

For personal use only

*Helping you
grow and
protect your
wealth*

2017



InvestSMART Group Limited
ABN 62 111 772 359

Annual Report
For the year ended
30 June 2017

OUR VISION

TO HELP ALL AUSTRALIANS GROW AND PROTECT THEIR WEALTH

WHY?

Because we believe people should be able to take control of their financial future. And it shouldn't be hard or expensive to do so.

HOW?

By providing innovative tools, research and advice that people can trust, empowering them to make better investing decisions.



Highlights

Revenue Growth
 ↑ 14.6% to \$14.2m

EBITDA Growth
 ↑ 30% to \$3.1m

Visits to our websites this year
 ↑ 59% to 6.6m

Straightthrough conversion of online applications
 ↑ 200% to 68%

Retail FUM growth
 ↑ 748% to \$35.3m

Total number of portfolios managed through our proprietary Portfolio Manager (PM)
 ↑ 15% to 88,892

Value of shares managed in PM
 ↑ 26% to \$8.8b

Value of funds managed in PM
 ↑ 17% to \$2b

Value of property managed in PM
 ↑ 25% to \$7.5b

Value of cash managed in PM
 ↑ 32% to \$1.9b

CONTENTS

4	Chairman and Managing Director's report
6	Corporate Governance Statement
12	Directors' Report
20	Auditor's Independence Declaration
21	Consolidated Statement of Comprehensive Income
22	Consolidated Statement of Financial Position
23	Consolidated Statement of Changes in Equity
24	Consolidated Statement of Cash Flows
25	Notes to the Consolidated Financial Statements
47	Directors' Declaration
48	Independent Audit Report to the Members
54	Additional Information
56	Directory

CHAIRMAN AND MANAGING DIRECTOR'S REPORT

Dear Shareholders,

On behalf of the Directors we are pleased to announce the results for InvestSMART Group for the financial year ended 30 June 2017.

	FY17	FY16
Continuing operations		
Commission income	7,348,059	7,907,634
Subscription income	6,584,654	4,207,421
Other income	43,895	288,400
Change in fair value of assets	241,297	6,872
Total income	14,217,905	12,410,327
Total operating expenses	11,073,396	9,996,376
EBITDA	3,144,509	2,413,951

The results were satisfying, giving the board confidence that InvestSMART remains well-placed to build on the opportunity in automated investment advice through its suite of tools, research and broad reach.

There are three primary reasons for this view:

1. A diverse revenue base. Commissions from our existing book of Funds Under Administration (FUA) continue to provide about 50% of our revenues, the remainder coming from our subscription businesses. These historical revenue streams are reasonably predictable, allowing us to focus on growing Retail Funds Under Management (FUM).
2. Higher engagement leading to higher FUM. The scale of development in our proprietary software, websites and products continues to improve engagement and conversion to FUM. Our smorgasbord of free research and tools continues to drive organic traffic to our websites in unprecedented numbers.
3. Increased investment. Having improved the depth and the quality of our team, and seeing its financial impact, the board is confident further reinvestment will deliver positive financial returns.

CORPORATE

With a strategic priority to grow FUM, as part of the year-end audit process the company has conducted a comprehensive review of the Group's carrying value of its goodwill and intangible assets. This considered the nature of the Group's traditional subscription and external fund manager revenues and its future investment in automated investment services.

Under the applicable AASB standards, the Group reduced the carrying value of its goodwill assets by \$23.6m which arose from the purchase of InvestSMART (in 2013), YourShare (in 2014), Intelligent Investor (in 2015) and Eureka Report (in 2016). The AASB standards do not allow InvestSMART Group to recognise the potential future revenues from growing fund management income from the clients and customer bases of these businesses.

The total charge of \$23.6m is included as a significant item in the year end results and excluded from the Group's underlying earnings. The impairment is non-cash in nature and will not impact the Group's future revenues and prospects.

CORPORATE GOVERNANCE

The Board of InvestSMART is committed to achieving and demonstrating best practice standards of corporate governance compliant with the Australian Stock Exchange (ASX) regulations. Our goal is to ensure we protect the rights and interests of all stakeholders and ensure the company is properly managed through the implementation of sound strategies and action plans.

CHAIRMAN AND MANAGING DIRECTOR'S REPORT

We achieve this through good management and by supervising an integrated framework of controls over the company's resources to ensure our commitment to high standards of ethical behaviour.

Our remuneration report is enclosed in the annual report and outlines group remuneration policies, Board performance and the senior executive remuneration policies and compensation.

GROWTH

InvestSMART's vision is to be the country's leading independent automated investment adviser, helping all Australians grow and protect their wealth.

Continuing disruption in wealth management offers InvestSMART enhanced opportunities to achieve this goal. Our broad range of innovative investment services, portfolio management tools, reporting and research attracted 6.6m website visits last financial year. InvestSMART's platform and reach is like no other.

Debt-free and self-funded, we'll continue to invest in greater functionality and automation to drive member engagement, build FUM and extend brand awareness. In coming years, our marketing efforts will further elevate InvestSMART's recognisable consumer brand with our target audience.

This is a path well-travelled by US online advisor Betterment, which began life in 2008 and did not launch a viable product for a further four years. Today, Betterment has about 300,000 clients and \$10bn in FUM. We believe we're on a similar path, albeit built on a lower population.

OUTLOOK

We expect to increase investment in the business in 2018, with a focus on marketing, technology development and distribution. This reflects our strategic shift away from subscriptions revenue and fund manager commissions to increasing FUM revenue.

The following guidance is a reasonable expectation of what we believe InvestSMART will achieve in FY2018:

- Operating expenses to increase significantly due to higher marketing spend and product development costs.
- Operating profits expected to fall to \$500,000 due to increases in expenses and a lag in FUM revenue being realised in the accounts for FY18.
- Funds under management expected to grow from \$40m to \$135m

On behalf of the Directors, we wish to thank our team for their commitment, contribution and customer focus during another exciting year. Without their efforts our achievements would not have been possible.

We would also like to thank our members and customers for their continued support.

Paul Clitheroe AM
Chairman

Ron Hodge
Managing Director

For personal use only

CORPORATE GOVERNANCE STATEMENT

Corporate governance includes the policies and practices by which InvestSMART Group Limited (**Company**) and its controlled entities (**Group Entities**) (collectively, **Group**) are effectively managed. Those policies and practices prescribe:

- our ethics;
- the accountability of the Board for financial performance and growth; and
- the management of the risks which are encountered in running a company reliant upon the performance of financial assets and investments.

In developing corporate governance policies and practices for the Group, the Company takes into account the Constitution of the Company (**Constitution**) and applicable legislation and standards, including:

- Corporations Act 2001 (**Corporations Act**);
- Australian Securities Exchange Listing Rules (**Listing Rules**);
- Corporate Governance Principles and Recommendations with 2014 Amendments, 3rd Edition published by the ASX Corporate Governance Council (**ASXCGC**); and
- legislation governing Australian Financial Services Licences and other licences held by members of the Group.

The information in this Statement is current as at 3 October 2017 and has been approved by the Board.

1. CODE OF CONDUCT

The Code prescribes that Directors, senior executives and employees must:

- act honestly, in good faith and in the best interests of the Company as a whole at all times;
- discharge their duty to use due care and diligence in fulfilling the functions of their office and exercising the powers attached to that office;
- always use the powers of their office for a proper purpose;
- recognise that their primary responsibility is to the Company's security holders as a whole but should, where appropriate, have regard to all stakeholders of the Company;
- not make improper use of information acquired as a Director, senior executive or employee;
- not allow personal interests, or the interests of any associated person, to conflict with the interests of the Company;
- be independent in judgment and actions and to take all reasonable steps to be satisfied as to all decisions taken by or on behalf of the Company;

- not engage in conduct likely to bring discredit on the Company;
- comply with the spirit, as well as the letter of the law and with the principles of the Code of Conduct;
- ensure compliance with the policies and procedures of the Company, including the Board Charter, Delegations, Securities Trading and Prevention of Insider Trading Policy, Staff Trading and Investment Policy, Continuous Disclosure Policy, Human Resources Policies and Procedures and Risk Management and Compliance Policies.

The Code of Conduct can be downloaded from the Company's website at: www.investsmart.com.au/shareholder-centre/governance.

Directors, senior executives and employees are required to make all disclosures, keep all records and take all steps necessary to enable the Company to comply with all relevant legislation, common law obligations and Company policies, including the Code of Conduct.

2. RESPONSIBILITIES AND FUNCTIONS OF THE BOARD AND MANAGEMENT

The Board functions in accordance with a Charter. Under that Charter, the role of the Board is to:

- act as an interface between the Company and its shareholders;
- set the goals of the Company including short, medium and longer term objectives;
- provide the overall strategic direction of the Company;
- assess the optimal use of the Company's capital; and
- oversee the efficient management of the Company.

The Board is responsible for:

- consideration and approval of corporate strategy proposed by management and monitoring its implementation;
- overseeing/monitoring financial performance;
- approving financial and other reporting to shareholders, employees and other stakeholders of the Company;
- ensuring that the Company has appropriate human, financial and physical resources to execute Company strategies;
- reviewing the Board and management succession planning;
- appointing, removing and monitoring the performance of the Managing Director and Key Management Personnel;
- appointing and removing the Company Secretary;
- considering and monitoring risks;
- reviewing the effectiveness of Company policies and procedures regarding risk management;

CORPORATE GOVERNANCE STATEMENT

- reviewing the effectiveness of the Company's internal control and accounting systems;
- ensuring appropriate corporate governance structures are in place including standards of ethical behaviour and a culture of corporate and social responsibility
- oversight of the Company's continuous disclosure obligations;
- reporting to shareholders and other stakeholders;
- capital management.

The Board Charter was reviewed in April 2016. It can be downloaded from the Company's website at: www.investsmart.com.au/shareholder-centre/governance.

To assist the Board to carry out its responsibilities and functions, certain powers have been delegated to management, including the authority to undertake transactions and incur expenditure on behalf of the Group, up to specified thresholds.

Processes have been established to ensure that management provides relevant information to the Board to enable the Board to make informed decisions and effectively discharge its duties. The Board may also request additional information where necessary and may seek independent advice should it wish to do so.

3. BOARD STRUCTURE

The Constitution provides for a minimum of three Directors and a maximum of ten Directors.

The Company undertakes appropriate checks before appointing a person as a Director or putting forward a person as a candidate for election as a Director. All material information in the possession of the Company, which is relevant to whether or not a person should be elected or re-elected a Director, is provided to shareholders prior to an election taking place.

At the date of this Statement, the Board comprises the Chairman, an independent non-executive Director and the Managing Director. The Chairman held the role of Executive Chairman from 31 March 2015 to 24 February 2016 and for this reason, is not independent.

The Directors' Report included in the 2017 Annual Report provides the details of the Directors in office during the year ended 30 June 2017, together with their experience, expertise and qualifications and the number of Board meetings each attended during the year.

As at the date of this Statement, the Directors are:

Chairman:	Mr Paul Clitheroe AM
Managing Director:	Mr Ron Hodge
Lead Independent Non-Executive Director:	Mr Michael Shepherd AO

The Company does not comply with the ASXCGC Corporate Governance Principles and Recommendations in relation to a majority of the Board and the Chairman, being independent. Since the latter part of 2014 there have been significant changes in the composition of the Board. These changes have resulted in a reduction of the number of independent non-executive Directors. The Board believes that at this time in the development of the Company and bearing in mind the short tenure of the Directors, the current allocation of responsibilities among the Directors, are most practical and effective for the Company and in the best interests of shareholders.

The Board has assessed the mix of skills which best suit the business conducted by the Company. The Board considers the current mix of skills among Directors as appropriate for the Company, with the presence of core skills in financial services, governance, marketing, digital distribution and product development. The Board has considered expanding and deepening core skills through the expansion of the size of the Board. An appropriate recruitment process is underway.

The Company Secretary is accountable directly to the Board, through the Chairman, on all matters to do with the proper functioning of the Board.

4. TERMS OF APPOINTMENT OF DIRECTORS

The Company issues letters of appointment to Directors, which include:

- term of appointment;
- expectations regarding the Director's involvement and time commitment envisaged;
- powers and duties of Directors;
- circumstances in which the office of director will become vacant;
- remuneration and expenses;
- requirements regarding interests (including the disclosure of interests in securities) and independence;
- compliance with Company policies, including the Board Charter, Code of Conduct and Securities Trading Policy;
- induction and training;

For personal use only

CORPORATE GOVERNANCE STATEMENT

- access to independent advice;
- indemnification and insurance; and
- confidentiality and the right of access to Company information.

Directors appointed by the Board to fill a casual vacancy or as an addition to existing Directors (other than a Managing Director) are appointed only to the conclusion of the general meeting following their appointment and must stand for election at that general meeting. Otherwise, Directors (other than any Managing Director) retire at the later of the third anniversary of their appointment or the conclusion of the third Annual General Meeting after their appointment and are available for re-election. Details of Directors, their experience, expertise and qualifications are set out in the Directors' Report included in the 2017 Annual Report.

The appointment and removal of any Managing Director is a matter for the Board as a whole.

5. DIRECTORS' INTERESTS AND INDEPENDENCE

The Board has in place processes to ensure that conflicts of interest are managed appropriately throughout the Group.

Directors are required to immediately notify the Company of interests or changes to interests as they arise. The Company Secretary maintains a register of Directors' interests. That register is updated as interests or changes in interests are notified and is reviewed at the commencement of each regular Board meeting.

The Board undertakes an assessment of the independence of Directors and makes a determination in respect of each Director taking into account matters such as:

- specific disclosures made by the Director;
- any association with a substantial shareholder of the Company;
- employment in any other capacity by the Group;
- any related party dealings which are material under accounting standards;
- association with a supplier, adviser, consultant to or customer of the Group for the purposes of the ASXCGC Corporate Governance Principles and Recommendations; and
- whether the Director has been in their position for such a period that their independence may have been compromised.

