

Appendix 4E (ASX Listing Rule 4.3A)
PRELIMINARY FINAL REPORT
Year ended 30 June 2018
(previous corresponding period: 30 June 2017)

INVESTSMART GROUP LIMITED AND ITS CONTROLLED ENTITIES ABN 62 111 772 359

RESULTS FOR ANNOUNCEMENT TO THE MARKET

This Appendix 4E should be read in conjunction with InvestSMART Group Limited Audited Consolidated Financial Report and Directors' Report for the year ended 30 June 2018 lodged with the Australian Securities Exchange on 30 August 2018.

	30/06/2018	30/06/2017	Movement	Movement
	\$'000	\$'000	\$'000	%
Revenue from ordinary activities	13,454	14,218	(764)	-5%
Profit (Loss) from ordinary activities after tax for the period attributable to members	230	(22,548)	22,779	101%
Profit (Loss) for the period attributable to members	230	(22,548)	22,779	101%
Net tangible assets (cents per ordinary share)	3.84	2.28		

Supplementary information

The increase in net profit after tax is largely a result of a non-cash impairment charge of \$23.6million booked against the carrying value of goodwill in the prior corresponding period. Additional Appendix 4E disclosures and other significant information may be found in InvestSMART Group Limited Audited Consolidated Financial Report and Directors' Report for the year ended 30 June 2018 lodged with this document.

Dividend Information

It is not proposed to pay a final dividend for the year ended 30 June 2018. No interim dividend was paid for the half-year ended 31 December 2017.

Entities over which control has been lost during the period

Refer to Note 8 of the attached financial report.

Associate entities

Refer to the attached financial report Consolidated Statement of Comprehensive Income, Consolidated Statement of Financial Position and Note 8.

Independent Auditors' Report

The Consolidated Financial Report for InvestSMART Group Limited for the year ended 30 June 2018 has been audited by the Company's independent external auditor, Ernst & Young. A copy of the independent external auditor's report may be found at pages 34 to 39 of the Audited Consolidated Financial Report and Directors' Report.

InvestSMART Group Limited

ABN 62 111 772 359

**Audited Consolidated Financial Report
and Directors' Report**

for the year ended 30 June 2018

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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 2018.

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 63

Paul Clitheroe was 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. 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 68

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 Navigator Global Investments Limited (a listed investment management company) and a member of the 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 48

Ron Hodge was the founder of InvestSMART in 1999. Mr 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 in Sydney. Mr Hodge 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.

Kevin A Moore (Appointed 1 December 2017)

Independent Non-executive Director

FAICD, MCIM, JP

Age 54

Kevin Moore has multinational board and governance experience, specialising in digital marketing, and is a Growth Director with a focus on \$10 to \$100 million businesses. Mr Moore is a fellow of the Australian Institute of Company Directors and a Member of the Chartered Institute of Marketing. He holds a Diploma in International and Export Marketing from Henley, The Management College, at The University of Reading. Mr Moore was appointed to the Chair of Crossmark Asia Pacific in 2014.

Company Secretary

Peter Friend is a qualified solicitor and was appointed Company Secretary on 10 February 2014 and held office to 19 July 2017. Grant Winberg was appointed Company Secretary on 19 July 2017 and held office throughout the year. Mr Winberg is a Certified Practising Accountant and is a Fellow of the Chartered Institute of Secretaries, a Fellow of the Governance Institute of Australia and a Fellow of Australian Institute of Company Directors.

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	4,885,000
Kevin Moore	211,809

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 (1,655,556), 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 Group 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 2018 (2017: nil).

Review of operations

The table below shows the consolidated performance of the Group for the years ended 30 June 2018 and 30 June 2017. This information is presented to show the relative changes in operating income over the period.

	2018	2017
	\$	\$
Continuing operations		
Commission income	6,869,238	7,274,215
Subscription income	5,005,675	6,584,654
Funds management fees	347,667	73,844
Other income	76,904	43,895
Change in fair value of financial assets at fair value through profit and loss	1,154,339	241,297
Total Income	13,453,823	14,217,905
Total operating expenses	11,756,240	11,073,396
Profit before income tax, amortisation, impairment and employee benefit expense	1,697,583	3,144,509
Amortisation of intangibles	1,366,660	1,366,660
Employee benefit expense	353,809	424,528
Goodwill impairment	-	23,610,664
Loss before income tax	(22,886)	(22,257,343)
Income tax benefit/(expense)	253,170	(291,017)
Profit/(Loss) for the year	230,284	(22,548,360)

The net tangible asset backing of the Company as at 30 June 2018 was \$4,257,796 (2017: \$2,524,917). The net tangible asset backing per share at 30 June 2018 was \$0.0384 per share (2017: \$0.0228 per share).

The fall in commissions income was within management's expectations as clients moved to products that do not pay commissions. Subscription revenue decreased due to a reduction in subscriber numbers over the year. The Group has made investments in technology, content and brand to improve subscriber numbers and position itself at the forefront of digital financial advice. Funds management fees increased over the year as funds under management increased from \$33m (at 30 June 2017) to \$104.4m at year end. The Group was granted authorisation under one of its AFSs ("Australian Financial Services License") to issue its own managed investment schemes and launched two retail funds during the year, including an ASX listed Active Exchange Traded Fund. Change in fair value of financial assets increased over the year, however \$989,098 of the gain is an unrealised gain on the valuation of venture capital investments. Determining fair value for these assets requires the use of judgement by the Directors. Operating expenses are higher than 2017, due to an increase in marketing expenditure as the Group promotes its funds management products and digital financial advice subscriptions. A large portion of the loss in 2017 was attributable to a write down in the valuation of the goodwill assets of the Group of \$23,610,664 at 30 June 2017.

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.

