

Starting conversations

adcorp



Friday 31 August 2018

**Adcorp Australia Ltd
Full Year Results to June 2018**

Adcorp recorded a loss before income tax for the year to 30 June 2018 of \$2,109,626 (30 June 2017: loss of \$1,490,980). The Company experienced a decrease in billings through the year, despite this revenue margin improved 9% over the prior period due to the focus on margin growth across the entire Company.

As a result of overall business performance, the Company implemented a number of programs in the second half designed to deliver more profitable revenue streams by restructuring our operations and better aligning expenses to revenues. The business was restructured along three key divisional areas – sales/account management, agency solutions and operations – this has resulted in improved accountabilities and the ability to deliver to our client needs, improved margins and has developed our forecasting capability.

This has also led us to review all our client accounts to ensure they provide long term profitability for the Company, while ensuring we are able to provide our clients with real, value-add services which ultimately and demonstrably help accelerate their businesses. Clearly there is more work to be done in this space for the Australian Agency part of our business as we progress into FY19 and we look to continue to evolve the strategy and reshape the business to deliver a profitable outcome for shareholders.

The New Zealand component of our business continues to deliver its employee branding services to blue chip clients providing a positive alternate revenue stream to traditional transactional employment advertising, which has historically underpinned the business in that market. Our shareholding in Quadrant Creative continues to work well with this business increasing their footprint from South East Queensland to other states where they provide market leading residential property marketing services.

Showrunner continued to specialise in factual documentary making and its three initial series are continually being marketed by our distribution partners globally. In 2018 Showrunner achieved significant growth with the completion and delivery of 24 factual documentary episodes for a global streaming broadcaster. 72 Dangerous Animals Latin America commenced screening on Netflix in December 2017 and will be followed by 72 Dangerous Animals Asia in August 2018. Investment was required in the form of technology services and equipment to support the delivery of these programs and this will subsequently benefit other productions. Additional programs are currently in development and we are working with international distributors on the pre-sales of these concepts.

Shootsta Holdings Pty Ltd (15% Investment)

Shootsta is an innovative start-up providing its clients with filming equipment and an editing hub that allows the rapid turnaround of high-quality video content. The financial year saw rapid overseas expansion of the Shootsta business with their geographic footprint expanding to Asia, the United Kingdom and the United States. Sales teams have been formed in these regions and brand awareness is growing as are sales volumes. These international teams are backed by the Australian operations which continue to perform to expectations.

Dentsu Mitchell Media Dispute

During the financial year we finalised our substantial evidence in this dispute and we remain confident in the strength of our case. The matter is ongoing.

Financing

The Company has had a debtor finance facility in place with Cashflow Finance Australia Pty Ltd, previously 1st Cash Pty Ltd, trading as Thorn Trade and Debtor Finance (“Thorn”) since December 2016. The facility has been operating effectively and will be maintained to fund working capital requirements over the next twelve months.

The Company also has ongoing access to a \$750,000 loan from Millennium Company Pty Ltd ATF The Rodwell (New Millennium) Trust.

Financial Performance

The loss for the Consolidated Entity after providing for income tax and non-controlling interest amounted to \$2,109,626 (30 June 2017: loss of \$1,490,980).

The loss before income tax and non-controlling interest amounted to \$2,362,185 with a loss in the first half of \$788,189 and subsequently in the second half of \$1,573,996.

Total billings of \$45,010,350 were down 12% from \$51,210,238. Net Operating Revenues (including Production Revenue, excluding rental income and interest) decreased 4% to \$12,786,202 from \$13,301,528 in the prior period, while revenue margins increased 9% to 28.4%.

Total operating expenses increased by \$761,978 (up 5% against prior period) to \$15,103,358 due to an increase in TV Production costs of \$1,473,925.

Administration, Office and Communication costs decreased \$222,863 (down 6% against prior period) from \$3,569,203 to \$3,346,340. This was achieved through ongoing initiatives to reduce IT service contracts costs and reviewing contracts with all other vendors.

Client Service labour costs decreased \$485,703 (down 5% against prior period) from \$9,443,748 to \$8,958,045 on the prior period. This reduction is the result of ongoing analysis of existing resources to ensure efficient utilisation.

The Consolidated entities cash balance as at 30 June 2018 of \$1,466,553 declined from \$3,054,760 as at 30 June 2017. This is primarily due to \$1,929,566 cash payments towards TV projects completed by Showrunner; prior year cash payment was \$196,289. Net Cash outflows from operating activities increased from \$112,927 to \$476,323. This was due to increased TV production

costs and offset by savings in employment and rental costs. The Consolidated entities continue to focus on managing cashflow through ongoing cost reductions and rigour in cash collections.