6. COMMITTEES OF THE BOARD

Under the Constitution the Directors may delegate any of their powers to a committee or committees. Any committees established by the Board:

- are entitled to obtain independent professional or other advice at the cost of the Company, unless the Board determines otherwise;
- are entitled to obtain such resources and information from the Company including direct access to employees of and advisers to the Company as they might require; and
- operate in accordance with a charter or terms of reference established by the Board.

6.1 AUDIT, RISK AND COMPLIANCE COMMITTEE

The Charter of the Audit, Risk and Compliance Committee can be downloaded from the Company's website at: www.investsmart.com.au/shareholder-centre/governance.

This Committee assists the Board to fulfil its corporate governance and oversight responsibilities in relation to:

1. Audit – the Committee reviews the integrity of the Group's financial reporting and oversees the independence of the external auditor;
2. Compliance – the Committee reviews the integrity of the Group's compliance framework;
3. Risk – the Committee assists the Board in fulfilling its risk management responsibilities as defined by applicable law and regulations, the Constitution and other applicable standards.

The Committee consists of not less than two members appointed by the Board. Where possible, a majority of members will be independent non-executive Directors. The Board appoints the Chairman of the Committee, who must be an independent non-executive Director. Preferably, the Chairman of the Board is not also the Chairman of the Committee.

In determining membership of the Committee, the Board seeks to identify and appoint:

- members who can all read and understand financial statements and are otherwise financially literate;
- at least one member with financial expertise either as a qualified accountant or other financial professional with experience in financial and accounting matters; and
- at least one member who has an understanding of the financial services industry.

CORPORATE GOVERNANCE STATEMENT

The current Chairman of the Committee is Mr Michael Shepherd AO and the other Committee member is Mr Paul Clitheroe AM.

Details of the number of meetings of the Committee held during the year ended 30 June 2017 are set out in the Directors' Report included in the 2017 Annual Report.

6.2 NOMINATION AND REMUNERATION COMMITTEE

The Charter of the Nomination and Remuneration Committee can be downloaded from the Company's website at: www.investsmart.com.au/shareholder-centre/governance.

The Committee:

1. reviews and reports/make recommendations to the Board in relation to nomination matters;
2. develops and recommends to the Board strategies on gender diversity for the Board, committees of the Board and all other levels of the Company and Group Entities.
3. reviews and reports/make recommendations to the Board in relation to remuneration matters;
4. reviews and brings to the attention of the Board matters relating to:
 - remuneration structure including long term incentive arrangements and participation;
 - senior executive and key staff succession plans;
 - recruitment, retention and termination strategies;
 - the Remuneration Report of the Company; and
 - other matters identified from time to time by the Board.

The Committee consists of not less than two members appointed by the Board. Where possible, a majority of members will be independent non-executive Directors. The Board appoints the Chairman of the Committee. Preferably, the Chairman of the Board is not also the Chairman of the Committee.

The current Chairman of the Committee is Mr Michael Shepherd AO and the other Committee member is Mr Paul Clitheroe AM.

Details of the number of meetings of the Committee held during the year ended 30 June 2017 are set out in the Directors' Report included in the 2017 Annual Report.

Details about the Company's remuneration policies and practices are set out in the 2017 Remuneration Report included in the 2017 Annual Report. The 2017 Remuneration Report

distinguishes the structure of Directors' remuneration from that of senior executives.

6.3 INVESTMENT COMMITTEE

The Company has established an Investment Committee to review and, if thought fit, approve investment portfolios for use in the suite of investment products offered by Group Entities. The Committee is also responsible for the ongoing monitoring and review of investment portfolios.

Members of the Committee are drawn from the Board, management and external advisers based on their relevant skills and experience. The current members are Mr Paul Clitheroe (Chairman of the Committee), Mr Alastair Davidson, Mr Ron Hodge and Mr James Carlisle.

7. SECURITIES TRADING AND PREVENTION OF INSIDER TRADING POLICY AND STAFF TRADING AND INVESTMENT POLICY

The Company has adopted a policy regarding trading in its securities and the prevention of insider trading which applies to all Directors, employees and contractors and their associates. This policy can be downloaded from the Company's website at: www.investsmart.com.au/shareholder-centre/governance.

Those covered by the policy must not trade, arrange for someone else to trade, or communicate information to someone they know, or ought reasonably to know, may use the information to trade (or procure another person to trade) Company securities when they are in possession of price sensitive information relating to the Group which is not generally available to the market.

Directors and employees are generally only permitted to trade in Company securities in defined open periods and then, only if they are not in possession of price sensitive information relating to the Group which is not generally available to the market and if they have prior written approval to trade.

The Company has also adopted a separate policy dealing with staff trading and investment. That policy deals with the management of actual and perceived conflicts of interest arising where in the ordinary course of business Group Entities promote, analyse or report on securities.

CORPORATE GOVERNANCE STATEMENT

8. CONTINUOUS DISCLOSURE

The Board is very conscious of its disclosure obligations and has a Continuous Disclosure Policy. It can be downloaded from the Company's website at: www.investsmart.com.au/shareholder-centre/governance.

All Directors and the Company Secretary are responsible to ensure that the Continuous Disclosure Policy is adhered to. The Chairman or the Managing Director deal with media contact and any external communications.

9. INDEPENDENT PROFESSIONAL ADVICE

Directors may obtain independent professional advice at the Company's expense on matters arising in the course of their Board and Committee duties, after obtaining the Chairman's approval (or in the case of the Chairman, with the prior approval of the Chairman of the Audit, Risk and Compliance Committee). The Board requires that all Directors be provided with a copy of such advice and be notified if the Chairman's approval is withheld.

10. PERFORMANCE ASSESSMENT

The performance assessment of individual Directors, Committees and the Board is included in the Board Charter. The process is aimed at ensuring individual Directors, Committees and the Board as a whole work efficiently and effectively. As part of that process:

- the Board as a whole discusses and analyses its own performance during the year including suggestions for change or improvement;
- the Chairman meets with each non-executive Director separately to discuss individually performance, including development areas;
- a nominated Director leads the review of the Chairman.

Due to the size of the Board a formal performance evaluation of Directors was not undertaken in the reporting period.

Each senior executive in the Group is engaged under a written contract which includes:

- the term of appointment;
- a description of the position and associated duties and responsibilities;
- reporting;
- remuneration, including superannuation;

- the requirement to comply with corporate policies, including Delegations, Securities Trading and Prevention of Insider Trading Policy, Staff Trading and Investment Policy, Continuous Disclosure Policy, Human Resources Policies and Procedures and Risk Management and Compliance Policies; and
- circumstances of termination and entitlements on termination.

Those contracts also set out the manner in which the performance of the respective senior executive is evaluated. Performance evaluation of senior executives was undertaken in the reporting period.

11. GENDER DIVERSITY

In April 2016 the Company established a Diversity Policy. It can be downloaded from the Company's website at: www.investsmart.com.au/shareholder-centre/governance.

The Company has policies and procedures in place in relation to employment opportunities for women. The Board believes these policies and procedures best suit the Company given its size and stage of development.

The Company does not currently have any women on the Board or within the Key Management Personnel (as identified in the 2017 Annual Report) however, 35% of the employees in the Group are women. The Company will seek to maintain or increase this level of women employees in the future and to reflect gender diversity within the Board and Key Management Personnel.

12. DIRECTORS' INDUCTION AND CONTINUING EDUCATION

All Directors receive an induction after joining the Board and have access to continuing education to update and enhance their skills and knowledge to enable them to continue to carry out their duties.

13. MANAGEMENT OF RISK AND INTERNAL CONTROL FRAMEWORK

The Board is the ultimate sponsor of risk oversight within the Group, but does so in a manner which reflects the transparent nature of the Group's systems. The Company pays significant attention to risk as a consequence of its activities, which involve dealing in financial assets.

CORPORATE GOVERNANCE STATEMENT

The Audit, Risk and Compliance Committee fulfils an essential role in the management of risk and the establishment, review and monitoring of internal controls. In addition, through the reporting of the Managing Director, the Board also monitors various measurements of absolute and relative risk. Reviews of the Company's risk management framework were undertaken throughout the reporting period.

Due to the relative small size of the Group and limited nature of its business operations, the Company does not have an Internal Audit function. This matter is reviewed periodically by the Audit Risk and Compliance Committee and that Committee makes relevant recommendations to the Board to improve the effectiveness of the Company's risk management and internal control processes.

The Company has access to a series of internal and external controls through the Managing Director, which govern the Company's material business risks. These controls include, but are not restricted to:

- external providers of accounting and related services to the Company and Group Entities; and
- regular reporting by the Managing Director to the Board.

The Company's exposure to economic, environmental and social sustainability risks and management of those risks is disclosed in the 2017 Annual Report.

The Board received a statement in writing from the Managing Director and the Chief Finance Officer that the declaration provided in accordance with section 295A of the Corporations Act is founded on a sound system of risk management and internal control and the system is operating effectively in all material respects in relation to financial reporting risks.

14. ENGAGING SHAREHOLDERS

The Board is committed to ensuring that the shareholders are at all times provided with information sufficient to allow effective monitoring of the Company's performance, including:

- the Annual Report which is distributed to shareholders (at their election);
- the Half Yearly Report;
- periodic reports and special reports when matters of material interest arise;
- the Annual General Meeting and other meetings called to obtain shareholder approval of any action as required; and
- continuous and periodic disclosure.

The Chairman and the Managing Director are primarily responsible for promoting effective communication with shareholders and encouraging their participation at general meetings. The Board reviews the activities aimed at achieving these outcomes. The Company Secretary and the share registry are also available to assist shareholders. Shareholders have the option to receive communications from, and send communications to, the Company and the share registry electronically.

Current and archived announcements by the Company are available on the Company's website at: www.investsmart.com.au/shareholder-centre/announcements; or at: www.asx.com.au.

The Company provides a review of operations and financial performance in the 2017 Annual Report, which includes the Company's financial report. Results announcements to the Australian Securities Exchange, analyst presentations and the full text of the Chairman's address at the Company's Annual General Meeting are lodged with Australian Securities Exchange and available on the Company's website at: www.investsmart.com.au/shareholder-centre/announcements; or at: www.asx.com.au.

The External Auditor attends the Annual General Meeting of the Company and is available to answer questions from shareholders relevant to the audit of the Company.

DIRECTORS' REPORT

The Directors present their report on InvestSMART Group Limited (the Company) and its subsidiaries (collectively the Group) for the financial year ended 30 June 2017.

DIRECTORS

The names and details of the Directors of the Company who held office during the year and at the date of this report (unless otherwise specified) are:

Paul Clitheroe AM

(Appointed Non-Executive Chairman 26 November 2014, appointed Executive Chairman 31 March 2015, reappointed Non-Executive Chairman 24 February 2016)

Chairman

Bachelor of Arts (UNSW), SNF Fin, CFP

Age 62

Paul Clitheroe is a founding director of leading financial planning firm ipac, and has been involved in the investment industry since he graduated from the University of New South Wales in the late 1970s. From 1993 to 2002 Mr Clitheroe hosted the popular Channel 9 program Money. Since 1999 he has been the chairman and chief commentator of Money magazine. He writes personal finance columns for metropolitan, suburban and regional newspapers across Australia and presents Talking Money on radio nationally. Mr Clitheroe has been a media commentator and conference speaker for more than 30 years, and is regarded as one of Australia's leading experts in the field of personal investment strategies and advice.

Mr Clitheroe is Chairman of Monash Absolute Investment Company Ltd and a Director of Wealth Defender Equities Ltd, both ASX-listed investment companies. He is also Chairman of the Australian Government Financial Literacy Board, Chairman of Financial Literacy Australia, Chairman of the youth anti-drink driving body, RADD, and a member of the Sydney University Medical School Advisory Board. In 2012, Macquarie University appointed Mr Clitheroe as Chair of Financial Literacy. He is a Professor with the School of Business and Economics.

Michael Shepherd AO

(Appointed 1 March 2014)

Lead Independent Non-Executive Director

Chairman of the Audit Risk and Compliance Committee

Chairman of the Nomination and Remuneration Committee

Age 67

Michael Shepherd has had a successful career in financial services over more than 40 years. He was a director of ASX Limited and group between 1988 and 2007, including a term as Vice-Chairman between 1993 and 2007. Mr Shepherd was also Chairman of the ASX Derivatives Board and Chairman of the ASX Market Rules Committee.

Mr Shepherd is currently Chairman of HFA Holdings Limited (a listed investment management company) and a member of the Member Responsible Entity Compliance Committee of UBS Global Asset Management (Australia) Limited. He is also a Senior Fellow and Life Member, Financial Services Institute of Australasia, after being a director of that body between 2001 and 2009, including 2 years as National President.

Peter Ronald Hodge

(Appointed 1 September 2015, appointed Managing Director 24 February 2016)

Managing Director

FFin

Age 47

Ron Hodge was the founder of InvestSMART in 1999. Ron Hodge later sold this business to Fairfax Media in October 2007 where he continued as General Manager. He has worked in financial services for over 25 years, including at UBS in Singapore and Bell Commodities

DIRECTORS' REPORT

in Sydney. Ron holds a Masters degree in Computer Science, Bachelor Degrees in Commerce and Economics, a Graduate Diploma in Applied Finance and Investments and is a Graduate of the Australian Institute of Company Directors.

COMPANY SECRETARY

Peter Friend is a qualified solicitor, and was appointed Company Secretary on 10 February 2014 and held office throughout the financial year. Peter Friend resigned on 19 July 2017 and was replaced by Grant Winberg.

INTERESTS IN THE SECURITIES OF THE COMPANY

The relevant interests of each Director in the securities of the Company shown in the Register of Directors' Shareholdings as at the date of this report are:

Director	Ordinary Shares
Paul Clitheroe	5,000,000
Michael Shepherd	400,000
Peter Ronald Hodge	4,766,666

Directors are not required under the Company's constitution to hold any Shares, Options or any other Securities in the Company. A portion of the shares held by Mr Paul Clitheroe (2,666,667), and Mr Ron Hodge (3,177,778), are subject to vesting conditions.