Business strategies and prospects

The Group will increase its focus on increasing the number of users of its free portfolio management service, website and mobile phone application ("App"). These users are expected to convert to new subscribers and investors in its fund management products. This is expected to result in a continued increase in operating costs, particularly marketing expenditure. Retention of existing subscription members stabilised over the second half of the year. Commissions income is expected to continue to fall, albeit at a slower rate than in 2018. There is a risk of a material decline in Commissions income if there is a significant and sustained equity market fall or changes in financial services regulation that may diminish its ability to collect commissions in the future. The Group has contingency plans to reduce as many variable costs as possible in that event.

Employee Share Ownership Plan

The Company lent \$178,500 to employees of the Group to acquire 700,000 ordinary shares on 6 September 2017 (**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 employee share benefit is \$47,808 at the Grant Date.

Significant Changes in State of Affairs

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

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 2018 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	8	6	6	1	1	4	4
Ron Hodge	8	8	-	-	-	-	4	4
Michael Shepherd	8	7	6	6	1	1	-	-
Kevin Moore	5	5	-	-	-	-	-	-

Events Subsequent to Balance Date

Since 30 June 2018, there have been no significant events up to the date of this report.

Earnings (loss) per share

Basic earnings per share was 0.21 cents per share, and diluted earnings per share was 0.17 cents per share, (2017: loss of 20.33 cents per share for basic and diluted earnings).

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 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:

- (a) 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;
- (b) monitoring governance policies, practices and systems to ensure they are effective and appropriate;
- (c) 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:

- (a) 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.
- (b) Mr Paul Clitheroe is eligible to participate in the 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 second tranche vested on 8 September 2017. The remaining shares will vest on 8 September 2018. 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 first tranche of 133,333 shares vested on 28 December 2017. The remaining shares will vest in two equal tranches on the second and third anniversaries of the Grant Date.

Additional information on the remuneration of executive directors and key management personnel is given in Note 14 of the Financial Statements.

The Directors' remuneration for the year ended 30 June 2018 is detailed in the following table. There was no accrued long service leave for the Managing Director at 30 June 2018.

Name of Director	Base fee \$	Super- annuation \$	Accrued Annual Leave \$	LTIP & ESOP expense \$	Total \$
Paul Clitheroe	82,192	7,808	-	87,560	177,560
Michael Shepherd	68,493	21,507	-	-	90,000
Ron Hodge	264,450	25,123	8,324	60,620	358,517
Kevin Moore	35,000	-	-	-	35,000
TOTAL	450,135	54,438	8,324	148,180	661,077

The Directors' remuneration for the year ended 30 June 2017 is detailed in the following table.

Name of Director	Base fee	Super-annuation	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
Ron Hodge	264,252	30,518	(6,237)	122,874	411,407
TOTAL	386,546	89,839	(6,237)	124,450	594,598

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

Nigel Poole (Chief Technology Officer) and Alastair Davidson (Head of Funds Management) were considered to be Key Management Personnel for the year ended 30 June 2018. The remuneration of the key management personnel who were not Directors for the year to 30 June 2018 is shown below.

Name of KMP	Base remuneration	Super-annuation	Accrued Annual Leave	LTIP & ESOP expense	Total
	\$	\$	\$	\$	\$
Nigel Poole	211,150	20,059	(3,245)	58,361	286,325
Alastair Davidson	196,532	27,303	(5,182)	58,361	277,013

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 2017 is shown below.

Name of KMP	Base remuneration	Super-annuation	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

Shares held by Key Management Personnel and Directors for the year ended 30 June 2018

	Balance at 30 June 2017	Shares acquired / (disposed)	Shares vested	Balance at 30 June 2018
Ordinary Shares				
Paul Clitheroe	2,333,333	-	-	2,333,333
Michael Shepherd	400,000	-	-	400,000
Ron Hodge	1,588,888	118,334	1,522,222	3,229,444
Kevin Moore	-	211,809	-	211,809
Nigel Poole	1,388,888	-	1,488,889	2,877,777
Alastair Davidson	1,716,562	-	1,488,889	3,205,451

Shareholdings relating to LTIP

	Tranches	Shares acquired per Tranche	Approval or Issue date	Value at issue date	Balance at 30 June 2017	Estimated or actual vesting date	Balance at 30 June 2018
Paul Clitheroe	Tranche 1	1,333,333	26/11/2014	0.542	-	30/05/2016	-
	Tranche 2	1,333,333	26/11/2014	0.066	1,333,333	27/05/2020	1,333,333
	Tranche 3	1,333,334	26/11/2014	0.073	1,333,333	26/08/2021	1,333,334
Ron Hodge	Tranche 1	1,388,888	17/06/2015	0.077	-	8/09/2016	-
	Tranche 2	1,388,888	17/06/2015	0.083	1,388,888	8/09/2017	-
	Tranche 3	1,388,889	17/06/2015	0.088	1,388,889	8/09/2018	1,388,889
Nigel Poole	Tranche 1	1,388,888	17/06/2015	0.077	-	8/09/2016	-
	Tranche 2	1,388,888	17/06/2015	0.083	1,388,888	8/09/2017	-
	Tranche 3	1,388,889	17/06/2015	0.088	1,388,889	8/09/2018	1,388,889
Alastair Davidson	Tranche 1	1,388,888	17/06/2015	0.077	-	8/09/2016	-
	Tranche 2	1,388,888	17/06/2015	0.083	1,388,888	8/09/2017	-
	Tranche 3	1,388,889	17/06/2015	0.088	1,388,889	8/09/2018	1,388,889

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.