The next financial year is expected to see increased contributions to the Company's revenues from our investments in both Showrunner and Shootsta and this along with a stabilisation of our Agency business through the series of initiatives designed to remove unprofitable revenues, reduce cost and allow the Company to be confident that financial performance will improve.

The Board has determined that no dividends will be payable to shareholders for the year ended 30 June 2018 and will review this position once the Company demonstrates sustained profit and cashflow growth.

The attached financial statements detail the performance and financial position of the Consolidated Entity for the year ended 30 June 2018.

~ends~

For further information, please contact:
Alex Parsons
Chief Executive Officer & Managing Director
Adcorp Australia Limited
+ 61 2 8524 8500
alexparsons@adcorp.com.au

Adcorp Australia Limited
Appendix 4E
Preliminary final report

1. Company details

| | |
|-------------------|---------------------------------|
| Name of entity: | Adcorp Australia Limited |
| ABN: | 72 002 208 915 |
| Reporting period: | For the year ended 30 June 2018 |
| Previous period: | For the year ended 30 June 2017 |

2. Results for announcement to the market

| | | | \$ |
|--|------|----------|-------------|
| Revenues from ordinary activities | down | 3.9% to | 12,786,202 |
| Loss from ordinary activities after tax attributable to the owners of Adcorp Australia Limited | down | 41.5% to | (2,109,626) |
| Loss for the year attributable to the owners of Adcorp Australia Limited | down | 41.5% to | (2,109,626) |

Dividends

There were no dividends paid, recommended or declared during the current financial period.

Comments

The loss for the Consolidated Entity after providing for income tax and non-controlling interest amounted to \$2,109,626 (30 June 2017: \$1,490,980).

For detailed commentary on results for the year, refer to the Full Year Results announcement preceding this Appendix 4E.

3. Net tangible assets

| | Reporting period Cents | Previous period Cents |
|---|------------------------------|-----------------------------|
| Net tangible assets per ordinary security | <u>(2.19)</u> | <u>(0.73)</u> |

4. Control gained over entities

Not applicable.

5. Loss of control over entities

Not applicable.

6. Dividends

Current period

There were no dividends paid, recommended or declared during the current financial period.

Previous period

There were no dividends paid, recommended or declared during the previous financial period.

7. Dividend reinvestment plans

Not applicable.

8. Details of associates and joint venture entities

| Name of associate / joint venture | Reporting entity's percentage holding | | Contribution to profit/(loss) (where material) | |
|--|---------------------------------------|-------------------|--|--------------------|
| | Reporting period % | Previous period % | Reporting period \$ | Previous period \$ |
| Shootsta Holdings Pty Ltd (Associate) | 15.00% | 15.00% | (45,029) | (46,930) |
| HR by the Hour Pty Ltd (Joint Venture) | 50.00% | 50.00% | - | - |
| <i>Group's aggregate share of associates and joint venture entities' profit/(loss)</i> | | | | |
| Profit/(loss) from ordinary activities before income tax | | | (45,029) | (46,930) |

Shootsta Holdings Pty Ltd ('Shootsta'), is a 15% owned associated entity acquired on 22 July 2016 for a consideration of \$965,000 using a mix of cash and services. Adcorp also took a seat on the Shootsta board as part of the transaction. Shootsta is a company that empowers companies to create their own professional videos using a Shootsta kit. This investment is accounted for under the equity accounting method.

HR by the Hour Pty Ltd ('HRBTH') is a 50% owned joint venture entity acquired on 14 January 2016. HRBTH provides Recruitment and HR related services. As at 30 June 2017, a \$40,000 working capital loan had been advanced to HRBTH. The joint venture is accounted for under the equity accounting method. For the year ended 30 June 2018, the share of profit in HRBTH was nil.

9. Foreign entities

Details of origin of accounting standards used in compiling the report:

Not applicable.

10. Audit qualification or review

Details of audit/review dispute or qualification (if any):

The financial statements have been audited and an unqualified opinion has been issued.

11. Attachments

Details of attachments (if any):

The Annual Report of Adcorp Australia Limited for the year ended 30 June 2018 is attached.