INTERESTS IN CONTRACTS OR PROPOSED CONTRACTS WITH THE COMPANY

None of the Directors have an interest in, or proposed interests in, contracts with the Company, other than the loans to Mr Paul Clitheroe and Mr Ron Hodge as part of the Long Term Incentive Plan (LTIP) and Employee Share Ownership Plan (ESOP) as detailed below.

PRINCIPAL ACTIVITIES

The principal activities of the Company during the year was the provision of financial services and products under general advice to retail investors in particular in the area of wealth management, personal insurance and funds management.

DIVIDENDS

No dividend has been declared for the financial year ended 30 June 2017 (2016: nil).

REVIEW OF OPERATIONS

Financial results for the year

The results below show the audited operating profit for the year, and are based on consolidated accounting for the years to 30 June 2017 and 30 June 2016 respectively.

	2017	2016
	\$	\$
Operating (loss) profit before income tax	(22,257,343)	253,235
Income tax expense	(291,017)	(78,075)
Operating (loss) profit for the year	<u>(22,548,360)</u>	<u>175,160</u>

The net tangible asset backing of the Company as at 30 June 2017 was \$0.0269 (2016: \$0.006) per share before tax. The operating loss is attributable to a write down in the valuation of the goodwill assets of the Group of \$23,610,664 at 30 June 2017. This was as a result of the Group's change in focus from growing subscription revenue to growing funds management revenues.

DIRECTORS' REPORT

Comparative Consolidated Financial Information for the prior year

The table below shows the consolidated performance of the Group for the years to 30 June 2017 and 30 June 2016 respectively. This information only shows earnings before tax, write off and amortisation of goodwill and intangibles, and is presented to show the relative changes in operating income over the period.

Statement of Consolidated Comprehensive Income

	Year to 30 Jun 2017	Year to 30 Jun 2016
	\$	\$
Continuing operations		
Commission income	7,348,059	7,907,634
Subscription income	6,584,654	4,207,421
Other income	43,895	288,400
Change in fair value of financial assets at fair value through profit and loss	241,297	6,872
Total Income	14,217,905	12,410,327
Total operating expenses	11,073,396	9,996,376
Profit before income tax, amortisation and employee benefit expense	3,144,509	2,413,951

The major changes to revenues from 2016 were a fall in commission income over the year due to clients moving to non-commission paying products such as MySuper, and an increase in subscription revenue due largely to the acquisition of Eureka Report in April 2016. The subscription income results for 2016 includes Eureka Report revenues from 4 April 2016. Operating expenses are higher than 2016, due to the inclusion of employee costs related to the Eureka Report.

The Group has substantial realised and unrealised capital tax losses that have not been recognised in the financial statements as the Directors believe there are negligible opportunities to utilise those losses in the medium term. The Group is exposed to potential changes in financial services regulation that may diminish its ability to collect commissions in the future.

Business strategies and prospects

The Group will increase its focus on increasing the number of users of its free portfolio management service, and the number of investors in its fund management products, while maintaining current subscription numbers. The Group has recently been granted authorisation under one of its AFSs ("Australian Financial Services License") to issue its own managed investment schemes and expects to issue and market several investment products in the next 12 months. These initiatives will result in an estimated \$1.8 million increase in operating costs in the financial year to 30 June 2018. There is a risk of a material decline in Group revenues if there is a significant and sustained equity market fall, however, the Group has contingency plans to reduce as many variable costs as possible in that event.

Employee Share Ownership Plan

The Company lent \$1,804,200 to the Managing Director and employees of the Group to acquire 5,820,000 ordinary shares on 28 December 2016 (Grant Date) as part of the Employee Share Ownership Plan (ESOP), which was approved by shareholders at the Annual General Meeting on 29 November 2016. The shares were issued on the Grant Date.

These shares have not vested and therefore have not been included in share capital. The shares will vest in three equal tranches on the first, second and third anniversaries of the Grant Date. The Company estimates the fair value of this director/employee share benefit is \$329,716 at the Grant Date.

Significant Changes in State of Affairs

As announced on 30 June 2017 the Group incurred a Goodwill write down of \$23,610,664 after testing for impairment under the applicable AASB standard. The Group disclosed a change in focus from growing subscription revenue to growing fund management revenues.

There were no other significant changes in the Group affairs during the period.

DIRECTORS' REPORT

MEETINGS OF DIRECTORS

The number of Directors' Meetings (including Meetings of Committees of Directors) and number of Meetings attended by each of the Directors of the Company during the 2017 financial year were:

	Directors' Meetings		Meetings of Audit, Risk and Compliance Committee		Meetings of Nomination and Remuneration Committee		Meetings of Investment Committee	
	Meetings eligible to attend	Meetings attended	Meetings eligible to attend	Meetings attended	Meetings eligible to attend	Meetings attended	Meetings eligible to attend	Meetings attended
Paul Clitheroe	8	7	4	4	1	1	4	4
Ron Hodge	8	8	4	4	-	-	4	4
Michael Shepherd	8	8	4	4	1	1	-	-

EVENTS SUBSEQUENT TO BALANCE DATE

Since 30 June 2017, there have been no significant events up to the date of this report.

EARNINGS (LOSS) PER SHARE

Basic (loss) per share was (20.33) cents per share, and diluted (loss) per share was (20.33) cents per share, (2016: 0.16 cents per share for basic and 0.14 cents for diluted earnings). Potential ordinary shares shall be treated as dilutive when their conversion to ordinary shares would decrease earnings per share or increase loss per share from continuing operations.

REMUNERATION REPORT (AUDITED)

The Group's policy is to offer a sufficient level of remuneration to attract employees and Directors who are financially literate and knowledgeable of financial services and investment management best practice.

As the Company has a Long Term Incentive Plan (LTIP) and Employee Share Ownership Plan (ESOP) in place which is an equity-settled share based payment to employees and Directors, the Company has effectively linked performance with compensation in relation to the performance of the Company's share price. The value of any benefits given to Directors or senior management is detailed below.

All Directors must have a commitment to good corporate governance. The primary role of the Non- Executive Directors is the protection and enhancement of sustainable shareholder value through:

- ensuring the control and accountability framework is in place so that all significant issues relating to the operation and performance of the Company and its subsidiary entities are brought to the attention of the Board;
- monitoring governance policies, practices and systems to ensure they are effective and appropriate;
- monitoring risk policies, practices and systems to ensure they are effective and appropriate.

Subject to the sum determined by the Company in general meeting, the Directors agree the remuneration each Director (other than any Managing Director or Director who is a salaried officer) receives. No option or bonus plans are in place for Directors (other than the Managing Director).

Under ASX Listing Rules, the maximum fees payable to Directors may not be increased without prior approval from the Company at a general meeting. Directors will seek approval from time to time as deemed appropriate.

The Directors will be entitled to receive the following benefits:

- the maximum total remuneration of the Directors of the Company (excluding the Managing Director) has been set at \$400,000 per annum to be divided amongst them in such proportions as they agree. Directors are not required to allocate the entire amount.

DIRECTORS' REPORT

- (b) Mr Paul Clitheroe is eligible to participate in the Long Term Incentive Plan (LTIP) and received 4,000,000 shares at 25 cents per share and a corresponding limited recourse loan on 26 November 2014, as approved by shareholders. 1,333,333 of these shares vested on 30 May 2016, when the share price reached \$0.33 per share. The second tranche vests when the share price reaches \$0.42 per share after 26 November 2016. The final tranche vests when the share price reaches \$0.50 per share after 26 November 2017. There is no time limit for the share price to reach the vesting price.
- (c) Mr Ronald Hodge, as Managing Director, is eligible to participate in the LTIP and received 4,166,666 shares at 25 cents per share and a corresponding limited recourse loan on 8 September 2015, as approved by shareholders. Mr Hodge's shares have no performance conditions and the first tranche of 1,388,888 vested on 8 September 2016. The remaining shares vest in equal tranches on 8 September 2017 and 8 September 2018 respectively. As Managing Director Mr Hodge is eligible to participate in the ESOP and received 400,000 shares at 31 cents per share and a corresponding limited recourse loan on 28 December 2016, as approved by shareholders. The shares will vest in three equal tranches on the first, second and third anniversaries of the Grant Date.

Additional information on the remuneration of executive directors and key management personnel is given in Note 18 of the Financial Statements.

The Directors' remuneration for the year ended 30 June 2017 is detailed in the following table. There was no accrued long service leave for the Managing Director at 30 June 2017.

Name of Director	Base fee \$	Superannuation \$	Accrued Annual Leave \$	LTIP & ESOP Expense \$	Total \$
Paul Clitheroe	88,048	1,952	-	1,576	91,576
Michael Shepherd	34,246	57,369	-	-	91,615
Peter Ronald Hodge	264,252	30,518	(6,237)	122,874	411,407
TOTAL	386,546	89,839	(6,237)	124,450	594,598

The Directors' remuneration for the year ended 30 June 2016 is detailed in the following table.

Name of Director	Base fee \$	Superannuation \$	Accrued Annual Leave \$	LTIP Expense \$	Total \$
Paul Clitheroe	90,000	-	-	88,893	178,893
John O'Connell (resigned 31 August 2015)	7,500	713	-	-	8,213
Michael Shepherd	-	90,000	-	-	90,000
Peter Ronald Hodge (appointed 1 September 2015)	264,449	25,122	15,463	157,995	463,029
TOTAL	361,949	115,835	15,463	246,888	740,135

No Director of the Company has received or become entitled to receive a benefit, other than a remuneration benefit as disclosed in the notes to the financial statements, by reason of a contract made by the Company or a related entity with the Director or with a firm of which they are a member, or with a Company in which they have a substantial interest.

Key Management Personnel

The remuneration of the key management personnel who were not Directors for the year to 30 June 2017 is shown below.

Name of Key Management Personnel	Base Remuneration \$	Superannuation \$	Accrued Annual Leave \$	LTIP & ESOP Expense \$	Total \$
Nigel Poole	214,940	20,419	3,159	121,715	360,233
Alastair Davidson	192,518	30,608	374	121,715	345,215

DIRECTORS' REPORT

Key management personnel are on standard Group employment contracts, with the exception of termination which requires 3 months' notice, if without cause.

The remuneration of the key management personnel who were not Directors for the year to 30 June 2016 is shown below.

Name of Key Management Personnel	Base Remuneration \$	Superannuation \$	Accrued Annual Leave \$	LTIP Expense \$	Total \$
Nigel Poole	211,149	20,059	25,415	157,995	414,618
Alastair Davidson	205,000	19,475	5,456	157,995	387,926

Shares held by Key Management Personnel and Directors

For the year ended 30 June 2017

Ordinary Shares	Balance at 1 July 2016	Shares acquired / (disposed)	Shares vested	Balance at 30 June 2017
Paul Clitheroe	2,333,333	-	-	2,333,333
Michael Shepherd	400,000	-	-	400,000
Ron Hodge	-	200,000	1,388,888	1,588,888
Nigel Poole	-	-	1,388,888	1,388,888
Alastair Davidson	327,624	-	1,388,888	1,716,512

Shareholdings relating to LTIP

Executive	Balance at 1 July 2016	Tranches	Shares acquired / (disposed) per Tranche	Approval or Issue date	Value at issue date	Estimated or actual vesting date	Balance at 30 June 2017
Paul Clitheroe Non-Executive Chairman	2,666,667	Tranche 1	1,333,333	26/11/2014	0.0542	30/5/2016	-
		Tranche 2	1,333,333	26/11/2014	0.0663	25/11/2018	1,333,333
		Tranche 3	1,333,334	26/11/2014	0.0733	26/08/2020	1,333,334
Ron Hodge	4,166,666	Tranche 1	1,388,888	17/06/2015	0.0767	8/09/2016	-
		Tranche 2	1,388,888	17/06/2015	0.0826	8/09/2017	1,388,888
		Tranche 3	1,388,890	17/06/2015	0.0878	8/09/2018	1,388,890
Nigel Poole	4,166,666	Tranche 1	1,388,888	17/06/2015	0.0767	8/09/2016	-
		Tranche 2	1,388,888	17/06/2015	0.0826	8/09/2017	1,388,888
		Tranche 3	1,388,890	17/06/2015	0.0878	8/09/2018	1,388,890
Alastair Davidson	4,166,666	Tranche 1	1,388,888	17/06/2015	0.0767	8/09/2016	-
		Tranche 2	1,388,888	17/06/2015	0.0826	8/09/2017	1,388,888
		Tranche 3	1,388,890	17/06/2015	0.0878	8/09/2018	1,388,890

The remaining LTIP shares issued to Paul Clitheroe will vest in two equal tranches on the later of the second and third anniversary of the grant date, or the date the share price is at or above \$0.42 or \$0.50 respectively for each tranche. The performance of the share price was selected as the performance criteria as this closely aligns the rewards for performance to shareholder returns.

The remaining LTIP shares issued to Ron Hodge, Nigel Poole and Alastair Davidson vest at \$0.25 per share on the dates noted above and have no performance conditions in order to vest. These LTIP shares were issued in relation to the termination of a management contract with one of the Group subsidiaries, and the Directors believed this compensation best aligned the executives to the interests of shareholders.

DIRECTORS' REPORT

Shareholdings relating to ESOP

Executive	Balance at 1 July 2016	Tranches	Shares acquired / (disposed) per Tranche	Approval or Issue date	Value at issue date	Estimated or actual vesting date	Balance at 30 June 2017
Ron Hodge	-	Tranche 1	133,333	28/12/2016	0.0499	28/12/2017	133,333
		Tranche 2	133,333	28/12/2016	0.0569	28/12/2018	133,333
		Tranche 3	133,334	28/12/2016	0.0631	28/12/2019	133,334
Nigel Poole	-	Tranche 1	100,000	28/12/2016	0.0499	28/12/2017	100,000
		Tranche 2	100,000	28/12/2016	0.0569	28/12/2018	100,000
		Tranche 3	100,000	28/12/2016	0.0631	28/12/2019	100,000
Alastair Davidson	-	Tranche 1	100,000	28/12/2016	0.0499	28/12/2017	100,000
		Tranche 2	100,000	28/12/2016	0.0569	28/12/2018	100,000
		Tranche 3	100,000	28/12/2016	0.0631	28/12/2019	100,000

The shares issued to the Managing Director and key management personnel as part of the ESOP on 28 December 2016 are dependent on the relevant employee not resigning, or being dismissed for cause, before each tranche vests.