Shareholdings relating to ESOP

	Tranches	Shares acquired per Tranche	Approval or Issue date	Value at issue date	Balance at 30 June 2017	Actual vesting date	Balance at 30 June 2018
Ron Hodge	Tranche 1	133,333	28/12/2016	0.050	133,333	28/12/2017	-
	Tranche 2	133,333	28/12/2016	0.057	133,333	28/12/2018	133,333
	Tranche 3	133,334	28/12/2016	0.063	133,334	28/12/2019	133,334
Nigel Poole	Tranche 1	100,000	28/12/2016	0.050	100,000	28/12/2017	-
	Tranche 2	100,000	28/12/2016	0.057	100,000	28/12/2018	100,000
	Tranche 3	100,000	28/12/2016	0.063	100,000	28/12/2019	100,000
Alastair Davidson	Tranche 1	100,000	28/12/2016	0.050	100,000	28/12/2017	-
	Tranche 2	100,000	28/12/2016	0.057	100,000	28/12/2018	100,000
	Tranche 3	100,000	28/12/2016	0.063	100,000	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 2017

	Balance at 30 June 2016	Shares acquired / (disposed)	Shares vested	Balance at 30 June 2017
Ordinary Shares				
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	327,674	-	1,388,888	1,716,562

InvestSMART Group Limited
Directors' Report
For the year ended 30 June 2018

Shareholdings relating to LTIP

	Tranches	Shares acquired per Tranche	Approval or Issue date	Value at issue date	Balance at 30 June 2016	Estimated or actual vesting date	Balance at 30 June 2017
Paul Clitheroe	Tranche 1	1,333,333	26/11/2014	0.0542	1,333,333	30/05/2016	-
	Tranche 2	1,333,333	26/11/2014	0.0663	1,333,333	25/11/2018	1,333,333
	Tranche 3	1,333,334	26/11/2014	0.0733	1,333,334	26/08/2020	1,333,334
Ron Hodge	Tranche 1	1,388,888	17/06/2015	0.0767	1,388,888	8/09/2016	-
	Tranche 2	1,388,888	17/06/2015	0.0826	1,388,888	8/09/2017	1,388,888
	Tranche 3	1,388,889	17/06/2015	0.0878	1,388,889	8/09/2018	1,388,889
Nigel Poole	Tranche 1	1,388,888	17/06/2015	0.0767	1,388,888	8/09/2016	-
	Tranche 2	1,388,888	17/06/2015	0.0826	1,388,888	8/09/2017	1,388,888
	Tranche 3	1,388,889	17/06/2015	0.0878	1,388,889	8/09/2018	1,388,889
Alastair Davidson	Tranche 1	1,388,888	17/06/2015	0.0767	1,388,888	8/09/2016	-
	Tranche 2	1,388,888	17/06/2015	0.0826	1,388,888	8/09/2017	1,388,888
	Tranche 3	1,388,889	17/06/2015	0.0878	1,388,889	8/09/2018	1,388,889

Shareholdings relating to ESOP

	Tranches	Shares acquired per Tranche	Approval or Issue date	Value at issue date	Balance at 30 June 2016	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

Unitholdings in Funds

The number of units held during the year by each Director and KMP in funds for which InvestSMART Funds Management Ltd acts as Responsible Entity:

	Balance at 30 June 2017	Units acquired	Balance at 30 June 2018
InvestSMART Australian Small Companies Fund			
Directors:			
Paul Clitheroe	-	83,794	83,794
Michael Shepherd	-	21,329	21,329
Ron Hodge	-	43,497	43,497
InvestSMART Australian Equity Income Fund			
Directors:			
Ron Hodge	-	40,000	40,000
Kevin Moore	-	10,000	10,000
Other KMP:			
Alastair Davidson	-	32,000	32,000

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

This concludes the Remuneration Report which has been audited.

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 2018 has been received and can be found on page 10.

Signed in accordance with a resolution of the Directors.

A handwritten signature in black ink, appearing to read 'Paul Clitheroe', written in a cursive style.

Paul Clitheroe
Chairman
Dated this 29th day of August 2018 at Sydney

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 2018, 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



Mark Jones
Partner
29 August 2018

InvestSMART Group Limited
Consolidated Statement of Comprehensive Income
For the year ended 30 June 2018

Consolidated Statement of Comprehensive Income

		2018	2017
	Notes	\$	\$
Commission income		6,869,238	7,274,215
Subscription income		5,005,675	6,584,654
Funds management fees		347,667	73,844
Interest		36,669	34,997
Other income		40,235	8,898
Net gain on financial instruments at fair value through profit and loss	3	1,154,339	241,297
Total Income		13,453,823	14,217,905
Share of net loss of associate		4,703	-
Accounting and administrative costs		216,116	187,305
Audit fees	19	166,169	133,560
Business insurance		162,037	143,217
Commission rebates		1,920,662	1,983,032
Directors' fees		215,000	181,616
Employee costs		5,537,570	5,747,665
Legal and statutory expenses		88,508	92,180
Market data costs		722,080	702,732
Marketing and advertising		1,897,204	832,202
Other expenses		367,860	497,647
Rent		320,881	367,968
Travel and accommodation		36,631	89,909
Depreciation and amortisation		1,467,479	1,481,023
Employee benefit expense	5	353,809	424,528
Goodwill impairment		-	23,610,664
Total expenses		13,476,709	36,475,248
Loss before income tax		(22,886)	(22,257,343)
Income tax benefit/(expense)	6	253,170	(291,017)
Profit/(loss) for the year		230,284	(22,548,360)
Other comprehensive income, net of income tax		-	-
Total comprehensive profit/(loss) for the year		230,284	(22,548,360)
Basic earnings/(loss) per share (cents per share)	16	0.21	(20.33)
Diluted earnings/(loss) per share (cents per share)	16	0.17	(20.33)

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

InvestSMART Group Limited
Consolidated Statement of Financial Position
As at 30 June 2018