12. Signed



Signed _____

Date: 31 August 2018

David Franks
Company Secretary
Sydney

Adcorp Australia Limited

ABN 72 002 208 915

Annual Report - 30 June 2018

Adcorp Australia Limited
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30 June 2018

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Adcorp Australia Limited
Corporate directory
30 June 2018

| | |
|---|--|
| Directors | Ian Rodwell Alex Parsons David Morrison Dean Capobianco |
| Company secretary | David Franks |
| Notice of annual general meeting | The annual general meeting will be held on 19 November 2018 at 12pm at: Grant Thornton Level 17 383 Kent Street Sydney NSW 2000 |
| Registered office and principal place of business | Level 2 309 George Street Sydney NSW 2000 Tel: +61 2 8524 8500 Fax: +61 2 8524 8700 |
| Share register | Computershare Investor Services Pty Limited Level 4 60 Carrington Street Sydney NSW 2000 Phone: 1300 787 272 |
| Auditor | Grant Thornton Audit Pty Ltd Level 17 383 Kent Street Sydney NSW 2000 |
| Stock exchange listing | Adcorp Australia Limited shares are listed on the Australian Securities Exchange (ASX code: AAU) |
| Website | www.adcorp.com.au |
| Corporate governance statement | <p>The Company's directors and management are committed to conducting the Consolidated Entity's business in an ethical manner and in accordance with the highest standards of corporate governance. The Company has adopted and substantially complies with the ASX Corporate Governance Principles and Recommendations (3rd Edition) ('Recommendations') to the extent appropriate to the size and nature of the Consolidated Entity's operations.</p> <p>The Company has prepared a Corporate Governance Statement which sets out the corporate governance practices that were in operation throughout the financial year, identifies any Recommendations that have not been followed, and provides reasons for not following such Recommendations.</p> <p>The Company's Corporate Governance Statement and policies, which is approved at the same time as the Annual Report, can be found on its website: www.adcorp.com.au/investors</p> |

Adcorp Australia Limited
Directors' report
30 June 2018

The Directors present their report, together with the financial statements, on the Consolidated Entity (referred to hereafter as the 'Consolidated Entity' or 'Adcorp') consisting of Adcorp Australia Limited (referred to hereafter as the 'Company' or 'parent entity') and the entities it controlled at the end of, or during, the year ended 30 June 2018.

Directors

The following persons were Directors of Adcorp Australia Limited during the whole of the financial year and up to the date of this report, unless otherwise stated:

Ian Rodwell
Alex Parsons (appointed 13 March 2018)
David Morrison
Dean Capobianco
Garry Lemair (resigned 17 October 2017)

Principal activities

During the financial year the principal continuing activities of the Consolidated Entity consisted of:

- Advertising agency services specialising in human resources, real estate, government, motor vehicle, education and retail;
- Website design, development and database support services;
- Digital marketing services and consulting, including supply of web-based products, and strategic employment solutions;
- Video production and marketing solutions; and
- Television production.

Dividends

There were no dividends paid, recommended or declared during the current or previous financial year.

Review of operations

The Company experienced a decrease in billings through the year, despite this revenue margin improved 9% over the prior period due to the focus on margin growth across the entire Company.

As a result of overall business performance, the Company implemented a number of programs in the second half designed to deliver more profitable revenue streams by restructuring our operations and better aligning expenses to revenues. The business was restructured along three key divisional areas – sales/account management, agency solutions and operations – this has resulted in improved accountabilities and the ability to deliver to our client needs, improved margins and has developed our forecasting capability.

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The Board has determined that no dividends will be payable to shareholders for the year ended 30 June 2018 and will review this position once the Company demonstrates sustained profit and cashflow growth.

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Significant changes in the state of affairs

Adcorp has had an invoice finance facility since December 2016 with Thorn. This facility was increased for a short period, effective 25 January 2018, and comprised two elements:

- Increased advance rate on debtors ledger for an eight week period to generate approximately \$200,000 additional funding; and
- \$200,000 short term loan which was repayable on or before 27 April 2018.

The increased facility was secured by Adcorp New Zealand Ltd's asset and debtors' ledger. Whilst this additional funding expired on 27 April 2018, Adcorp repaid the additional funding to Thorn out of normal operating cash flow on 19 March 2018.