Shares held by Key Management Personnel and Directors

For the year ended 30 June 2016

Ordinary Shares	Balance at 1 July 2015	Shares acquired / (disposed)	Shares vested	Balance at 30 June 2016
Paul Clitheroe – Non-Executive Chairman	1,000,000	-	1,333,333	2,333,333
Michael Shepherd – Non-executive director	300,000	100,000	-	400,000
Alastair Davidson – Chief Financial Officer	327,674	-	-	327,674

Shareholdings relating to LTIP

Executive	Balance at 1 July 2015	Tranches	Shares acquired / (disposed) per Tranche	Approval or Issue date	Value at issue date	Estimated or actual vesting date	Balance at 30 June 2016
Paul Clitheroe Non-Executive Chairman	4,000,000	Tranche 1	1,333,333	26/11/2014	0.0542	30/05/2016	-
		Tranche 2	1,333,333	26/11/2014	0.0663	22/04/2017	1,333,333
		Tranche 3	1,333,334	26/11/2014	0.0733	22/07/2018	1,333,333
Ron Hodge Chief Operating Officer	4,166,666	Tranche 1	1,388,888	17/06/2015	0.0767	8/09/2016	4,166,666
		Tranche 2	1,388,888	17/06/2015	0.0826	8/09/2017	
		Tranche 3	1,388,890	17/06/2015	0.0878	8/09/2018	
Nigel Poole Chief Technology Officer	4,166,666	Tranche 1	1,388,888	17/06/2015	0.0767	8/09/2016	4,166,666
		Tranche 2	1,388,888	17/06/2015	0.0826	8/09/2017	
		Tranche 3	1,388,890	17/06/2015	0.0878	8/09/2018	
Alastair Davidson Chief Financial Officer	4,166,666	Tranche 1	1,388,888	17/06/2015	0.0767	8/09/2016	4,166,666
		Tranche 2	1,388,888	17/06/2015	0.0826	8/09/2017	
		Tranche 3	1,388,890	17/06/2015	0.0878	8/09/2018	

Key management personnel transactions concerning dividends and ordinary shares are on the same terms and conditions applicable to ordinary members.

This concludes the Remuneration Report which has been audited.

DIRECTORS' REPORT

INSURANCE OF DIRECTORS

During the financial year, the Company has given indemnity and paid insurance premiums to insure Directors and officers of subsidiaries against liabilities for costs and expenses incurred by them in defending any legal proceedings arising out of their conduct while acting in the capacity of Directors or officers of the Company or subsidiaries, other than conduct involving a wilful breach of duty in relation to the Company or subsidiaries. During the year, premiums were paid in respect of the key management personnel liability and legal expenses insurance contract. Details of the nature of the liabilities covered and the amount of premiums paid have not been disclosed as disclosure is prohibited under the terms of the contract.

INDEMNIFICATION OF AUDITORS

To the extent permitted by law, the Company has agreed to indemnify its auditors, Ernst & Young, as part of the terms of its audit engagement agreement against claims by third parties arising from the audit (for an unspecified amount). No payment has been made to indemnify Ernst & Young during or since the end of the financial year.

PROCEEDINGS ON BEHALF OF THE GROUP

There are no legal or other proceedings being made on behalf of the Group or against the Group as at the date of this report.

NON-AUDIT SERVICES

No non-audit services have been provided by the Auditor or by another person on the Auditor's behalf during the year. This statement has been made in accordance with advice provided by the Company's audit committee and has been endorsed by a resolution of that committee.

AUDITOR'S INDEPENDENCE DECLARATION

The auditor's independence declaration for the year ended 30 June 2017 has been received and can be found on page 20.

Signed in accordance with a resolution of the Directors.



Paul Clitheroe AM
Chairman

Dated this 23rd day of August 2017 at Sydney

For personal use only



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

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

Auditor's Independence Declaration to the Directors of InvestSMART Group Limited

As lead auditor for the audit of InvestSMART Group Limited for the financial year ended 30 June 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 audit; and
- b) no contraventions of any applicable code of professional conduct in relation to the audit.

Ernst & Young

Damien Jones
Partner
23 August 2017

For personal use only

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

	Notes	2017 \$	2016 \$
Commission income	4	7,348,059	7,907,634
Subscription income	4	6,584,654	4,207,421
Consulting fees		-	40,414
Dividend income		3,166	-
Interest income		34,997	28,928
Other income		5,732	219,058
Net gain/loss on financial instruments at fair value through profit and loss	5	241,297	6,872
Total Income		14,217,905	12,410,327
Accounting and administrative costs		(187,305)	(165,831)
Audit fees	17	(133,560)	(126,000)
Commission rebates		(1,983,032)	(1,862,126)
Directors' fees		(181,616)	(188,438)
Employee costs		(5,747,665)	(4,830,356)
Interest expense		-	(12)
Legal and statutory expenses		(92,180)	(65,215)
Market data costs		(190,223)	(196,217)
Marketing and advertising expense		(832,202)	(762,833)
Other expenses		(640,864)	(874,489)
Rent		(367,968)	(385,070)
Software and website costs		(512,509)	(393,812)
Travel and accommodation		(89,909)	(51,917)
Depreciation and amortisation		(1,481,023)	(1,691,899)
Employee benefit expense	6	(424,528)	(562,877)
Goodwill impairment		(23,610,664)	-
Total expenses		(36,475,248)	(12,157,092)
(Loss)/Profit before income tax		(22,257,343)	253,235
Income tax expense	8a	(291,017)	(78,075)
Loss for the year		(22,548,360)	175,160
Other comprehensive income, net of income tax		-	-
Total comprehensive (loss)/profit for the year		(22,548,360)	175,160
Basic (loss)/earnings per share (cents per share)	22	(20.33)	0.16
Diluted (loss)/earnings per share (cents per share)	22	(20.33)	0.14

The above Consolidated Statement of Comprehensive Income should be read in conjunction with the accompanying notes.

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

	Notes	2017 \$	2016 \$
ASSETS			
Cash and cash equivalents		4,935,046	4,986,827
Trade and other receivables	7	602,697	622,379
Prepayments		250,516	169,760
Rental deposit		21,372	56,264
Financial assets at fair value through profit and loss	9	2,053,481	1,638,448
Fixed assets, including software less accumulated depreciation	10	294,478	264,340
Deferred tax asset	8c	455,311	613,248
Intangibles	12	7,622,110	8,988,770
Goodwill	11	-	23,610,664
Total assets		16,235,011	40,950,700
LIABILITIES			
Trade payables	13	29,189	82,964
Other payables	14	1,971,734	1,786,751
Subscriptions received in advance		2,422,358	4,437,135
Trail commissions to rebate		1,209,392	1,339,828
Deferred tax liability	8c	2,119,333	2,697,185
Total liabilities		7,752,006	10,343,863
Net assets		8,483,005	30,606,837
Equity			
Issued capital	15	58,522,440	58,522,440
Employee Benefit reserve	6	1,089,530	665,002
Retained losses	16	(51,128,965)	(28,580,605)
Total equity		8,483,005	30,606,837

The above Consolidated Statement of Financial Position should be read in conjunction with the accompanying notes.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

	Notes	Issued Capital \$	Retained losses \$	Employee Benefit Reserve \$	Total Equity \$
Balance as at 1 July 2015	15	58,522,440	(28,755,765)	102,125	29,868,800
Comprehensive income for the year		-	175,160	-	175,160
Employee benefit share reserve	6	-	-	562,877	562,877
Balance as at 30 June 2016		<u>58,522,440</u>	<u>(28,580,605)</u>	<u>665,002</u>	<u>30,606,837</u>
Comprehensive loss for the year		-	(22,548,360)	-	(22,548,360)
Employee benefit share reserve	6	-	-	424,528	424,528
Balance as at 30 June 2017		<u>58,522,440</u>	<u>(51,128,965)</u>	<u>1,089,530</u>	<u>8,483,005</u>

The above Consolidated Statement of Changes in Equity should be read in conjunction with the accompanying notes.

CONSOLIDATED STATEMENT OF CASH FLOWS

	Notes	2017 \$	2016 \$
Cash flows from operating activities			
Receipts from customers		13,958,126	12,538,048
Payments to suppliers and employees		(13,488,084)	(9,863,762)
Interest received		34,997	28,928
Interest paid		-	(12)
Income tax paid		(276,643)	(32,543)
Net cash used in operating activities	21(a)	<u>228,396</u>	<u>2,670,659</u>
Cash flows from investing activities			
Proceeds from sale of investments		210,180	100,000
Purchase of investments and subsidiary		(383,913)	(3,182,478)
Net Purchase of fixed assets		(144,501)	(149,023)
Dividends received		3,166	-
Rental deposit		34,891	37,026
Net cash (used in) investing activities		<u>(280,177)</u>	<u>(3,194,475)</u>
Cash flows from financing activities			
Net cash inflow from financing activities		<u>-</u>	<u>-</u>
Net decrease in cash and cash equivalents		(51,781)	(523,816)
Cash and cash equivalents at beginning of the year		4,986,827	3,292,828
Cash acquired through acquisitions		-	2,217,815
Cash and cash equivalents at the end of the year	21(b)	<u>4,935,046</u>	<u>4,986,827</u>

The above Consolidated Statement of Cash flows should be read in conjunction with the accompanying notes.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

1. REPORTING ENTITY

InvestSMART Group Limited (the "**Company**") is domiciled in Australia and is the parent entity of the group which includes the entities listed in Note 3 (the "**Group**") and is a for profit company limited by shares incorporated in Australia whose shares are publicly traded on the Australian Securities Exchange. The consolidated financial statements of the Group are presented for the year ended 30 June 2017. The Group is primarily involved in operating businesses delivering financial services to retail investors in Australia, primarily in wealth and funds management.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

(a) Basis of Preparation

This general purpose financial report has been prepared in accordance with Australian Accounting Standards, including Australian Accounting Interpretations, other authoritative pronouncements of the Australian Accounting Standards Board (AASB) and the *Corporations Act 2001*.

Australian Accounting Standards set out accounting policies that the AASB has concluded would result in a financial report containing relevant and reliable information about transactions, events and conditions to which they apply. Compliance with Australian Accounting Standards ensures that the financial statements and notes also comply with International Financial Reporting Standards as issued by the International Accounting Standards Board.

The financial report has been prepared on an accruals basis, and is based on historical cost, with the exception of the valuation of financial assets as described below.

The financial statements were authorised for issue by the Directors on 23 August 2017. The directors and shareholders have the power to amend these financial statements after issue.

The following significant accounting policies have been adopted in the preparation and presentation of the financial report. The accounting policies have been consistently applied, unless otherwise stated.

ADOPTION OF NEW AND REVISED ACCOUNTING STANDARDS

The Group has adopted all of the new and revised standards and interpretations issued by the Australian Accounting Standards Board that are relevant to its operations and effective for the current reporting period. The adoption of these new and revised standards and interpretations did not have a material impact on the financial statements of the Group.

NEW STANDARDS AND INTERPRETATIONS NOT YET ADOPTED

Australian Accounting Standards and Interpretations have recently been issued or amended, but are not yet effective, which have not been adopted by the Group in the presentation of this financial report.

AASB 15 - Revenue from Contracts with Customers

AASB 15 is applicable to annual reporting periods beginning on or after 1 January 2018.

Under the standard an entity recognises revenue by applying the following steps:

- Step 1: Identify the contract(s) with a customer
- Step 2: Identify the performance obligations in the contract
- Step 3: Determine the transaction price
- Step 4: Allocate the transaction price to the performance obligations in the contract
- Step 5: Recognise revenue when (or as) the entity satisfies a performance obligation

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

The Group has a liability to service customers who have purchased subscriptions in advance and recognises revenue when that subscription service has been delivered. Commission income is derived from trailing commissions on funds management and insurance products under a contract to distribute products to the InvestSMART client base. Revenue is recognised as the performance obligation is satisfied. Management is continuing its assessment of applying the new standard on the Group's financial statements, however, it is not expected that it will result in a material impact.

AASB 16 – Leases

AASB 16 introduces a single lessee accounting model and requires a lessee to recognise assets and liabilities for all leases with a term of more than 12 months, unless the underlying asset is of low value. A lessee is required to recognise a right-of-use asset representing its right to use the underlying leased asset and a lease liability representing its obligations to make lease payments.

Assets and liabilities arising from a lease are initially measured on a present value basis. The measurement includes non-cancellable lease payments (including inflation-linked payments), and also includes payments to be made in optional periods if the lessee is reasonably certain to exercise an option to extend the lease, or not to exercise an option to terminate the lease.

This Standard is applicable to annual reporting periods beginning on or after 1 January 2019. The Group is not considering early adopting AASB 16. An initial assessment has been performed based on leases that exist in the current reporting period. Based on this assessment it is anticipated that there will be a material impact to the statement of financial position and equity as the Group is expected to recognise a "right-of-use" asset and corresponding liability for operating leases. A schedule of current operating lease commitments is disclosed in Note 26. The Group will recognise the cumulative effect of initially applying the standard as an adjustment to the opening balance of retained earnings.

CURRENT VERSUS NON-CURRENT CLASSIFICATION

The Group presents assets and liabilities in the statement of financial position based on liquidity and not on a current versus non-current classification.

INVESTMENTS AT FAIR VALUE

The Group's investments are all measured at fair value through profit or loss in accordance with AASB 13: Fair Value Measurement. The fair values of the Group's listed investments are determined from the amount quoted on the primary exchange of the country of domicile. If a listed investment is measured at fair value and has a bid price and an ask price, fair value is based on a price within the bid-ask spread that is most representative of fair value and allows the use of mid-market pricing or other pricing conventions that are used by market participants as a practical expedient for fair value measurement within a bid-ask spread. The fair value of the Group's unlisted investments is determined primarily using the price at which any recent transaction in the security may have been effected, adjusted for the Directors' view as to the likely success of the business model and discounted for the likelihood of a liquidity event occurring in the next 3 years. Changes in the fair value of investments are recognised in the Statement of Comprehensive Income. Transaction costs directly attributable to the acquisition of the investments are expensed in the Statement of Comprehensive Income as incurred.