Consolidated Statement of Financial Position

		2018	2017
	Notes	\$	\$
ASSETS			
Cash and cash equivalents		4,565,772	4,935,046
Trade and other receivables	7	666,230	602,697
Prepayments and deposits		155,574	271,888
Investment in associate	8	384,475	-
Financial assets at fair value through profit and loss	4	2,251,177	2,053,481
Fixed assets, including software less accumulated depreciation	9	237,368	294,478
Deferred tax asset	6	274,101	455,311
Intangibles	10	6,255,450	7,622,110
Total assets		14,790,147	16,235,011
LIABILITIES			
Trade and other payables	11	1,251,543	2,000,923
Subscriptions received in advance		1,601,560	2,422,358
Trail commissions to rebate		1,149,697	1,209,391
Deferred tax liability	6	1,720,249	2,119,333
Total liabilities		5,723,049	7,752,006
Net assets		9,067,098	8,483,005
EQUITY			
Issued capital	13	58,522,440	58,522,440
Employee Benefit reserve	5	1,443,339	1,089,530
Retained losses		(50,898,681)	(51,128,965)
Total equity		9,067,098	8,483,005

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

InvestSMART Group Limited
Consolidated Statement of Changes in Equity
For the year ended 30 June 2018

Consolidated Statement of Changes in Equity

	Notes	Issued Capital \$	Retained losses \$	Employee Benefit Reserve \$	Total Equity \$
Balance at 30 June 2016		58,522,440	(28,580,605)	665,002	30,606,837
Comprehensive loss for the year		-	(22,548,360)	-	(22,548,360)
Employee benefit share reserve	5	-	-	424,528	424,528
Balance at 30 June 2017		<u>58,522,440</u>	<u>(51,128,965)</u>	<u>1,089,530</u>	<u>8,483,005</u>
Comprehensive income for the year		-	230,284	-	230,284
Employee benefit share reserve	5	-	-	353,809	353,809
Balance at 30 June 2018		<u>58,522,440</u>	<u>(50,898,681)</u>	<u>1,443,339</u>	<u>9,067,098</u>

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

InvestSMART Group Limited
Consolidated Statement of Cash Flows
For the year ended 30 June 2018

Consolidated Statement of Cash Flows

	2018	2017
	\$	\$
Cash flows from operating activities		
Notes		
Receipts from customers	12,226,972	13,958,126
Payments to suppliers and employees	(12,398,118)	(13,488,084)
Interest received	36,669	34,997
Income tax paid	(758,553)	(276,643)
Net cash from/(used in) operating activities	15(a) (893,030)	228,396
Cash flows from investing activities		
Proceeds from sale of investments	908,286	210,180
Purchase of investments and subsidiary	(250,000)	(383,913)
Effect of loss of control of subsidiary	(90,821)	-
Purchase of fixed assets	(43,709)	(144,501)
Dividends received	-	3,166
Rental deposit	-	34,891
Net cash from/(used in) investing activities	523,756	(280,177)
Cash flows from financing activities	-	-
Net cash inflow from financing activities	-	-
Net decrease in cash and cash equivalents	(369,274)	(51,781)
Cash and cash equivalents at beginning of the year	4,935,046	4,986,827
Cash and cash equivalents at the end of the year	15(b) 4,565,772	4,935,046

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 8 (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 2018. 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

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 29 August 2018. 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

The Group has a performance obligation 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. Funds management fees are recognised based on net assets under management at the end of each day. Revenue is recognised as the performance obligation is satisfied. Management has assessed the impact of applying the new standard on the Group's financial statements will not be material from the adoption date of 1 July 2018.

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 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 17. 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 ventures 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. 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 fair value of derivatives that are not exchange traded is estimated based on most recent transactions. Where no recent transactions are available fair value is determined by applying a binomial option pricing model, which takes into account current market conditions (volatility and interest rates). 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 2018 and the results of all subsidiaries for the period from 1 July 2017 to 30 June 2018, with the exception of InvestSMART Australian Small Companies Fund (previously Intelligent Investor Small Caps Fund), whose results are included to the date that control ceased, 7 September 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 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.

Associates

An associate is an entity over which the Group exercises significant influence. Significant influence is the power to participate in the financial and operating policy decisions of the investee but is not control or joint control of those policies. Investments in associates are accounted for using the equity method of accounting. The equity method is a method of accounting whereby the investment is initially recognised at cost and adjusted thereafter for the post-acquisition change in the investor's share of the investee's net assets. The investor's profit or loss includes its share of the investee's profit or loss and the investor's other comprehensive income includes its share of the investee's other comprehensive income. Dividends or distributions received or receivable from an associate reduce the carrying value of the investment. Where an associate was previously a controlled entity of the Group, the deemed cost for applying the equity method is the fair value on the date that the Group ceased to have a controlling interest.

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

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.

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 an allowance for expected credit losses (ECLs) for all debt instruments not held at fair value through profit or loss. ECLs are based on the difference between the contractual cash flows due in accordance with the contract and all the cash flows that the Group expects to receive, discounted at an approximation of the original effective interest rate. The expected cash flows will include cash flows from the sale of collateral held or other credit enhancements that are integral to the contractual terms.

Under the general approach for credit exposures for which there has not been a significant increase in credit risk since initial recognition, ECLs are provided for credit losses that result from default events that are possible within the next 12-months (a 12-month ECL). For those credit exposures for which there has been a significant increase in credit risk since initial recognition, a loss allowance is required for credit losses expected over the remaining life of the exposure, irrespective of the timing of the default (a lifetime ECL).

For trade receivables and contract assets, the Group applies a simplified approach in calculating ECLs. Therefore, the Group does not track changes in credit risk, but instead recognises a loss allowance based on lifetime ECLs at each reporting date.

The Group considers a financial asset to be in default when internal or external information indicates that the Group is unlikely to receive the outstanding contractual amounts in full before taking into account any credit enhancements held by the Group. A financial asset is written off when there is no reasonable expectation of recovering the contractual cash flows.

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).

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.

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.

Funds management fees

Management fees are recognised over the period the service is provided based on a percentage of net assets under management of the fund. Performance fees are recognised when the right to receive payment has been established. There were no performance fees paid or payable for the year ended 30 June 2018 (2017: \$3,151).

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. Realised gains and losses are calculated as the difference between the consideration received and the fair value at the previous year end.

