in the income statement as part of other income when the Company's right to receive payments is established.

Offsetting financial assets and financial liabilities

The Company has not assets or financial liabilities subject to offsetting.

Impairment of financial assets

a) Assets carried at amortised cost

The Company assesses at the end of each reporting period whether there is objective evidence that a financial asset or a group of financial assets is impaired. A financial

asset is impaired and impairment losses are recognised only if there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset (a 'loss event') and that loss event has an impact on the estimated future cash flows of the financial asset that can be reliably estimated.

Evidence of impairment may include indications that the debtors or a group of debtors is experiencing significant financial difficulty, default or delinquency in interest or principal payments, the probability that the customer will enter in bankruptcy, and where observable data indicate that there is a measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlate with defaults.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised (such as an improvement in the debtor's credit rating), the reversal of the previously recognised impairment loss is recognised in the income statement.

Trade receivables

Trade receivables are amounts due from customers for services rendered in the ordinary course of business. If collection is expected in one year or less (the normal operating cycle of the business), they are classified as current assets. If not, they are presented as non-current assets.

Trade receivables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method, less provision for impairment.

Cash and cash equivalents

Cash and cash equivalents includes cash in hand, overnight deposits with credit institutions, other short-term highly liquid investments with original maturities of three months or less, and bank overdrafts. Bank overdrafts are classified as borrowings within current liabilities in the balance sheet.

Share capital

Ordinary shares are classified as equity. Incremental costs directly attributable to the issuance of new shares are shown in equity as a deduction, net of tax, from the proceeds.

Where the Company purchases its own shares (treasury shares), the consideration paid, including any directly attributable incremental costs (net of income taxes), is deducted from equity attributable to shareholders of the Company until the shares are cancelled, reissued or disposed of. Where such shares are subsequently disposed of or reissued, all consideration received, net of any directly attributable incremental transaction costs and the related tax effects are included in equity attributable to owners of the company.

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Dividend distribution

Provision is made for the amount of any dividend declared, being appropriately authorised and no longer at the discretion of the entity, on or before the end of the reporting period but not distributed at the end of the reporting period

Trade payables

Trade payables are obligations to pay for the operations and services that have been acquired / received in the ordinary course of business from suppliers. Trade payables are classified as current liabilities if the payment is due within one year or less. Otherwise they are presented as non-current liabilities.

Trade payables are initially recognised at fair value and are subsequently measured at amortised cost using the effective interest rate method.

Current and deferred income tax

The tax expense for the period comprises current and deferred tax. Tax is recognised in the income statement, except to the extent that it relates to items recognised in other comprehensive income or directly in equity. In this case, the tax is also recognised in other comprehensive income or directly in equity, respectively.

The current income tax charge is calculated on the basis of the laws enacted or substantively enacted each of the subsidiaries at the balance sheet date. Management periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulation is subject to interpretation. It establishes provisions where appropriate on the basis of amounts expected to be paid to the tax authorities.

Deferred income tax is recognised on temporary differences arising between tax bases of assets and liabilities and their carrying amounts in the financial statements. However, deferred tax liabilities are not recognised if they arise from the initial recognition of goodwill, or an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither the accounting nor the taxable profit or loss. Deferred income tax is determined using tax rates (and laws) that have been enacted or substantially enacted by the balance sheet date and are expected to be applicable when the related deferred income tax asset is realised or the deferred income tax liability is settled.

Deferred income tax assets are only recognised to the extent that it is probable that there will be future tax profits against which the temporary differences can be utilized.

Deferred income tax liabilities are provided on taxable temporary differences arising from investments in subsidiaries and associates only to the extent that it is probable that the temporary difference will reverse in the future and there is sufficient taxable profit available against which the temporary difference can be utilized.

Deferred income tax assets and liabilities are offset if and only if the Company has a legally enforceable right to set off the recognised amounts and when they relate to income taxes levied by the same taxation authority on a single tax subject/entity, or in the event of different tax subjects/entities, when the Company intends to realise the asset and settle the liability on a net basis.