PRINCIPLES OF CONSOLIDATION

The consolidated financial statements incorporate the assets and liabilities of all subsidiaries of the Group as at 30 June 2017 and the results of all subsidiaries for the period from 1 July 2016 to 30 June 2017, with the exception of Intelligent Investor Small Caps Fund, whose results are included from the date of establishment, 1 February 2017. Control is achieved when the Company is exposed, or has rights, to variable returns from its involvement with the subsidiary and has the ability to affect those returns through its power over the subsidiary.

Subsidiaries are all entities (including special purpose entities) over which the Company has the power to govern the financial and operating policies, generally accompanying a shareholding of more than one-half of the voting rights and excludes those subsidiaries

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

determined by the Directors to be investments held for resale. The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether the Group controls another entity. Subsidiaries are fully consolidated from the date on which control is transferred to the Group, or when they are established.

INTERCOMPANY TRANSACTIONS AND BALANCES

Intercompany transactions, balances and unrealised gains on transactions between Group companies are eliminated on consolidation. Unrealised losses are also eliminated unless the transaction provides evidence of the impairment of the asset transferred. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the Group.

Where there is a change in ownership interest, there will be an adjustment between the carrying amounts of the controlling and “non-controlling” interests to reflect their relative interests in the subsidiary. Any difference between the amount of the adjustment to non-controlling interests and any consideration paid or received is recognised in a separate reserve within equity attributable to the owners of the Company.

When a Company acquires control through a change in investment policy, the entity is remeasured to its fair value 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, jointly controlled entity or financial asset. Any amounts above net tangible assets are held as goodwill or intangibles at that point.

If the ownership interest in a jointly-controlled entity or an associate is reduced but joint control or significant influence is retained, only a proportionate share of the amounts previously recognised in other comprehensive income are reclassified to profit or loss where appropriate.

When the Group ceases to have control, joint control or significant influence, any retained interest in the entity is remeasured to its fair value 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, jointly controlled entity 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.

BUSINESS COMBINATIONS AND GOODWILL

Business combinations are accounted for using the acquisition method. The cost of an acquisition is measured as the aggregate of the fair value consideration transferred, measured at acquisition date and the amount of any non-controlling interests in the acquiree.

For each business combination, the Group elects whether to measure the non-controlling interests in the acquiree at fair value or at the proportionate share of the acquiree's identifiable net assets. Acquisition-related costs are expensed as incurred and included in administrative expenses. When the Group acquires a business, it assesses the financial assets and liabilities assumed for appropriate classification and designation in accordance with the contractual terms, economic circumstances and pertinent conditions as at the acquisition date. This includes the separation of embedded derivatives in host contracts by the acquiree.

Goodwill is initially measured at cost, being the excess of the aggregate of the consideration transferred and the amount recognised for non-controlling interests, and any previous interest held, over the net identifiable assets acquired and liabilities assumed.

After initial recognition, goodwill is measured at cost less any accumulated impairment losses. For the purpose of impairment testing, goodwill acquired in a business combination is, from the acquisition date, allocated to each of the Group's Cash-Generating Units that are expected to benefit from the combination, irrespective of whether other assets or liabilities of the acquiree are assigned to those units. The Group has determined that it operates as one Cash Generating Unit for the purposes of testing goodwill impairment.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

INTANGIBLE ASSETS

Intangible assets acquired separately are measured on initial recognition at cost. The cost of intangible assets acquired in a business combination is their fair value at the date of acquisition. Following initial recognition, intangible assets are carried at cost less any accumulated amortisation and accumulated impairment losses. Internally generated intangibles, excluding capitalised development costs, are not capitalised and the related expenditure is reflected in the consolidated statement of comprehensive income in the period in which the expenditure is incurred.

The useful lives of intangible assets are assessed as either finite or indefinite. Intangible assets with finite lives are amortised over the useful economic life and assessed for impairment whenever there is an indication that the intangible asset may be impaired. The amortisation period and the amortisation method for an intangible asset with a finite useful life are reviewed at least at the end of each reporting period. Changes in the expected useful life or the expected pattern of consumption of future economic benefits embodied in the asset are considered to modify the amortisation period or method, as appropriate, and are treated as changes in accounting estimates and adjusted on a prospective basis. The amortisation expense on intangible assets with finite lives is recognised in the statement of profit or loss as the expense category that is consistent with the function of the intangible assets. Gains or losses arising from derecognition of an intangible asset are measured as the difference between the net disposal proceeds and the carrying amount of the asset and are recognised in the statement of profit or loss when the asset is derecognised.

IMPAIRMENT OF FINANCIAL ASSETS

The Group assesses at each reporting date whether a financial asset or group of financial assets classified as loans and receivables is impaired. Evidence of impairment may include indications that the debtor or a group of debtors is experiencing significant financial difficulty, default or delinquency in interest or principal payments, the probability that they will enter bankruptcy or other financial reorganisation 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 there is objective evidence that an impairment loss has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future expected credit losses that have not yet been incurred) discounted using the asset's original effective interest rate. The carrying amount of the asset is reduced through the use of an allowance account and the amount of the loss is recognised in the consolidated statement of comprehensive income as 'impairment expense'.

Impaired debt together with the associated allowance are written off when there is no realistic prospect of future recovery and all collateral has been realised or has been transferred to the Group. If, in a subsequent period, the amount of the estimated impairment loss increases or decreases because of an event occurring after the impairment was recognised, the previously recognised impairment loss is increased or reduced. If a previous write-off is later recovered, the recovery is credited to the 'impairment expense'.

Interest revenue on an impaired financial asset is recognised using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss.

INVESTMENT INCOME

Net changes in fair value of investments

Realised and unrealised gains and losses on investments measured at fair value through profit or loss are recognised in the Statement of Comprehensive Income.

SHARE-BASED PAYMENTS TO EMPLOYEES AND DIRECTORS

Employees (including executive directors) of the Group may receive remuneration in the form of share-based payments, where employees render services as consideration for equity instruments (equity-settled transactions).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

The cost of equity-settled transactions is determined by the fair value at the date when the grant is made using an appropriate valuation model. The cost is recognised, together with a corresponding increase in other capital reserves in equity, over the period in which the performance and/or service conditions are fulfilled in the employee benefits reserve.

The cumulative expense recognised for equity-settled transactions at each reporting date until the vesting date reflects the extent to which the vesting period has expired and the Group's best estimate of the number of equity instruments that will ultimately vest. This cost is reversed in the event that an employee forfeits any share-based payment, when leaving the Group or other circumstances.

The expense in the consolidated statement of comprehensive income for a period represents the movement in cumulative expense recognised as at the beginning and end of that period and is recognised in employee benefits expense.

INCOME TAX

The Group has formed a tax consolidated group and has executed tax-sharing agreements with each controlled entity. The head entity and the controlled entities in the tax consolidated group continue to account for their own current and deferred tax amounts. The Group has applied the Group allocation approach in determining the appropriate amount of current taxes and deferred taxes to allocate to members of the tax consolidated group.

In addition to its own current and deferred tax amounts, the Group also recognises the current tax liabilities (or assets) and the deferred tax assets arising from unused tax losses and unused tax credits assumed from controlled entities in the tax consolidated group. The income tax expense (revenue) for the year comprises current income tax expense and deferred tax expense or benefit.

Current income tax expense charged to profit or loss is the tax payable on taxable income. Current tax liabilities are measured at the amounts expected to be paid to the relevant taxation authority.

Deferred income tax expense reflects movements in deferred tax asset and deferred tax liability balances during the year as well as unused tax losses. Current and deferred income tax expense is charged or credited outside profit or loss when the tax relates to items that are recognised outside profit and loss. No deferred income tax is recognised from the initial recognition of an asset or liability, excluding a business combination, where there is no effect on accounting or taxable profit or loss.

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

Deferred tax assets relating to temporary differences and unused tax losses are recognised only to the extent that it is probable that future taxable profit will be available against which the benefits of the deferred tax asset can be utilised. Unrecognised deferred tax assets are reassessed at each reporting date and are recognised only to the extent that it has become probable that future taxable profits will allow the deferred tax asset to be recovered.

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

REVENUE RECOGNITION

Revenue is recognised to the extent that it is probable that economic benefits will flow to the Group and the revenue can be reliably measured, regardless of when the payment is received. Revenue is measured at the fair value of the consideration received or receivable, taking into account contractually defined terms of payment and excluding taxes or duty, and is generally recognised on an accruals basis.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Subscription revenue

Subscription revenue is generally received in advance, and is recognised to the extent that the service has been delivered.

Commission revenue

Commission revenue from managed funds and life insurance products are recognised and measured as the fair value of the consideration received or receivable to the extent that it is probable that economic benefits will flow to the Group and the revenue can be reliably measured.

Dividend income

Dividends and distributions are recognised on the applicable ex-dividend date.

Interest income

Interest Income is recognised as it accrues.

Other income

Other income is recognised to the extent that it is probable that the economic benefits will flow to the Group and when the revenue can be reliably measured.

CASH AND CASH EQUIVALENTS

Cash and cash equivalents include cash on hand, deposits held at call with bank, other short term highly liquid investments with original maturities of three months or less, and bank overdrafts.

For the purposes of the Statement of Cash Flows, cash includes deposits held at call with financial institutions net of bank overdrafts. Bank overdrafts are shown within short-term borrowings in current liabilities on the Statement of Financial Position.

LONG SERVICE AND ANNUAL LEAVE PROVISIONS

The Group does not expect its long service leave or annual leave benefits to be settled wholly within 12 months of each reporting date. The Group recognises a liability for long service leave and annual leave measured as the present value of expected future payments to be made in respect of services provided by employees up to the reporting date using the projected unit credit method.

EXPENSES

The Group records all expenses on an accruals basis. This includes: accounting, audit, legal and administrative fees, management fees, employee costs, marketing and advertising costs, director's fees, travel and accommodation expense, rent expenses, commission rebates, other expenses, market data costs, software and website costs.

PROPERTY, PLANT AND EQUIPMENT

All property, plant and equipment is carried at historical cost less accumulated depreciation and accumulated impairment losses, if any. Historical cost includes expenditure that is directly attributable to the acquisition of the items. Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, when it is probable that the future economic benefits associated with the item will flow to the Company and the cost of the item can be measured reliably. All other repairs and maintenance are charged to profit or loss during the reporting period in which they are incurred.

Depreciation on assets is calculated using the straight-line method to allocate their cost, net of residual value, over the estimated useful lives as follows:

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Computer and office equipment	2-3 years
Network and production equipment	3-4 years
Leasehold improvements	Initial term of lease (approximately 4 years)

GOODS AND SERVICES TAX (GST)

Revenues, expenses and assets are recognised net of the amount of GST, except where the amount of GST incurred is not recoverable from the Australian Tax Office. In these circumstances the GST is recognised as part of the cost of acquisition of the asset or as part of an item of the expense. Receivables and payables in the Statement of Financial Position are shown inclusive of GST.

EARNINGS/LOSS PER SHARE

Basic per share are calculated by dividing profit/(loss) attributable to members of the Company by the weighted average number of ordinary shares outstanding during the year, adjusted for any bonus element, and are shown to one decimal place. Diluted earnings/(loss) per share is calculated by dividing profit attributable to members of the Company by the total number of ordinary shares that would be outstanding if all the LTIP and ESOP shares had vested.

SHARE CAPITAL

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

FUNCTIONAL AND PRESENTATION CURRENCY

The functional and presentation currency of the Group is Australian dollars.

COMPARATIVES

Where necessary, comparative information has been reclassified to be consistent with the current reporting period.

CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectation of future events that may have a financial impact on the entity and that are believed to be reasonable under the circumstances. Estimates of future cash flows were used to estimate fair value of the assets acquired and liabilities assumed in the business combination. In particular, the fair value of intangible assets was calculated using management's estimates of future cash flows from each entity's identified intangible assets for the period of their expected useful life. The residual goodwill arising from a business combination is tested for impairment at each balance date (30 June) and when circumstances indicate that the carrying value may be impaired. The Group bases its assumptions used to test the impairment of goodwill on detailed budgets and forecasts which are prepared for the Group's cash generating unit (CGU). These budgets generally cover a five-year period, and a long-term growth rate (net of inflation) is used for longer periods.

Any impairment of goodwill is determined by assessing the recoverable amount of the CGU to which the goodwill relates. The Group has determined that it has one CGU, and where the recoverable amount is less than the carrying value of goodwill, an irreversible impairment loss is recognised.

Level 3 investments in financial assets are based on Director's estimates of the fair value of those investments, where reliable third party sources of valuation are not available.