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:

Computer and office equipment	2-4 years
Network and production equipment	3-4 years
Leasehold improvements	shorter of the expected fitout life or lease term (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 earnings/loss per share is 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.

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.

3. Change in fair value of financial assets at fair value through profit and loss

	2018	2017
	\$	\$
Net realised gain on investments	165,242	69,218
Net unrealised gain on investments	989,098	172,079
	<u>1,154,339</u>	<u>241,297</u>

4. Financial assets held at fair value

	2018	2017
	\$	\$
AWI Ventures investee companies	1,808,520	1,573,000
Investments in Separately Managed Accounts	192,657	182,124
Derivatives	250,000	-
Investments in Equity Securities	-	298,357
Financial assets at fair value through profit and loss	<u>2,251,177</u>	<u>2,053,481</u>

The Separately Managed Accounts are issued by Praemium Australia Limited as the responsible entity and managed by InvestSMART Financial Services Pty Ltd. Derivatives consists of a purchased call option to acquire 100% of an unlisted company for \$3,750,000 exercisable between the third and fourth anniversary date of entering the share option deed. The transaction price paid for the call option (\$250,000) is considered to be fair value at 30 June 2018. Further information on the fair value determination and the risk exposures of financial assets held at fair value is provided in Note 12.

5. Employee benefit reserve

	2018	2017
	\$	\$
Long Term Incentive Plan (LTIP)	1,264,334	1,022,025
Employee Share Ownership Scheme (ESOP)	179,005	67,505
	<u>1,443,339</u>	<u>1,089,530</u>
Opening balance	1,089,530	665,002
Expense	353,809	424,528
Closing balance	<u>1,443,339</u>	<u>1,089,530</u>

The cost of the LTIP shares, ESOP shares and Company issued options have been estimated using the Monte-Carlo simulation or Black-Scholes methodology and amortised over the applicable vesting period. A summary of the terms of the issues are included in the Directors' Report and Note 14.

6. Income Tax

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

	2018	2017
	\$	\$
The components of income tax expense:		
Current income tax expense	(46,495)	(787,655)
Other adjustments for prior years	81,791	73,968
Deferred tax income relating to the origination and reversal of temporary differences	217,874	271,145
Change in tax rate	-	151,525
Total income tax benefit/(expense)	<u>253,170</u>	<u>(291,017)</u>

(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 2018 and 2017 is as follows:

	2018	2017
	\$	\$
Prima facie income tax benefit calculated at 27.5% (2017: 30%) on operating loss	6,294	6,673,891
Add/(Less) tax effect of:		
Expenditure not deductible in current year	(106,543)	(134,231)
Recognition of previously unused tax losses	274,301	-
Impairment of goodwill	-	(7,083,199)
Change in tax rate	-	151,525
Adjustments for prior years	79,118	100,997
Income tax benefit/(expense)	<u>253,170</u>	<u>(291,017)</u>

(c) Deferred tax assets and liabilities

Deferred tax assets

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

Accruals and provisions not deductible in this period	175,858	236,875
Deductible capital expenditure	69,422	181,866
Tax losses carried forward	28,821	36,570
Closing balance	<u>274,101</u>	<u>455,311</u>
Movements in deferred tax assets		
Opening balance	455,311	613,248
Benefit (expense) in the income statement	<u>(181,210)</u>	<u>(157,937)</u>
	<u>274,101</u>	<u>455,311</u>

Deferred tax liabilities

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

Future tax expense for intangibles acquired	1,720,249	2,096,080
Unrealised gain on investments	-	23,253
Closing balance	<u>1,720,249</u>	<u>2,119,333</u>
Movements in deferred tax liabilities		
Opening balance	2,119,333	2,697,185
Benefit in the income statement	<u>(399,084)</u>	<u>(577,852)</u>
	<u>1,720,249</u>	<u>2,119,333</u>

A tax rate of 27.5% was applied for the year ending 30 June 2018 (2017: 30%) as the Group is classified as a small business for tax purposes. The Group expects to continue to be classified as a small business for tax purposes.

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 \$5,120,945 at 30 June 2018.

7. Trade and other receivables

	2018	2017
	\$	\$
Trade receivables	638,540	602,697
Income tax receivable	27,690	-
	<u>666,230</u>	<u>602,697</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. Controlled entities and investment in associate

(a) Controlled entities

The company exercised control over the below entities during the period:

	% owned at	
	30/06/2018	30/06/2017
Intelligent Investor Holdings Pty Ltd	100%	100%
InvestSMART Financial Services Pty Ltd	100%	100%
InvestSMART Funds Management Ltd	100%	100%
InvestSMART Advice Pty Ltd (previously Ziel Two Pty Ltd)	100%	100%
Yourshare Financial Services Pty Ltd	100%	100%
InvestSMART Insurance Pty Ltd	100%	100%
AWI Ventures Pty Ltd	100%	100%
Eureka Report Pty Ltd	100%	100%
InvestSMART Australian Small Companies Fund	3%	100%

On 1 February 2017 the InvestSMART Australian Small Companies Fund, a unit trust, was established by payment of \$350,000. InvestSMART Funds Management Limited held greater than 40% of all outstanding units in the fund from establishment date to 7 September 2017 and consolidated the operations of the fund. From 7 September 2017 to year end the holding is accounted for as an investment in associate. The Group recognised a loss of \$2,249 attributable to measuring the investment retained and accounted for as an investment in associate.