On 24 January 2018, Adcorp secured a short-term loan of \$500,000 from Millennium Company Pty Ltd ATF The Rodwell (New Millennium) Trust ('Millennium'), a company associated with Adcorp's major shareholder and Chairman, Ian Rodwell. The loan bears interest at 12% per annum. The loan facility is secured by a second ranking security in favour of the lender. As this is a related party loan, Adcorp received a waiver of ASX Listing Rule 10.1 to allow the security to be granted without obtaining shareholder approval. On 27 February 2018, Millennium provided an extension of the loan until 31 March 2019. This loan was repaid in full on 29 March 2018.

On 6 June 2018, Adcorp secured a \$750,000 loan from Millennium Company Pty Ltd ATF The Rodwell (New Millennium) Trust, a company associated with Adcorp's major shareholder and Chairman, Ian Rodwell. This loan replaces the short-term loan mentioned above and will be used as required to fund working capital. The loan bears interest at 12% per annum. The Loan Facility is secured by a second ranking security in favour of the Lender. As this is a related party loan, Adcorp sought and received a waiver of ASX Listing Rule 10.1 to allow the Security to be granted without obtaining Shareholder approval under ASX Listing Rule 10.1. Consent was obtained from the Company's first secured lender, Thorn. Balance drawdown from this loan as at 30 June 2018 is zero. However should we drawdown at a later date, this loan has a repayment date of 31 March 2019.

There were no other significant changes in the state of affairs of the Consolidated Entity during the financial year.

Matters subsequent to the end of the financial year

On 7 June 2018, shareholders agreed to the provision of directors loans to certain directors to fund the issue of Share Units in the Adcorp Executive Incentive Scheme. The provision of directors loans were approved on 1 July 2018 for a total of \$1,977,600 and have interest rates of 5% per annum, however they are yet to be advanced. Interest is payable on 1 July each year commencing 1 July 2019.

On 16 August 2018, Adcorp made the decision to provide notice to terminate its Service Agreement with Colliers International as its preferred supplier of real estate advertising services. The Service Agreement will conclude on 14 December 2018.

No other matter or circumstance has arisen since 30 June 2018 that has significantly affected, or may significantly affect the Consolidated Entity's operations, the results of those operations, or the Consolidated Entity's state of affairs in future financial years.

Likely developments and expected results of operations

Print media continues to decline however this has been offset by growth in outdoor, radio and digital media advertising. The fundamental growth opportunities however remain in digital and social media channels; particularly those optimised for mobile devices and with video capability and this is one of the areas of focus for our media team that is now supported by a number of research tools that allow us to develop and deliver focused media campaigns.

Adcorp continues to focus on bringing these opportunities to our current and future clients, with the goal of delivering effective strategic marketing and communications solutions that can be measured against campaign objectives with our agency solutions teams delivering client results.

We are expanding the development of content solutions delivered to global entertainment companies through Showrunner Productions and we expect to grow its contribution to earnings over the next several years. Showrunner has now completed six series of television and is rapidly gaining a reputation for quality productions globally.

The market and economic uncertainty remains challenging however our strategic focus on delivering strategic marketing communications continued operating realignment and enhanced sales capability will start to deliver results to help us achieve profitable growth in our business and overall positive financial performance.

Adcorp Australia Limited
Directors' report
30 June 2018

We would like to acknowledge and thank all of our staff for their dedication and support while we implemented significant change across the business to deliver operational efficiencies. Adcorp's management team is committed to continue adapting to meet the challenges of a rapidly changing market within our heritage areas of business and to identify and prosecute revenue from new opportunities.

Environmental regulation

The Consolidated Entity is not subject to any significant environmental regulation under Australian Commonwealth or State law.

Information on Directors

Name: Ian Rodwell
Title: Non-Executive Chairman
Qualifications: B Com
Experience and expertise: Ian Rodwell is the founder of the Adcorp Group and held the position of Managing Director from Adcorp's inception until his retirement in January 2004. He is also a Director of the Diabetes Australia Research Trust ('DART'), an organisation responsible for the raising of funds for diabetes research and awarding of grants to medical researchers in Australia; Director of Optalert Holdings Pty Ltd, a company developing an innovative technology product to measure both alertness and drowsiness, as an aid to the global transport and mining industries.

Other current directorships: None
Former directorships (last 3 years): None
Special responsibilities: Member of the Audit Committee
Interests in shares: 135,312,960 ordinary shares
Contractual rights to shares: None

Name: Alex Parsons
Title: Chief Executive Officer and Managing Director
Qualifications: B Bus, GC Mgmt
Experience and expertise: Alex Parsons has extensive experience in both local and international businesses, most recently as Chief Digital Officer at Nine Entertainment Company. Responsible for product, marketing and sales functions, he oversaw significant growth in both revenue and profit. Mr Parsons' experience at Nine, coupled with his roles at RateCity, eBay and other consulting firms has created strength and ability to navigate markets, utilise technologies and create long term sustainable value for businesses.