The Group has not recognised deferred tax assets relating to carried forward realised capital losses on the basis that it does not expect to derive sufficient future capital gains to utilise the current losses within a 3 to 5-year time period. The potential deferred tax asset that could be realised is \$5,166,415 at 30 June 2017.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

3. BUSINESS COMBINATIONS AND ACQUISITIONS

At 30 June 2017, the Company controlled the following subsidiaries:

	30 Jun 17	30 Jun 16
Intelligent Investor Holdings Pty Ltd	100%	100%
InvestSMART Financial Services Pty Ltd	100%	100%
InvestSMART Funds Management Ltd (previously Personal Investment Direct Access Pty Ltd)	100%	100%
Ziel Two Pty Ltd	100%	100%
Yourshare Financial Services Pty Ltd	100%	100%
InvestSmart Insurance Pty Ltd (previously Yourshare Plus Pty Ltd)	100%	100%
AWI Ventures Pty Ltd	100%	100%
Eureka Report Pty Ltd	100%	100%
InvestSMART Australian Small Caps Fund	100%	-

On 1 February 2017 the InvestSMART Australian Small Caps Fund, a unit trust, was established by payment of \$350,000. InvestSMART Funds Management Limited held 100% of all outstanding units in the fund from establishment date to year end and consolidated the operations of the fund. The table below shows the income and expenses before tax for the fund:

	\$
Income	
Dividend income	3,166
Realised gain on financial assets	18,968
Unrealised gain on financial assets	22,501
	<u>44,635</u>
Expenses	
Management and performance fees	4,457
Other expenses	999
	<u>5,456</u>
Net profit	<u>39,179</u>

4. REVENUE FROM COMMISSIONS AND SUBSCRIPTIONS

	2017	2016
	\$	\$
Commission income	7,348,059	7,907,634
Subscription revenue	6,584,654	4,207,421
	<u>13,932,713</u>	<u>12,115,055</u>

5. CHANGE IN FAIR VALUE OF FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT AND LOSS

	2017	2016
	\$	\$
Net realised gain on investments	69,218	-
Net unrealised gain on investments	172,079	6,872
	<u>241,297</u>	<u>6,872</u>

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

6. EMPLOYEE BENEFIT RESERVE

	2017	2016
	\$	\$
Long Term Incentive Plan (LTIP)	1,022,025	562,877
Employee Share Ownership Plan (ESOP)	67,505	-
	<u>1,089,530</u>	<u>562,877</u>
Opening balance	665,002	102,125
Expense	424,528	562,877
Closing balance	<u>1,089,530</u>	<u>665,002</u>

The cost of the LTIP & ESOP shares and Company issued options have been estimated using the Monte-Carlo simulation or the Black-Scholes methodology and amortised over the applicable vesting period. A summary of the terms of the LTIP shares issued are included in the Directors' Report.

7. TRADE AND OTHER RECEIVABLES

	2017	2016
	\$	\$
Trade receivables	<u>602,697</u>	<u>622,379</u>

Receivables are non-interest bearing and unsecured, and will be received within 3 months. The credit risk exposure of the Group in relation to receivables is the carrying amount.

8. INCOME TAX

(a) Income tax (expense) recognised in the Statement of Comprehensive Income

	2017	2016
	\$	\$
The components of income tax expense:		
Current income tax expense	787,655	587,024
R&D expenditure adjustments for prior years	-	(92,568)
Other adjustments for prior years	(73,968)	(240,664)
Deferred tax income relating to the origination and reversal of temporary differences	(271,145)	(175,717)
Change in tax rate	(151,525)	-
Total income tax (expense) benefit	<u>291,017</u>	<u>78,075</u>
Deferred income tax related to items charged directly to equity	<u>-</u>	<u>217,856</u>

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

8. INCOME TAX (CONTINUED)

(b) Income tax expense

A reconciliation of income tax expense applicable to accounting profit before income tax at the statutory income tax rate to income tax expense at the entity's effective income tax rate for the years ended 30 June 2017 and 2016 is as follows:

Prima facie income tax expense/(benefit) calculated at 30% (2016: 30%) on the operating (loss)/profit	(6,673,891)	75,970
Add/(Less) tax effect of:		
Expenditure not deductible in current year	134,231	191,872
Impairment of goodwill	7,083,199	-
Change in tax rate	(151,525)	
Adjustments for prior years	(100,997)	(189,767)
Income tax (expense)/benefit	291,017	78,075

(c) Deferred tax assets and liabilities

Deferred tax assets

The deferred tax asset balance comprises temporary differences recognised as follows:

	2017	2016
	\$	\$
Accruals and provisions not deductible in this period	236,875	267,138
Deductible capital expenditure	181,866	303,459
Revenue tax losses carried forward	36,570	42,651
Closing balance	455,311	613,248
Movements in deferred tax assets		
Opening balance	613,248	765,596
Expense in the income statement	(157,937)	(179,264)
Deferred tax asset acquired	-	26,916
	455,311	613,248

Deferred tax liabilities

The deferred tax liability balance comprises temporary differences recognised as follows:

Future tax expense for intangibles acquired	2,096,080	2,696,632
Prepayments not deductible in future years	-	553
Unrealised gain on investments	23,253	-
Closing balance	2,119,333	2,697,185
Movements in deferred tax liabilities		
Opening balance	2,697,185	2,834,310
Expense in the income statement	(577,852)	(354,981)
Benefit to goodwill	-	217,856
	2,119,333	2,697,185

The Group expects to be classified as a small business for tax purposes. As a result a reduced tax rate of 27.5% will apply for reporting periods after 30 June 2017 (previously 30%).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

9. FINANCIAL ASSETS HELD AT FAIR VALUE

	2017	2016
	\$	\$
AWI Ventures investee companies	1,573,000	1,510,000
Investments in Separately Managed Accounts	182,124	128,448
Investments in Equity Securities	298,357	-
Financial assets at fair value through profit and loss	<u>2,053,481</u>	<u>1,638,448</u>

The Separately Managed Accounts are issued by Praemium Australia Limited as the responsible entity and managed by InvestSMART Financial Services Pty Ltd.

10. FIXED ASSETS INCLUDING SOFTWARE

	Plant and equipment	Software	Total
	\$	\$	\$
Cost			
Opening balance 1 July 2016	185,490	211,790	397,280
Additions	145,897	-	145,897
Disposals	(394)	-	(394)
Balance at 30 June 2017	<u>330,993</u>	<u>211,790</u>	<u>542,783</u>
Depreciation			
Opening balance 1 July 2016	10,172	122,768	132,940
Depreciation charge for the period	79,509	35,856	115,365
Disposals	-	-	--
Balance at 30 June 2017	<u>89,681</u>	<u>158,624</u>	<u>248,305</u>
Net book value at 30 June 2016	<u>175,318</u>	<u>89,022</u>	<u>264,340</u>
Net book value at 30 June 2017	<u>241,312</u>	<u>53,166</u>	<u>294,478</u>

11. GOODWILL

	2017	2016
	\$	\$
Opening net carrying amount	23,610,664	21,595,696
Additions	-	2,014,968
Impairment	(23,610,664)	-
Closing net carrying amount	<u>-</u>	<u>23,610,664</u>

Goodwill is tested for impairment at each balance date using a discounted cash flow model on the net cash flows from the business. The Group performed its annual impairment test at 30 June 2017. The Group considers the relationship between its market capitalisation and its book value, among other factors, when reviewing for indicators of impairment. As at 30 June 2017, the market capitalisation of the Group was below the book value of its equity, indicating a potential impairment of goodwill. In addition, the group made a strategic decision to focus on growing funds management products which will result in a decline in budgeted commissions and subscriptions revenue.

The Group has determined it has one cash generating unit (CGU). The recoverable amount of the CGU, as at 30 June 2017, has been determined based on a value in use calculation using cash flow projections from financial budgets approved by senior management

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

11. GOODWILL (CONTINUED)

covering a five-year period. The projected cash flows have been updated to reflect a decline in commissions and subscriptions revenue and do not incorporate future cash inflows expected to arise from future enhancements to funds management products. The pre-tax discount rate applied to cash flow projections is 13.3% and cash flows beyond the five-year period are extrapolated using a 2.1% growth rate that is the same as the long-term average growth rate for the financial services sector, and a long term inflation rate of 2.1%. It was concluded that the carrying value less costs of disposal did not exceed the value in use. As a result of this analysis, management has recognised an impairment charge of \$23,610,664 in the current year against goodwill with a carrying amount of \$23,610,664 as at 30 June 2017.

The calculation of value in use for the cash generating unit is most sensitive to the following assumptions:

- Future revenue growth
- Discount rates
- Expected growth in wages and employee costs
- Growth rates used to extrapolate cash flows beyond the forecast period

Future revenue growth – Future revenue growth is based on past experience (average declines in product revenue for the four years preceding the end of the budget period). A large proportion of the CGU's revenue is based on trailing commissions which are highly correlated with the movements in the Australian share market. Commission income has been affected by legislative changes which are not adjusted for in future cash flow projections. A change in focus from growing subscription revenue to growing fund management revenues was taken into account when determining future revenue growth. Future cash flow projections exclude estimated future cash inflows expected to arise from future restructurings or from improving or enhancing the CGU's performance.

Discount rates – Discount rates represent the current market assessment of the risks specific to the CGU, taking into consideration the time value of money and the risks incorporated in the cash flow estimates. The discount rate calculation is based on the specific circumstances of the Group and its operating segments and is derived from its weighted average cost of capital (WACC). The WACC takes into account both debt and equity. The cost of equity is derived from the expected return on investment by the Group's investors. The cost of debt is based on the expected cost of interest-bearing borrowings the Group may be obliged to service. The beta factors are evaluated annually based on publicly available market data. Adjustments to the discount rate are made to factor in the specific amount and timing of the future tax flows in order to reflect a pre-tax discount rate.

Wage and Employee cost inflation – Management has considered the possibility of greater than forecast increases in employee costs. This may occur if inflation causes higher than forecast wage increases in the future. Forecast price inflation lies within a range of 1.5 to 2.5%.

Growth rate estimates - Rates are based on long term expected growth rates for the Australian economy. Management recognises that the speed of technological change and the possibility of new entrants can have a significant impact on growth rate assumptions.

The Group considers no other assets to be impaired.

12. INTANGIBLES

	Fund distribution contracts	Content	Subscriber lists
	\$	\$	\$
Opening balance 1 July 2015	8,335,300	-	1,112,400
Acquired at 4 April 2016 in Eureka Report	-	412,724	726,185
Amortisation	(877,400)	(412,724)	(307,715)
Balance at 30 June 2016	7,457,900	-	1,530,870
Amortisation	(877,400)	-	(489,260)
Balance at 30 June 2017	6,580,500	-	1,041,610

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

12. INTANGIBLES (CONTINUED)

Fund distribution contracts were acquired as intangible assets under a business combination as at 1 January 2015. Whilst they have no expiry date, it is expected that customers on which the distribution fees are earned will leave over 10 years. Subscriber lists in Intelligent Investor are assumed to have a 5-year life, based on the Group's historical experience, and therefore the intangible asset arising from those lists are amortised on a straight line basis. Subscriber lists in Eureka Report are assumed to have a 3-year life and are amortised on a straight line over that period. Original content acquired in Eureka Report at 4 April 2016 was fully amortised at 30 June 2016.

13. TRADE PAYABLES

	2017	2016
	\$	\$
Trade payables	29,189	82,964

Trade payables are non-interest bearing and unsecured and are payable within 3 months.

14. OTHER PAYABLES

	2017	2016
	\$	\$
Annual leave provision	208,396	248,808
Long service leave provision	65,623	52,938
PAYG and superannuation payables	136,255	142,039
GST payable	252,686	416,670
Other payables	542,615	596,690
Tax payable	766,159	329,606
	<u>1,971,734</u>	<u>1,786,751</u>

15. ISSUED CAPITAL

	2017	2016
	\$	\$
Ordinary shares	58,522,440	58,522,440

At 30 June 2017, 110,885,360 ordinary shares were on issue (2016: 110,885,360). An additional 16,500,000 were issued, as part of the LTIP detailed in Note 6, of which 9,666,665 remain unvested at 30 June 2017. The vested shares have a non-recourse loan outstanding.

A portion of the Long Term Incentive Plan shares issued to Ron Hodge, Nigel Poole and Alastair Davidson issued on 8 September 2015, vested on 8 September 2016.

Under the LTIP, the director or employee can repay the loan by forfeiting the shares issued under the plan. The shares vest when the Company's share price reaches certain hurdles or after certain time periods and may be forfeited prior to the loan repayment date, and have therefore not been included in the issued share capital total.

On 28 December 2016, the Company issued 5,820,000 shares under the ESOP to the Managing Director and other employees of the Group, which will vest over the next 3 years. Under the ESOP, the director or employee can repay the loan by forfeiting the shares issued under the plan. The shares vest over certain time periods and may be forfeited prior to the loan repayment date, and have therefore not been included in the issued share capital total.

(a) Terms and conditions

The Company has ordinary shares on issue. Holders of ordinary shares are entitled to receive dividends as declared from time to time and are entitled to one vote per share at shareholder meetings.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

15. ISSUED CAPITAL (CONTINUED)

(b) Capital Management

The Group's policy is to maintain a strong capital base so as to maintain investor and market confidence. To achieve this the Directors monitor the monthly performance of the operating entities, the Group's management expenses, and share price movements. The Group is not subject to any externally imposed capital requirements. Capital relates to equity attributable to investors.

The primary objective of the Group's capital management is to ensure that it maintains healthy capital ratios to support its business and maximise shareholder value. The Group manages its capital structure and makes adjustments to it in light of changes in economic conditions. To maintain or adjust the capital structure, the Company may adjust any dividend payment to investors, capital returns or issue new shares. No changes were made in the objectives, policies or processes for managing capital during the years ended 30 June 2017 and 30 June 2016.

16. RETAINED LOSSES

	2017	2016
	\$	\$
Opening balance	(28,580,605)	(28,755,765)
(Loss)/Profit attributable to members of the group	(22,548,360)	175,160
Closing balance	<u>(51,128,965)</u>	<u>(28,580,605)</u>

17. AUDITORS REMUNERATION

Auditing and reviewing the financial reports of the Group:

	2017	2016
	\$	\$
Ernst & Young – audit fees	<u>133,560</u>	<u>126,000</u>

18. RELATED PARTY INFORMATION

(a) Key management personnel

The names of the persons who were key management personnel of the Group during the financial year were:

Ron Hodge
Nigel Poole
Alastair Davidson

(b) Key management personnel remuneration

Remuneration paid to key management personnel by the Group in connection with the management of affairs of the group were:

	Short-term Employee Benefit Cash Salary & Fees	Employment Benefit Superannuation	Accrued Annual Leave	Employee share benefit	Total
2017	671,710	81,545	(2,704)	366,304	1,116,855
2016	680,598	64,656	46,334	473,985	1,265,573

The Directors' remuneration excludes insurance premiums paid and payable by the Group in respect of Directors' liability insurance. Apart from the details disclosed in this note, no key management personnel have entered into a material contract with the Group during the financial year.

The Directors of the InvestSMART Group Limited are responsible for determining and reviewing compensation arrangements for the Managing Director and key management personnel. The Directors also assess the appropriateness of the nature and amount of emoluments of each Director on a periodic basis by reference to workload and market conditions.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

18. RELATED PARTY INFORMATION (CONTINUED)

The overall objective is to ensure maximum stakeholder benefit from the retention of a high quality board whilst constraining costs. The Directors' remuneration has been included in the remuneration report section of the Directors Report.