(b) Investment in associate

On 7 September 2017 management considered that the Group's ownership in The InvestSMART Australian Small Companies Fund no longer constituted control. The Fund was classified as an investment in associate and accounted for using the equity method from 7 September 2017 onwards. InvestSMART Funds Management Ltd is the Responsible Entity for the Fund and is deemed to have significant influence over the financial and operating policy decisions of the Fund. The Fund is domiciled and has its principal place of business in Australia. Below is a summary of the financial information relating to the investment in associate:

	2018
	\$
Cash and cash equivalents	2,980,826
Receivables	20,051
Financial assets held at fair value through profit or loss	10,215,628
Total assets	13,216,504
Total liabilities	88,702
Net assets attributable to unitholders	13,127,802
Group carrying amount of investment in associate	384,475
Interest income	34,028
Dividend income	147,851
Net loss on financial instruments held at fair value through profit and loss	(1,081,253)
Total investment income	(899,374)
Total expenses	148,530
Operating profit/(loss)	(1,047,904)

9. Fixed assets including software

	Plant and equipment	Software	Total
	\$	\$	\$
Cost at 30 June 2016	185,490	211,790	397,280
Additions	145,897	-	145,897
Disposals	(394)	-	(394)
Cost at 30 June 2017	330,993	211,790	542,783
Additions	43,709	-	43,709
Cost at 30 June 2018	374,702	211,790	586,492
Accumulated depreciation at 30 June 2016	10,172	122,768	132,940
Depreciation charge for the period	79,509	35,856	115,365
Accumulated depreciation at 30 June 2017	89,681	158,624	248,305
Depreciation charge for the period	47,819	53,000	100,819
Accumulated depreciation at 30 June 2018	137,500	211,624	349,124
Net book value at 30 June 2017	241,312	53,166	294,478
Net book value at 30 June 2018	237,202	166	237,368

10. Intangibles

	Fund distribution contracts	Subscriber lists	Total
	\$	\$	\$
Balance at 30 June 2016	7,457,900	1,530,870	8,988,770
Amortisation	877,400	489,260	1,366,660
Balance at 30 June 2017	6,580,500	1,041,610	7,622,110
Amortisation	877,400	489,260	1,366,660
Balance at 30 June 2018	5,703,100	552,350	6,255,450

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.

11. Trade and other payables

	2018	2017
	\$	\$
Trade payables	151,757	29,189
Annual leave provision	234,760	208,396
Long service leave provision	125,003	65,623
PAYG and superannuation payables	148,121	136,255
GST payable	130,520	252,686
Accruals	308,355	319,780
Other payables	153,027	222,835
Tax payable	-	766,159
	1,251,543	2,000,923

Trade payables are non-interest bearing and unsecured. Payment duration is disclosed in Note 12.

12. Financial risk management

The Group's financial instruments consist mainly of deposits with banks, accounts receivable, accounts payable, investments in unlisted equities and derivatives 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)

(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 2018.

Credit risk is managed as shown in Note 7 with respect to receivables. 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. 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 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 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	Less than 3 months	3 to 12 months	1 to 5 years	Total
At 30 June 2018:	\$	\$	\$	\$	\$
Trade and other payables	-	692,395	395,271	163,877	1,251,543
Subscriptions received in advance	-	749,517	820,967	31,076	1,601,560
Trail commissions due to customers	-	561,417	588,280	-	1,149,697
Total	-	2,003,329	1,804,518	194,953	4,002,800
At 30 June 2017:					
Trade and other payables	-	1,641,423	293,877	65,623	2,000,923
Subscriptions received in advance	-	147,396	1,983,794	291,168	2,422,358
Trail commissions due to customers	-	371,347	838,044	-	1,209,391
Total	-	2,160,166	3,115,715	356,791	5,632,672

(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 \$124,959 and \$253,318 respectively (2017: \$102,674 and \$205,348 respectively).

The Group is 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.

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 at year end would have increased the Group's profit by \$34,243 (2017: \$37,013). A decrease of 75 basis points would have an equal but opposite effect.

At 30 June 2018, the Group's exposure to interest rate risk and the effective weighted average interest rate for each class of asset and liability is set out in the table below:

	Weighted average interest rate (% pa)	Floating interest rate \$	Non- interest bearing \$	Total \$
Assets				
Cash assets	0.7	3,292,712	1,273,060	4,565,772
Trade and other receivables		-	666,230	666,230
Prepayments and deposits		-	155,574	155,574
Financial assets at fair value through profit and loss		-	2,251,177	2,251,177
		<u>3,292,712</u>	<u>4,346,041</u>	<u>7,638,753</u>
Liabilities				
Trade and other payables		-	1,251,543	1,251,543
Trail commissions due to customers		-	1,149,697	1,149,697
Subscriptions received in advance		-	1,601,560	1,601,560
		-	4,002,800	4,002,800
Net assets/(liabilities)		<u>3,292,712</u>	<u>343,241</u>	<u>3,635,953</u>

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

	Weighted average interest rate (% pa)	Floating interest rate \$	Non- interest bearing \$	Total \$
Assets				
Cash assets	0.8	4,465,970	469,076	4,935,046
Trade and other receivables		-	602,697	602,697
Prepayments & deposits		-	271,888	271,888
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>
Liabilities				
Trade and other payables		-	2,000,923	2,000,923
Trail commissions due to customers		-	1,209,391	1,209,391
Subscriptions received in advance		-	2,422,358	2,422,358
		-	5,632,672	5,632,672
Net assets/(liabilities)		<u>4,465,970</u>	<u>(2,235,530)</u>	<u>2,230,440</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.

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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 2018:

	Level 1	Level 2	Level 3	Total
	\$	\$	\$	\$
At 30 June 2018				
Financial assets				
Investments in Separately Managed Accounts	-	192,657	-	192,657
AWI Ventures investee companies	-	-	1,808,520	1,808,520
Derivatives	-	-	250,000	250,000
Financial assets held at fair value through profit or loss	-	192,657	2,058,520	2,251,177
At 30 June 2017				
Financial assets				
Investments in Equity Securities	298,357	-	-	298,357
Investments in Separately Managed Accounts	-	182,124	-	182,124
AWI Ventures investee companies	-	-	1,573,000	1,573,000
Financial assets held at fair value through profit or loss	298,357	182,124	1,573,000	2,053,481

During the reporting period ending 30 June 2018 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 7 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.