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Revenue recognition and expenses

Revenue is measured at the fair value of the consideration received or receivable, and represents amounts receivable for the services provided, net of value added taxes. The Company recognizes revenue when the services have been provided, the fees charged are fixed or determinable, the Company and its advertisers or other customers understand the specific nature and terms of the agreed upon transactions, and collectability is reasonably assured.

The main sources of the Company's revenue are:

- CPC (cost-per-click): Most of the customers pay on a cost-per-click basis, which means that an advertiser (customer) pays to the Company only when a user clicks on one of its ads. The Company recognizes as revenue the fees charged to advertisers each time a user clicks on one of the ads that appears next to the search results or content on the Company's website. These agreements by the customer include a CPC cap and rate.
- Revenue derived from the traffic operations in the Google AdSense program, a web advertising platform, in which Mitula is a Search Partner. Google pays to Mitula on a cost-per-click basis. The Company recognizes as revenue the fees paid to it by Google based on the volume of clicks through to Google AdSense advertisements.

Interest income is recognised using the effective interest rate method. When a loan or an trade receivable is impaired the Company reduces the carrying value to its recoverable amount, which is calculated on the basis of estimated future cash flows discounted at the original effective interest rate of the instrument and continues unwinding the discount as interest income. Interest income on impaired loans is recognised using the original effective interest rate.

Other operating expenses includes the expenses associated with the operation of the data centre, including, labour, energy and other transaction fees related to processing customer transactions.

Leases

Leases in which a significant portion of the risks and rewards of ownership are not transferred to the group as lessee are classified as operating leases

For operating leases in which the Company is the lessee, operating lease payments (net of any incentive received from the lessor and increased by the amount of directly allocable contract costs) are charged to the income statement on a straight-line basis over the lease term and classified under Other operating expenses.

Consolidation

- Subsidiaries

Subsidiaries are all entities (including structured entities) over which the group has control. The group controls an entity when the group is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. Subsidiaries are fully consolidated from the

date on which control is transferred to the group. They are deconsolidated from the date that control ceases.

The group applies the acquisition method to account for business combinations. The consideration transferred for the acquisition of a subsidiary is the fair values of the assets transferred, the liabilities incurred to the former owners of the acquire and the equity interests issued by the group. The consideration transferred includes the fair value of any asset or liability resulting from a contingent consideration arrangement. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date. The group recognises any non-controlling interest in the acquire on an acquisition-by-acquisition basis, either at fair value or at the non-controlling interest's proportionate share of the recognised amounts of acquiree's identifiable net assets.

Acquisition-related costs are expensed as incurred.

If the business combination is achieved in stages, the acquisition date carrying value of the acquirer's previously held equity interest in the acquiree is re-measured to fair value at the acquisition date; any gains or losses arising from such re-measurement are recognised in profit or loss.

Any contingent consideration to be transferred by the group is recognised at fair value at the acquisition date. Subsequent changes to the fair value of the contingent consideration that is deemed to be an asset or liability is recognised in accordance with IAS 39 either in profit or loss or as a change to other comprehensive income. Contingent consideration that is classified as equity is not re-measured, and its subsequent settlement is accounted for within equity.

Inter-company transactions, balances and unrealised gains on transactions between group companies are eliminated. Unrealised losses are also eliminated. When necessary, amounts reported by subsidiaries have been adjusted to conform with the group's accounting policies.

(b) Changes in ownership interests in subsidiaries without change of control

Transactions with non-controlling interests that do not result in loss of control are accounted for as equity transactions – that is, as transactions with the owners in their capacity as owners. The difference between fair value of any consideration paid and the relevant share acquired of the carrying value of net assets of the subsidiary is recorded in equity. Gains or losses on disposals to non-controlling interests are also recorded in equity.

(c) Disposal of subsidiaries

When the group ceases to have control any retained interest in the entity is remeasured to its fair value at the date when control is lost, with the change in carrying amount recognised in profit or loss. The fair value is the initial carrying amount for the purposes of subsequently accounting for the retained interest as an associate, joint venture or financial asset. In addition, any amounts previously recognised in other comprehensive income in respect of that entity are accounted for as if the group had directly disposed of the related assets or liabilities. This may mean that amounts previously recognised in other comprehensive income are reclassified to profit or loss.