On 26 November 2014 (the grant date), the Company lent \$1,000,000 to the Executive Chairman, Mr Paul Clitheroe, to acquire 4,000,000 shares, as part of the Long Term Incentive Plan, subject to vesting terms, as approved by shareholders at the Annual General Meeting in November 2014. The first tranche of these shares have vested, though the associated non-recourse loan has not been repaid, and therefore has not been included in share capital. The remaining tranches have not vested and therefore have not been included in share capital. The Company estimated the fair value of this director/employee share benefit was \$258,400 at the grant date.

On 17 June 2015 the Company agreed to lend \$3,125,000 in total to three key management personnel to acquire 12,499,968 shares, as part of the Long Term Incentive Plan, subject to vesting terms, as approved by shareholders at the Extraordinary General Meeting in June 2015. These shares were issued on 8 September 2015, and have not vested or had the associated non-recourse loan repaid, and therefore have not been included in share capital. The Company estimated the fair value of this director/employee share benefit was \$1,029,293 at the grant date.

On 28 December 2016 as part of the Employee Share Ownership Plan (ESOP) the Company lent \$1,804,200 to the Managing Director and employees of the Group to acquire 5,820,000 ordinary shares as approved by shareholders at the Annual General Meeting on 29 November 2016. The shares were issued on the Grant Date. These shares have not vested and therefore have not been included in share capital. The shares will vest in three equal tranches on the first, second and third anniversaries of the Grant Date. The Company estimates the fair value of this director/employee share benefit is \$329,716 at the Grant Date.

(c) Shareholdings of key management personnel and their related entities

For the year ended 30 June 2017

Ordinary Shares	Balance at 1 July 2016	Shares held on appointment	Shares acquired / (disposed)	Balance at 30 June 2017
Ron Hodge	4,166,666	-	600,000	4,766,666
Alastair Davidson	4,494,340	-	300,000	4,794,340
Nigel Poole	4,166,666	-	300,000	4,466,666

For the year ended 30 June 2016

Ordinary Shares	Balance at 1 July 2015	Shares held on appointment	Shares acquired / (disposed)	Balance at 30 June 2016
Ron Hodge	4,166,666	-	-	4,166,666
Alastair Davidson	4,494,340	-	-	4,494,340
Nigel Poole	4,166,666	-	-	4,166,666
Paul Clitheroe (appointed 26 November 2015, appointed non-executive Chairman 24 February 2016)	5,000,000	-	-	5,000,000

19. SEGMENT INFORMATION

The Group has only one reportable segment. The Group is engaged solely in general advice retail financial services conducted in Australia, deriving revenue from commissions and subscriptions.

20. FINANCIAL RISK MANAGEMENT

The Group's financial instruments consist mainly of deposits with banks, accounts receivable, accounts payable and investments in listed and unlisted equities classified as financial assets at fair value through profit and loss.

AASB 7 Financial Instruments: Disclosures identify three types of risk associated with financial instruments (i.e. the Group's investments, receivables and payables).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

20. FINANCIAL RISK MANAGEMENT (CONTINUED)

(i) Credit risk

The standard (AASB 7) defines this as the risk that one party to a financial instrument will cause a financial loss for the other party by failing to discharge an obligation. The maximum exposure to credit risk, excluding the value of any collateral or other security, at balance date to recognised financial assets, is the carrying amount, net of any provisions for impairment of those assets, as disclosed in the statement of financial position and notes to the financial statements. There are no other material amounts of collateral held as security at 30 June 2017.

Credit risk is managed as shown in Note 7 and with respect to receivables, and Note 20 for cash and cash equivalents. None of these assets are over-due or considered to be impaired.

(ii) Liquidity risk

The standard (AASB 7) defines this as the risk that an entity will encounter difficulty in meeting obligations associated with financial liabilities. Senior management monitors the Group's cash-flow requirements daily taking into account upcoming dividends, tax payments and investment activity.

The Group's inward cash-flows depend upon the level of trail commission and subscription revenue received. If these decrease by a material amount, the Group will amend its outward cash-flows accordingly. As the Group's major cash outflows are the cost of employees and rebates of trail commissions, the level of both of these is managed by the Board and senior management.

The tangible assets of the Group are largely in the form of unlisted securities which may be difficult to liquidate in a timely fashion, and short-term receivables.

The table below analyses the Group's non-derivative financial liabilities in relevant maturity groupings based on the remaining period to the earliest possible contractual maturity date at the year-end date. The amounts in the table below are contractual undiscounted cash flows.

	On-demand	than 3 months	3 to 12 months	1 to 5 years	Total
	\$	\$	\$	\$	\$
At 30 June 2017					
Other payables	-	1,612,234	293,877	65,623	1,971,734
Trail commissions due to customers	-	371,347	838,044	-	1,209,391
Subscriptions received in advance	-	147,396	1,983,794	291,168	2,422,358
Trade and other payables	-	29,189	-	-	29,189
Total financial liabilities	-	2,160,166	3,115,715	356,791	5,632,672
At 30 June 2016					
Other payables	-	1,485,005	248,808	52,938	1,786,751
Trail commissions due to customers	-	334,957	1,004,871	-	1,339,828
Subscriptions received in advance	-	1,109,284	2,805,703	522,148	4,437,135
Trade and other payables	-	82,964	-	-	82,964
Total financial liabilities	-	3,012,210	4,059,382	575,086	7,646,678

(iii) Market risk

The standard (AASB 7) defines this as the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices. A general fall in market prices of 5 per cent and 10 per cent, if spread equally over all investments would lead to a reduction in the Group's equity and increase the reported loss by \$102,674 and \$205,348 respectively (2016: \$81,922 and \$163,845 respectively).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

20. FINANCIAL RISK MANAGEMENT (CONTINUED)

The Group is also not directly exposed to currency risk as all its operations are conducted in Australian dollars. The Group is engaged in activities conducted solely in Australia.

DERIVATIVE FINANCIAL INSTRUMENTS

A derivative is a financial contract whose value depends on, or is derived from, underlying assets, liabilities or indices. Derivative transactions include a wide assortment of instruments, such as forwards, futures, options and swaps. The Group does not currently use or hold derivative instruments.

Interest rate risk

The Group's cash balances and term deposits expose it to risks associated with the effects of fluctuations in the prevailing levels of market interest rates on its financial position and cash flows.

Sensitivity analysis – interest rate risk

An increase of 75 basis points in interest rates over the reporting period would have increased the Group's profit by \$35,902 (2016: \$37,401). A decrease of 75 basis points would have an equal but opposite effect.

As at 30 June 2017, the Group's exposure to interest rate risk and the effective weighted average interest rate for each class of financial asset and financial liability is set out in the table below:

	Weighted average interest rate (% pa)	Floating interest rate \$	Non-interest bearing \$	Total \$
Financial assets				
Cash assets	0.8	4,465,970	469,076	4,935,046
Trade and other receivables		-	602,697	602,697
Prepayments		-	250,516	250,516
Rental deposit		-	21,372	21,372
Financial assets at fair value through profit and loss		-	2,053,481	2,053,481
		<u>4,465,970</u>	<u>3,397,142</u>	<u>7,863,112</u>
Financial liabilities				
Other payables		-	1,971,734	1,971,734
Trail commissions due to customers		-	1,209,391	1,209,391
Subscriptions received in advance		-	2,422,358	2,422,358
Trade and other payables		-	29,189	29,189
		-	5,632,672	5,632,672
Net financial assets/(liabilities)		<u>4,465,970</u>	<u>(2,235,530)</u>	<u>2,230,440</u>

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

20. FINANCIAL RISK MANAGEMENT (CONTINUED)

As at 30 June 2016, the Group's exposure to interest rate risk and the effective weighted average interest rate for each class of financial asset and financial liability is set out in the table below:

	Weighted average interest rate (% pa)	Floating interest rate \$	Non-interest bearing \$	Total \$
Financial assets				
Cash assets	1.25	4,986,827	-	4,986,827
Trade and other receivables		-	622,379	622,379
Prepayments		-	169,759	169,759
Rental deposit		-	56,624	56,624
Financial assets at fair value through profit or loss		-	1,638,448	1,638,448
		<u>4,986,827</u>	<u>2,487,210</u>	<u>7,474,037</u>
Financial liabilities				
Other payables		-	1,786,751	1,786,751
Trail commissions due to customers		-	1,339,828	1,339,828
Subscriptions received in advance		-	4,437,135	4,437,135
Trade and other payables		-	82,964	82,964
		<u>-</u>	<u>7,646,678</u>	<u>7,646,678</u>
Net financial assets/(liabilities)		<u>4,986,827</u>	<u>(5,159,468)</u>	<u>(172,641)</u>

FAIR VALUE HIERARCHY

AASB 13 requires the Group to classify fair value measurements using a fair value hierarchy that reflects the subjectivity of the inputs used in making the measurements. The fair value hierarchy has the following levels:

- Level 1 - Quoted prices (unadjusted) in active markets for identical assets or liabilities.
- Level 2 - Inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices).
- Level 3 - Inputs for the asset or liability that are not based on observable market data (that is, unobservable inputs).

The level in the fair value hierarchy within which the fair value measurement is categorised in its entirety is determined on the basis of the lowest level input that is significant to the fair value measurement in its entirety. For this purpose, the significance of an input is assessed against the fair value measurement in its entirety. If a fair value measurement uses observable inputs that require significant adjustment based on unobservable inputs, that measurement is a level 3 measurement. Assessing the significance of a particular input to the fair value measurement in its entirety requires judgement, considering factors specific to the asset or liability.

The determination of what constitutes 'observable' requires significant judgement by the Directors. The Directors consider observable data to be that market data that is readily available, regularly distributed or updated, reliable and verifiable, not proprietary, and provided by independent sources that are actively involved in the relevant market.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

20. FINANCIAL RISK MANAGEMENT (CONTINUED)

There has been no change in the Level 2 and Level 3 valuation techniques used for this report from previous reports. The table below sets out the Group's financial assets and liabilities (by class) measured at fair value according to the fair value hierarchy at 30 June 2017:

	Level 1 \$	Level 2 \$	Level 3 \$	Total \$
At 30 June 2017				
Financial assets				
Financial assets held at fair value through profit or loss	298,357	182,124	1,573,000	2,053,481
At 30 June 2016				
Financial assets				
Financial assets held at fair value through profit or loss	-	128,448	1,510,000	1,638,448

During the reporting period ending 30 June 2017 there were no transfers between Level 1 and Level 2 fair value measurements.

Financial instruments whose values are based on quoted market prices in active markets, and therefore classified within level 1, include active listed equities, certain unlisted unit trusts and exchange traded derivatives.

Investments classified within level 2 have inputs based on quoted and unquoted prices. The level 2 investments held by the Group relate to investments in Separately Managed Accounts issued by Praemium Australia Limited. The accounts hold primarily listed securities which are valued at the last closing price on the Australian Securities Exchange.

DESCRIPTION OF SIGNIFICANT UNOBSERVABLE INPUTS TO VALUATION OF LEVEL 3 ASSETS

Through AWI Ventures Pty Ltd, the Group has investments in 10 start-up companies in the financial technology sector. These companies have little or no revenue and therefore cannot be valued using Discounted Cash Flow. The fair value of the investee companies has been assessed as the price at which each investee company raised a material amount of new capital, or historic cost if they have not raised a material amount of new capital, adjusted for the Director's view of the likely success of the business model and a liquidity discount based on the likelihood of a liquidity event in the next 3 years.

Investments classified within level 3 have significant unobservable inputs, as they are infrequently traded. Unlisted equities are classified within level 3.

The table below shows the assumptions used by management in assessing fair value of its investments in unlisted equities:

	Valuation technique	Significant unobservable inputs	Range (weighted average)	Sensitivity to fair value
AWI Ventures investee companies	Director's valuation	Last issue price & date of new equity, last traded price of equity, Capital structure, Directors' qualitative assessment of investee business model success	N/A	An issue of new equity, or trade in existing equity, at a higher or lower price may have significant effect on fair value

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

20. FINANCIAL RISK MANAGEMENT (CONTINUED)

The following table shows a reconciliation of the movement in the fair value of financial instruments categorised within level 3 between the beginning and the end of the reporting period:

Balance at 1 July 2016	1,510,000
Unlisted equities disposed during the period	(125,250)
Gain through profit and loss	188,250
Balance at 30 June 2017	<u>1,573,000</u>

The credit risk exposure of the Group in relation to cash is the carrying amount and any accrued unpaid interest. Cash investments are held with a number of banks all of which are rated AA- by Standard and Poor's.

21. STATEMENT OF CASH FLOWS

(a) Reconciliation of net profit from ordinary activities after income tax to net cash provided by operating activities

	2017	2016
	\$	\$
Operating (loss)/profit	(22,548,360)	175,160
Adjustments to reconcile profit after tax to net cash flows:		
Unrealised change in fair value of financial assets through profit or loss	(241,298)	(6,872)
Employee benefit expense	424,528	562,877
Depreciation and amortisation	1,481,023	1,691,899
Non-cash transactions with subsidiaries	-	-
Decrease in deferred tax asset	157,937	152,348
Decrease in deferred tax liability	(577,852)	-
Loss on disposal of fixed asset	-	72,778
Dividend income	(3,166)	-
Change in goodwill through income statement	23,610,664	(190,941)
Change in operating assets and liabilities:		
Decrease in trade and other receivables	19,682	163,520
(Increase) in prepayments	(80,757)	(6,475)
(Decrease)/increase in trade and other payables	(2,014,005)	2,091,116
Less net trade payables and receivables acquired in Eureka Report	-	(2,034,751)
Net cash from operating activities	<u>228,396</u>	<u>2,670,659</u>

(b) Reconciliation of cash

Cash at the end of the financial year as shown in the Statement of Cash Flows is reconciled to the related items in the statement of financial position as follows:

	2017	2016
	\$	\$
Cash at bank	<u>4,935,046</u>	<u>4,986,827</u>

The credit risk exposure of the group in relation to cash is the carrying amount and any accrued unpaid interest. Cash investments are held with a number of banks all of which are rated AA- by Standard and Poor's.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

22. LOSS/EARNINGS PER SHARE

	2017	2016
	cents	cents
Basic (loss)/earnings per share (cents per share)	(20.33)	0.16
Diluted (loss)/earnings per share (cents per share)	(20.33)	0.14

As the Group was in a loss position in 2017, share based incentive plans did not affect the diluted earnings per share calculation as potential ordinary shares shall be treated as dilutive when, and only when, their conversion to ordinary shares would decrease earnings per share or increase loss per share from continuing operations.