The Group purchased a call option (derivative) over an unlisted business on 14 June 2018. At year end the transaction price for the call option is considered to be an appropriate proxy for fair value.

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

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

	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
Call option	Director's valuation	Last traded price of derivative	N/A	An issue of new equity, trade in existing equity, changes in interest rates, volatility, dividends at a higher or lower amount may have significant effect on fair value under option pricing models

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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:

Fair Value at 30 June 2017	1,573,000
Disposal of unlisted equities (fair value at 30 June 2017)	(743,045)
Unrealised gain through profit and loss	978,565
Purchase of call option (derivative)	<u>250,000</u>
Balance at 30 June 2018	<u>2,058,520</u>

13. Issued capital

	2018		2017	
	Shares	\$	Shares	\$
Fully paid ordinary share capital	<u>110,885,360</u>	<u>58,522,440</u>	<u>110,885,360</u>	<u>58,522,440</u>

An additional 16,499,998 shares were issued, as part of the LTIP detailed in Note 5 and Note 14. A portion of the Long-Term Incentive Plan shares issued to Ron Hodge, Nigel Poole and Alastair Davidson on 8 September 2015, vested on 8 September 2016 and 8 September 2017. A portion of the Long-Term Incentive Plan shares issued to Paul Clitheroe on 26 November 2014, vested on 26 November 2017. 6,833,334 shares remain unvested at 30 June 2018. The vested shares have a non-recourse loan outstanding.

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. 1,585,000 ESOP shares were forfeited and cancelled at 30 June 2018. 1,411,658 of these shares vested on 28 December 2017. On 6 September 2017 the Company issued 700,000 shares under the ESOP to 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.

(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 2018 and 30 June 2017.

14. Related party information

(a) Key management personnel

Ron Hodge, Nigel Poole and Alastair Davidson were key management personnel of the Group during the financial year.

(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
2018	672,132	72,485	(103)	177,342	921,856
2017	671,710	81,545	(2,704)	366,304	1,116,855

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.

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 has vested, though the associated non-recourse loan has not been repaid, and therefore has not been included in fully paid ordinary share capital. The remaining tranches have not vested and therefore have not been included in fully paid ordinary 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 12,499,998 shares, as part of the Long-Term Incentive Plan as approved by shareholders at the Extraordinary General Meeting in June 2015. These shares were issued on 8 September 2015 and vest in three equal tranches over three years. The first tranche of these shares vested on 8 September 2016 and the second tranche vested on 8 September 2017. The associated non-recourse loan has not been repaid, and therefore has not been included in fully paid ordinary share capital. The remaining tranche has not vested and therefore has not been included in fully paid ordinary 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 and vest in three equal tranches over three years. The first tranche of these shares vested on 28 December 2017 (1,411,658 shares). The associated non-recourse loan has not been repaid, and therefore has not been included in fully paid ordinary share capital. The remaining tranches have not vested and therefore have not been included in fully paid ordinary share capital. 1,650,000 ESOP shares were forfeited and cancelled at 30 June 2018. The Company estimates the fair value of this director/employee share benefit is \$329,716 at the Grant Date.

On 6 September 2017 the Company lent \$178,500 to employees of the Group to acquire 700,000 ordinary shares under the ESOP. The shares were issued on the Grant Date and vest in three equal tranches over three years. These shares have not vested and therefore have not been included in share capital. The Company estimates the fair value of this employee share benefit is \$47,808 at the Grant Date.

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

Ordinary Shares	Balance at 30 June 2016	Shares acquired	Balance at 30 June 2017	Shares acquired	Balance at 30 June 2018
Ron Hodge	4,166,666	600,000	4,766,666	118,334	4,885,000
Alastair Davidson	4,494,340	300,000	4,794,340	-	4,794,340
Nigel Poole	4,166,666	300,000	4,466,666	-	4,466,666

15. Statement of Cash Flows

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

	2018	2017
	\$	\$
Operating profit/(loss)	230,284	(22,548,360)
Adjustments to reconcile profit after tax to net cash flows:		
Net gain/loss on financial instruments at fair value through profit and loss	(1,154,339)	(241,298)
Employee benefit expense	353,809	424,528
Depreciation and amortisation	1,467,479	1,481,023
Share of net profit of associate	4,703	-
Decrease in deferred tax asset	181,210	157,937
Decrease in deferred tax liability	(399,084)	(577,852)
Dividend income	-	(3,166)
Change in goodwill through income statement	-	23,610,664
Change in operating assets and liabilities:		
(Increase)/decrease in trade and other receivables	(63,533)	19,682
Decrease/(Increase) in prepayments	116,314	(80,757)
Decrease in trade and other payables	(1,629,873)	(2,014,005)
Net cash from operating activities	<u>(893,030)</u>	<u>228,396</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:

	2018	2017
	\$	\$
Cash at bank	<u>4,565,772</u>	<u>4,935,046</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.

16. Earnings/(loss) per share

	2018	2017
	cents	cents
Basic earnings per share (cents per share)	<u>0.21</u>	<u>(20.33)</u>
Diluted earnings per share (cents per share)	<u>0.17</u>	<u>(20.33)</u>
Earnings gain/(loss) as per Statement of Consolidated Income	<u>230,284</u>	<u>(22,548,360)</u>
Weighted average number of ordinary shares outstanding during the year used in calculating basic earnings per share	<u>110,885,360</u>	<u>110,885,360</u>
Weighted average number of ordinary shares outstanding during the year used in calculating diluted earnings per share if all LTIP shares vest and non-recourse loans are repaid	<u>132,320,358</u>	<u>132,820,362</u>

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.