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Intangible assets

(a) Goodwill

Goodwill arises on the acquisition of subsidiaries and represents the excess of the consideration transferred, the amount of any non-controlling interest in the acquire and the acquisition-date fair value of any previous equity interest in the acquire over the fair value of the identifiable net assets acquired. If the total of consideration transferred, non-controlling interest recognised and previously held interest measured at fair value is less than the fair value of the net assets of the subsidiary acquired, in the case of a bargain purchase, the difference is recognised directly in the income statement.

For the purpose of impairment testing, goodwill acquired in a business combination is allocated to each of the CGUs, or groups of CGUs, that is expected to benefit from the synergies of the combination. Each unit or group of units to which the goodwill is allocated represents the lowest level within the entity at which the goodwill is monitored for internal management purposes. Goodwill is monitored at the operating segment level.

Goodwill impairment reviews are undertaken annually or more frequently if events or changes in circumstances indicate a potential impairment. The carrying value of the CGU containing the goodwill is compared to the recoverable amount, which is the higher of value in use and the fair value less costs of disposal. Any impairment is recognised immediately as an expense and is not subsequently reversed.

(b) Trademarks and licences

Separately acquired trademarks and licences are shown at historical cost. Trademarks and licences acquired in a business combination are recognised at fair value at the acquisition date. Trademarks and licences have a finite useful life and are carried at cost less accumulated amortisation. Amortisation is calculated using the straight-line method to allocate the cost of trademarks and licences over their estimated useful lives of 5 to 10 years.

Acquired computer software licences are capitalised on the basis of the costs incurred to acquire and bring to use the specific software. These costs are amortised over their estimated useful lives of 5 to 10 years.

(c) Computer software

Costs associated with maintaining computer software programmes are recognized as an expense as incurred. Development costs that are directly attributable to the design and testing of identifiable and unique software products controlled by the group are recognised as intangible assets when the following criteria are met:

– it is technically feasible to complete the software product so that it will be available for use;
– management intends to complete the software product and use or sell it;
– there is an ability to use or sell the software product;
– it can be demonstrated how the software product will generate probable future economic benefits;
– adequate technical, financial and other resources to complete the development and to use or sell the software product are available; and
– the expenditure attributable to the software product during its development can be reliably measured.

Directly attributable costs that are capitalised as part of the software product include the software development employee costs and an appropriate portion of relevant overheads.

Other development expenditures that do not meet these criteria are recognised as an expense as incurred. Development costs previously recognised as an expense are not recognised as an asset in a subsequent period.

Computer software development costs recognised as assets are amortised over their estimated useful lives, which does not exceed 5 years.

Share-based payments

Share-based compensation benefits are provided to employees via the Mitula Employee Option. The fair value of options granted under the Mitula Employee Option Plan is recognised as an employee benefits expense with a corresponding increase in equity. The total amount to be expensed is determined by reference to the fair value of the options granted, which includes any market performance conditions and the impact of any non-vesting conditions but excludes the impact of any service and non-market performance vesting conditions.

Non-market vesting conditions are included in assumptions about the number of options that are expected to vest. The total expense is recognised over the vesting period, which is the period over which all of the specified vesting conditions are to be satisfied. At the end of each period, the entity revises its estimates of the number of options that are expected to vest based on the non-market vesting conditions. It recognises the impact of the revision to original estimates, if any, in profit or loss, with a corresponding adjustment to equity.

Earnings per share

(a) Basic earnings per share

Basic earnings per share is calculated by dividing:

- the profit attributable to owners of the company, excluding any costs of servicing equity other than ordinary shares
- by the weighted average number of ordinary shares outstanding during the financial year, adjusted for bonus elements in ordinary shares issued during the year and excluding treasury shares

(ii) Diluted earnings per share

Diluted earnings per share adjusts the figures used in the determination of basic earnings per share to take into account:

- the after income tax effect of interest and other financing costs associated with dilutive potential ordinary shares, and
- the weighted average number of additional ordinary shares that would have been outstanding assuming the conversion of all dilutive potential ordinary shares.