Other current directorships: None
Former directorships (last 3 years): None
Special responsibilities: None
Interests in shares: None
Contractual rights to shares: 36,000,000 ordinary shares

Name: David Morrison
Title: Executive Director and Former Chief Executive Officer (until 13 March 2018)
Qualifications: B Bus (Hons)
Experience and expertise: David Morrison has over 20 years' experience in the advertising and marketing industry commencing with TMP Worldwide prior to joining Adcorp in 2003. In his 7 years managing the WA, SA and NT regions, David was responsible for diversifying the services provided by the Company and expanding into new sectors. This diversification included the formation of Adcorp's in-house TV Production facility that is based in Perth. David has also been instrumental in Adcorp's push into Government advertising from both a strategic and operational perspective along with the winning and retention of some of our largest corporate clients. David was appointed by the Board to the role of Chief Executive Officer in March 2011.

Other current directorships: None
Former directorships (last 3 years): None
Special responsibilities: Member of the Audit Committee
Interests in shares: 3,677,081 ordinary shares
Contractual rights to shares: 12,000,000 ordinary shares

Adcorp Australia Limited
Directors' report
30 June 2018

| | |
|--------------------------------------|---|
| Name: | Dean Capobianco |
| Title: | Non-Executive Director |
| Qualifications: | GC Bus.Admin |
| Experience and expertise: | Dean Capobianco has a wealth of experience in the online media environment having held senior roles with Ninemsn, Yahoo! Search Marketing and most recently as interim Chief Executive Officer with CareerOne. Dean is a director of The Trading Desk that is a licensee of China Search International; a paid search reseller for the largest search engine in China, BAIDU. |
| Other current directorships: | Managing Director of Acxiom Corporation (NASDAQ: ACXM) and Non-Executive Director of InnovaDerma PLC (EU: MLIDP) |
| Former directorships (last 3 years): | None |
| Special responsibilities: | Member of the Audit Committee |
| Interests in shares: | None |
| Contractual rights to shares: | None |

'Other current directorships' quoted above are current directorships for listed entities only and excludes directorships in all other types of entities, unless otherwise stated.

'Former directorships (in the last 3 years)' quoted above are directorships held in the last 3 years for listed entities only and excludes directorships in all other types of entities, unless otherwise stated.

Company secretary

David Franks (BEc, CA, FFin, JP) is the Company Secretary. David has over 20 years' experience in finance and accounting, initially qualifying as a Chartered Accountant with Price Waterhouse in their Business Services and Corporate Finance Divisions. Since that time, he has been CFO, Company Secretary and/or Director for numerous ASX listed and unlisted public and private companies, in a range of industries covering energy, retail, transport, financial services, mineral exploration, technology, automotive, software development and healthcare.

Meetings of Directors

The number of meetings of the Company's Board of Directors ('the Board') and of each Board committee held during the year ended 30 June 2018, and the number of meetings attended by each Director were:

| | Full Board | | Audit Committee | |
|-----------------|------------|------|-----------------|------|
| | Attended | Held | Attended | Held |
| Ian Rodwell | 12 | 12 | 2 | 2 |
| Alex Parsons | 3 | 3 | - | - |
| David Morrison | 12 | 12 | 2 | 2 |
| Dean Capobianco | 12 | 12 | 2 | 2 |
| Garry Lemair | 4 | 4 | 1 | 1 |

Held: represents the number of meetings held during the time the Director held office or was a member of the relevant committee.

The Remuneration and Nomination Committee meetings are incorporated into Board meetings.

Remuneration report (audited)

The remuneration report, which has been audited, outlines the Director and other key management personnel (executives) remuneration arrangements for the Consolidated Entity, in accordance with the requirements of the Corporations Act 2001 and its Regulations.

Key management personnel are those persons having authority and responsibility for planning, directing and controlling the activities of the entity, directly or indirectly, including all Directors.