17. Contingent liabilities and commitments

At 30 June 2018, InvestSMART Group Limited had commitments for an office lease at Level 9, 37 York Street, Sydney, and Level 4, 356 Collins St, Melbourne for the following amounts:

	2018	2017
	\$	\$
Within one year	369,362	313,374
After one year but less than five years	401,512	650,415
Total	<u>770,874</u>	<u>963,789</u>

At 30 June 2018 InvestSMART Group Limited has the following contingent liabilities:

Guarantees for office rentals	187,778	187,778
Guarantee for merchant facility	351,000	351,000
	<u>538,778</u>	<u>538,778</u>

18. Franking account

	2018	2017
	\$	\$
Opening balance of franking account	2,210,875	1,887,279
Adjustments for tax payment and tax payable/refundable in respect of the prior year's profits	758,220	323,596
Adjusted franking account balance	<u>2,969,095</u>	<u>2,210,875</u>

19. Auditors remuneration

	2018	2017
	\$	\$
Auditing and reviewing the financial reports of the Group and managed investment schemes:		
Ernst and Young - audit fees	<u>166,169</u>	<u>133,560</u>

20. Parent Entity Information

	2018	2017
	\$	\$
Statement of Financial Position		
Assets		
Current assets	128,260	128,260
Investments	4,745,948	5,474,546
Total Assets	<u>4,874,208</u>	<u>5,602,806</u>
Liabilities		
Current Liabilities	-	653,824
Total Liabilities	<u>-</u>	<u>653,824</u>
Net Assets	<u>4,874,208</u>	<u>4,948,982</u>
Equity		
Contributed Equity	58,522,441	58,522,441
Employee benefit reserve	1,443,339	1,085,245
Retained earnings	(55,091,572)	(54,658,704)
Total Equity	<u>4,874,208</u>	<u>4,948,982</u>
Statement of Profit or Loss and other Comprehensive Income		
Net loss for the year after income tax expense	432,868	21,526,639
Total Comprehensive loss for the year	<u>432,868</u>	<u>21,526,639</u>

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 2018, InvestSMART Group Limited had commitments for an office lease at Level 9, 37 York Street, Sydney, and Level 4, 356 Collins St, Melbourne, for \$770,874 (2017: \$963,789).

21. Segment information

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

22. Events occurring after reporting date

Since 30 June 2018 there have been no significant events up to the date of these financial statements.

23. 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 2018 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 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 2018.

On behalf of the Board



Paul Clitheroe
Chairman
Dated this 29th day of August 2018 at Sydney

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 2018, 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 2018 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 Intangible Assets

Financial report reference: Note 10

Why significant

The Group holds intangible assets in respect of the following:

- ▶ Fund distribution contracts and subscriber lists acquired as part of a business combination on 1 January 2015; and
- ▶ Subscriber lists acquired as part of the acquisition of Eureka on 4 April 2016.

The fund distribution contracts are being amortised over a 10 year period.

Subscriber lists are being amortised over either a three or five year period.

The carrying value of the intangible assets as at 30 June 2018 was \$6.2 million.

The Group performs an annual assessment considering whether any indicators of impairment are present in respect of these intangible assets.

Given the judgments involved in this assessment and in the determination of amortisation periods applied to the intangible assets, this was considered to be a key audit matter.

How our audit addressed the key audit matter

Our audit procedures included the following:

- ▶ Assessed the methodology applied by the Group to consider whether indicators of impairment were present, with reference to the requirements of Australian Accounting Standards.
- ▶ Considered whether attrition rates of fund distribution contract arrangements and subscribers and considered whether they suggested an indicator of impairment was present or whether amortisation periods required adjustment.
- ▶ Considered whether actual costs incurred in maintaining fund distribution contracts and subscribers would suggest an indicator of impairment was present.

Valuation of Unlisted Investments

Financial report reference: Note 4

Why significant

The Group holds investments in unlisted securities of \$1.8 million as at 30 June 2018. They comprise minority holdings in start-up companies in the financial technology sector that are carried at fair value.

The investments are classified within Level 3 of the Fair Value Hierarchy set out in Australian Accounting Standards. The nature of these entities and the sector in which they operate means that they are inherently difficult to value and require significant judgment.

Accordingly, this was considered to be a key audit matter.

How our audit addressed the key audit matter

We assessed the valuation analysis prepared by the Group and agreed inputs such as purchase price and last traded price to observable external support such as share certificates and transaction records.

We assessed the application of the three valuation methodologies used by the Group in the determination of fair value:

- ▶ Reference to recent capital transactions and any discount applied thereon, representing the Group's perspective of risk.
- ▶ Consideration of recent indicative offers received by the Group.
- ▶ Consideration of comparable market revenue multiples.

Our valuation experts were involved in the assessment of the appropriateness of the valuation methodologies applied by the Group.

We considered the adequacy of the disclosures relating to the investments within the financial report.

Valuation of Derivatives

Financial report reference: Note 4

Why significant	How our audit addressed the key audit matter
<p>The Group purchased a call option during the year to acquire 100% of an unlisted company for \$3.75 million exercisable between the third and fourth anniversary date of the purchase.</p> <p>The option was valued at \$0.25 million on the statement of financial position at balance date.</p> <p>The option is classified within Level 3 of the Fair Value Hierarchy. The valuation option model includes material inputs which are subjective in nature.</p>	<p>We assessed the determination of fair value prepared by the Group. We agreed inputs such as exercise price of shares on issue and recent share issuance price to observable external support such as share subscriptions and share sale agreements. We assessed valuation discounts applied and compared them to available market information for reasonableness. Our valuation specialists were involved in the performance of these procedures.</p> <p>We considered the adequacy of the disclosures relating to the option within the financial report.</p>

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 Group's 2018 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, with the exception of the Remuneration Report and our related assurance opinion.

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 on the other information obtained prior to the date of this auditor's report, 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 5 to 8 of the directors' report for the year ended 30 June 2018.

In our opinion, the Remuneration Report of InvestSMART Limited for the year ended 30 June 2018, 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



Mark Jones
Partner
Sydney
29 August 2018