	2017	2016
(Loss)/earnings as per Statement of Consolidated Income	(22,548,360)	175,160
Weighted average number of ordinary shares outstanding during the year used in calculating basic earnings per share	110,885,630	110,885,360
Weighted average number of ordinary shares outstanding during the year used in calculating diluted earnings per share if all LTIP & ESOP shares vest and non-recourse loans are repaid	132,820,362	127,385,360

23. FRANKING ACCOUNT

	2017	2016
	\$	\$
Opening balance of franking account	1,887,279	1,805,971
Adjustments for tax payment and tax payable/refundable in respect of the prior year's profits	323,596	81,308
Adjusted franking account balance	2,210,875	1,887,279

24. PARENT ENTITY INFORMATION

Statement of Financial Position	2017	Restated 2016	As reported 2016
	\$	\$	\$
Assets			
Current assets	128,260	229,242	229,242
Investments	5,474,546	26,302,568	26,302,568
Total Assets	5,602,806	26,531,810	26,531,810
Liabilities			
Current Liabilities	653,824	476,432	191,167
Total Liabilities	653,824	476,432	191,167
Net Assets	4,948,982	26,055,378	26,340,643
Equity			
Contributed Equity	58,522,441	58,522,441	58,522,441
Employee benefit reserve	1,085,245	665,002	665,002
Retained earnings	(54,658,704)	(33,132,065)	(32,846,800)
Total Equity	4,948,982	26,055,378	26,340,643
Statement of Profit or Loss and other Comprehensive Income			
Net loss for the year after income tax expense	21,526,639	2,662,126	2,947,391
Total Comprehensive loss for the year	21,526,639	2,662,126	2,947,391

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

24. PARENT ENTITY INFORMATION (CONTINUED)

The accounting policies of the parent entity, InvestSMART Group Limited, used in determining the financial information shown above, are the same as those applied in the Group's consolidated financial statements, as detailed in Note 2.

At 30 June 2017, InvestSMART Group Limited had commitments for an office lease at Level 9, 37 York Street, Sydney, and Level 4, 356 Collins St, Melbourne, for \$963,789 (2016: \$1,365,571).

Comparative figures have been restated for an adjustment not reflected in the Parent Entity information in the 2016 Group Financial Report. As a result the Parent Entity Current Liabilities and Total Comprehensive Income for the year were overstated by \$285,265. The error relates only to the Parent Entity disclosure and the Group financial statements are not affected.

25. EVENTS OCCURRING AFTER REPORTING DATE

Since 30 June 2017 there have been no significant events up to the date of these financial statements.

26. CONTINGENT LIABILITIES AND COMMITMENTS

	2017	2016
	\$	\$
Within one year	313,374	395,003
After one year but less than five years	650,415	1,042,909
Total	<u>963,789</u>	<u>1,437,912</u>

At 30 June 2017, the Group had commitments of \$963,789 (2016: \$1,437,912) for leased premises. The Group has leases over its offices at Level 9, 37 York St, Sydney NSW 2000, until 31 March 2020 and Level 4, 356 Collins St, Melbourne until 1 June 2021. There are no other contingent liabilities or commitments at 30 June 2017.

27. COMPANY DETAILS

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

Level 9, 37 York Street
Sydney NSW 2000

DIRECTORS' DECLARATION

In accordance with a resolution of the Directors of InvestSMART Group Limited, I state that:

1. In the opinion of the Directors:

- (a) The financial statements, notes and the additional disclosures included in the Director's Report designated as audited, of the Company are in accordance with the Corporations Act 2001, including:
 - (i) giving a true and fair view of the financial position of the Company as at 30 June 2017 and of its performance for the year ended on that date.
 - (ii) complying with Australian Accounting Standards, International Financial Reporting Standards (IFRS) as disclosed in Note 2(a) and Corporations Regulations 2001.
- (b) There are reasonable grounds to believe that the Company will be able to pay its debts as and when they become due and payable.

2. This declaration has been made after receiving the declarations required to be made to the Directors in accordance with section 295A of the Corporations Act 2001 for the financial year ended 30 June 2017.

On behalf of the Board



Paul Clitheroe AM
Chairman

Dated this 23rd day of August 2017 at Sydney



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

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

Independent Auditor's Report to the Members of InvestSMART Group Limited

Report on the Audit of the Financial Report

Opinion

We have audited the financial report of InvestSMART Group Limited (the Company) and its subsidiaries (collectively the Group), which comprises the consolidated statement of financial position as at 30 June 2017, the consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, notes to the financial statements, including a summary of significant accounting policies, and the directors' declaration.

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

- a) giving a true and fair view of the consolidated financial position of the Group as at 30 June 2017 and of its consolidated financial performance for the year ended on that date; and
- b) complying with Australian Accounting Standards and the *Corporations Regulations 2001*.

Basis for Opinion

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

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

Key Audit Matters

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

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

Valuation of Goodwill

Financial report reference: Note 11

Why significant

Goodwill was recognised as a result of the Group's historical acquisitions, representing the excess of purchase consideration over the fair value of assets acquired.

In line with the requirements of Australian Accounting Standard - AASB136 *Impairment of Assets*, the Group performs an impairment assessment at least annually. The Group prepares a discounted cash flow impairment model to determine its recoverable amount (determined by Value in Use). This model is dependent upon certain assumptions which include:

- ▶ Future cash flows;
- ▶ Discount rates; and
- ▶ Terminal growth rates

This was a key audit matter due to the quantum of goodwill impairment expense recognised in the Consolidated Statement of Comprehensive Income (30 June 2017: \$23.6 million) and the degree of judgment associated with the impairment assessment and related assumptions therein.

How our audit addressed the key audit matter

In obtaining sufficient audit evidence we:

- ▶ Assessed the methodology applied by the Group with reference to the requirements of AASB136 *Impairment of Assets*.
- ▶ Assessed the cash generating units determined by the Group in performing the impairment assessment.
- ▶ Assessed the appropriateness of estimated cash flows and long term growth rates of commissions and subscriptions income through analysis of the Group's board approved forecasts.
- ▶ Compared historical cash flow forecasts to actual results.
- ▶ Checked the mathematical accuracy of the discounted cash flow model.
- ▶ Involved our valuations specialists to assist by considering the valuation methodology adopted including the calculations and logic of the impairment model, assessing the discount rate used in the model, cross checking implied multiples to those of comparable companies and performing a sensitivity analysis to consider the sensitivity of headroom to certain assumptions.

Valuation of Unlisted Investments

Financial report reference: Note 9

Why significant

Unlisted investments of \$1.57 million are held by the Group at balance date. The investments are classified within Level 3 of the Fair Value Hierarchy. They represent minority holdings in start-up companies in the financial technology sector. The investments comprise unlisted shares and there are no observable, reliable market values. The nature of these entities and the sector in which they operate means that they are inherently difficult to value.

How our audit addressed the key audit matter

We performed an assessment of the valuation analysis prepared by management and agreed inputs to observable external support as appropriate. We assessed discounts applied and compared them to available market information for reasonableness.

Management considered the following when determining fair value:

- ▶ Recent share issues of the investee companies.
- ▶ The application of an appropriate liquidity discount.
- ▶ The impact of any differences in the terms of recent share issues with the terms of the shares held by the Group.
- ▶ Proposals from external parties to acquire the Group's interest in the investments held.

These matters were assessed by the audit team as part of our procedures. Additionally, we considered the adequacy of the disclosures relating to the investments within the financial report.

Information Other than the Financial Report and Auditor's Report

The directors are responsible for the other information. The other information comprises the information included in the Company's 2017 Annual Report, but does not include the financial report and our auditor's report thereon.

Our opinion on the financial report does not cover the other information and accordingly we do not express any form of assurance conclusion thereon.

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

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

Responsibilities of the Directors for the Financial Report

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

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

Auditor's Responsibilities for the Audit of the Financial Report

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

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

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

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

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

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

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

Report on the Audit of the Remuneration Report

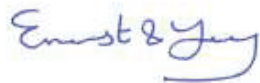
Opinion on the Remuneration Report

We have audited the Remuneration Report included in pages 6 to 9 of the directors' report for the year ended 30 June 2017.

In our opinion, the Remuneration Report of InvestSMART Limited for the year ended 30 June 2017, complies with section 300A of the Corporations Act 2001.

Responsibilities

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



Ernst & Young



Damien Jones
Partner
Sydney
23rd August 2017

ADDITIONAL INFORMATION

Additional information required by the Australian Securities Exchange Listing Rules is set out below.

The security holder information set out below was current as at 11 October 2017.

DISTRIBUTION OF SHAREHOLDERS

There were 132,695,358 fully paid ordinary shares held by 1,234 shareholders, all of which were quoted on the Australian Securities Exchange. There are no restricted shares on issue. There are no unquoted shares on issue.

Holdings Ranges	Holders	Total Units	Percentage
1-1,000	344	61,427	0.05%
1,001-5,000	250	1,065,946	0.80%
5,001-10,000	176	1,533,525	1.16%
10,001-100,000	320	12,358,461	9.31%
100,001-99,999,999,999	144	117,675,999	88.68%
Totals	1,234	132,695,358	100.00%

The number of shareholders holding less than a marketable parcel of fully paid ordinary shares is 367.

TOP 20 SHAREHOLDERS

Holder Name	No of shares held	Percentage
HSBC CUSTODY NOMINEES (AUSTRALIA) LIMITED	20,325,752	15.32%
BNP PARIBAS NOMINEES PTY LTD <AGENCY LENDING DRP A/C>	5,151,534	3.88%
ROBIN ANNE OWLES & RON PETER HODGE <HODGE FAMILY NO 2 A/C>	4,166,666	3.14%
JAMES NOORT <POOLE FAMILY A/C>	4,166,666	3.14%
ONMELL PTY LTD <ONM BPSF A/C>	4,063,183	3.06%
MR PAUL HUGH CLITHEROE	4,000,000	3.01%
RBC INVESTOR SERVICES AUSTRALIA NOMINEES PTY LIMITED <BKCUST A/C>	3,760,765	2.83%
CAMERON RICHARD PTY LTD <LPS PL NO 5 EXEC B/PLAN A/C>	3,458,604	2.61%
RONNSCAM PTY LTD <DAVIDSON FAMILY A/C>	3,166,666	2.39%
S M & R W BROWN PTY LTD <ROBERT & SALLY BROWN SF A/C>	3,000,000	2.26%
MRS ANTONIA COLLOPY	2,990,238	2.25%
PATCAIELI PTY LTD <THE JKO SUPER FUND A/C>	2,747,747	2.07%
PENDEX PTY LTD <PATCAIELITRUST A/C>	2,301,991	1.73%
J P MORGAN NOMINEES AUSTRALIA LIMITED	2,258,095	1.71%
VADINA PTY LIMITED <JORDAN SUPER FUND A/C>	1,940,000	1.46%
JJC SF (2012) PTY LTD <THE JACK COWIN FUND A/C>	1,672,000	1.26%
STUART ANDREW PTY LTD <CAMPASPE FAMILY A/C>	1,600,000	1.21%
LEYLAND PRIVATE ASSET MANAGEMENT PTY LTD	1,500,000	1.13%
MYALL RESOURCES PTY LTD <MYALL GROUP SUPER FUND A/C>	1,500,000	1.13%
FROSHIBER PTY LTD	1,200,000	0.90%
Total Securities of Top 20 Holdings	74,969,907	56.49%
Total of Securities	132,695,358	

ADDITIONAL INFORMATION

VOTING RIGHTS

At a general meeting, shareholders are entitled to one vote for each share held. On a show of hands, every shareholder present in person or by proxy shall have one vote and upon a poll, every shareholder so present shall have one vote for every share held.

SUBSTANTIAL SHAREHOLDERS

The Company has been notified of three shareholders who hold relevant interests of in excess of 5% of the Company's ordinary shares:

Name	Date of Interest	No of shares held ¹	Percentage ²
Leyland Private Asset Management Pty Ltd	18 June 2015	22,531,407	17.69
Perpetual Limited	25 August 2016	18,539,432	14.55
Discovery Asset Management Pty Ltd	1 May 2014	7,521,739	6.19

1 As disclosed in the last notice lodged with the Australian Securities Exchange by the substantial shareholder.

2 The percentage set out in the notice lodged with the Australian Securities Exchange is based on the total issued capital of the Company at the date of the interest.

STOCK EXCHANGE LISTING

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

ON-MARKET BUYBACK

There is no current on-market buyback

DIRECTORY

REGISTERED OFFICE

Level 9
37 York Street
Sydney NSW 2000

DIRECTORS

Paul Clitheroe AM (Chairman)
Ron Hodge (Managing Director)
Michael Shepherd AO (Lead Independent Non-Executive Director)

COMPANY SECRETARY

Grant Winberg

SHARE REGISTRY

Boardroom Pty Limited
Level 12
225 George Street
Sydney NSW 2000

SHAREHOLDER ENQUIRIES

Telephone: +61 2 9290 9600
Email: enquiries@boardroomlimited.com.au

AUDITORS

Ernst & Young
200 George Street
Sydney NSW 2000

Telephone: +61 2 9248 5555
Facsimile: +61 2 9248 5959



InvestSMART   
GROUP LIMITED

InvestSMART Group Limited
PO Box 744
Queen Victoria Building
NSW 1230, Australia
Phone: 1300 880 160
Email: support@investsmart.com.au
www.investsmart.com.au

For personal use only