The remuneration report is set out under the following main headings:

- Principles used to determine the nature and amount of remuneration
- Details of remuneration
- Service agreements
- Share-based compensation
- Additional disclosures relating to key management personnel

Principles used to determine the nature and amount of remuneration

The principles of the Remuneration and Nomination Committee, which is currently undertaken by the full Board of Directors (the 'Board'), is responsible for determining and reviewing compensation arrangements for the Directors, the Chief Executive Officer and the executive team. The Remuneration and Nomination Committee assesses the appropriateness of the nature and amount of emoluments of such officers on a periodic basis by reference to relevant employment market conditions with the overall objective of ensuring maximum stakeholder benefit from the retention of a high quality Board and executive team. Such officers are given the opportunity to receive their base emolument in a variety of forms including cash and fringe benefits such as motor vehicles and expense payment plans. It is intended that the manner of payment chosen will be optimal for the recipient without creating undue cost for the Consolidated Entity.

The performance of the Consolidated Entity is dependent upon the attraction, motivation and retention of highly skilled and experienced directors and executives.

To achieve this, the Consolidated Entity may embody some or all of the following principles into its remuneration framework:

- Provide competitive remuneration packages to attract highly skilled and experienced executives;
- Significant proportion of executive remuneration 'at risk', dependent upon meeting predetermined performance benchmarks;
- Performance benchmarks are aligned to the creation of shareholder value; and
- Participation in Adcorp Employee Option Plan to create long term incentives.

Additionally, the reward framework should seek to enhance executives' interests by:

- Rewarding capability and experience;
- Reflecting competitive reward for contribution to growth in shareholder wealth; and
- Providing a clear structure for earning rewards.

In accordance with best practice corporate governance, the structure of non-executive director and executive director remuneration is separate.

Non-executive directors remuneration

The constitution and the ASX Listing Rules specify that the aggregate remuneration of non-executive directors shall be determined from time to time by a general meeting. An amount not exceeding the amount determined is then allocated to the directors as agreed. The latest determination was at the Annual General Meeting held in October 2004 when the shareholders approved a maximum aggregate amount of \$250,000 per year. Non-executive directors are not entitled to performance-based bonuses.

Executive remuneration

The Consolidated Entity aims to remunerate and reward executives, based on their position and responsibility, with a level and mix of remuneration so as to:

- Reward executives for achievement of Company and Consolidated Entity, business unit and individual objectives against appropriate benchmarks;
- Align interest of executives with those of shareholders; and
- Ensure total remuneration is competitive by market standards.

Remuneration consists of the following key elements:

- Fixed remuneration;
- Variable short term incentive remuneration; and
- Variable long term incentive remuneration.

The combination of these comprises the executive's total remuneration.

Fixed remuneration, consisting of base salary, superannuation and non-monetary benefits, are reviewed annually by the Nomination and Remuneration Committee, based on individual and business unit performance, the overall performance of the Consolidated Entity and comparable market remunerations.

Executives can receive their fixed remuneration in the form of cash or other fringe benefits (for example motor vehicle benefits) where it does not create any additional costs to the Consolidated Entity and provides additional value to the executive.

The variable short-term incentives ('STI') are set covering financial and operational measures of performance. Measures include business unit and overall Consolidated Entity performances. The total potential STI available is set at a level so as to provide a sufficient incentive for the executive to achieve the operational targets of the Consolidated Entity and so that the cost to the Consolidated Entity is reasonable in the circumstances. Actual STI payments are made subject to the extent that specific targets set at the beginning of the financial year are met. Payments made are usually delivered as a cash bonus.

The variable long-term incentives ('LTI') are designed to reward executives in a manner which aligns this element of the remuneration with the creation of shareholder value. LTI grants to executives are delivered in the form of options. LTI grants are only made to executives who are able to influence the generation of shareholder wealth and thus have a direct impact on the Consolidated Entity's performance. No LTI grants were issued during the current financial year.

Consolidated Entity performance and link to remuneration

Executive fixed remuneration is directly linked to the performance of the Company and Consolidated Entity. Bonus and incentive payments are at the discretion of the Board. Incentives have not been accrued to key management personnel during the financial year under review as the performance targets were from 1 July 2018.

Executive Incentive Share Plan

On 7 June 2018, shareholders approved the Adcorp Australia Limited Executive Incentive Share Plan ('EISP') to assist in attracting, retaining and motivating key employees of the Consolidated Entity.

Eligibility

Participants in the EISP may be employees of the Consolidated Entity, a director of the Consolidated Entity, or any other person determined by the Board to be eligible to participate in the EISP.

Trust

The EISP will be operated and administered through a special purpose Trust known as the Adcorp Executive Incentive Scheme ('EIS') which will be established for the purposes of:

- issuing to certain participants share units in the EIS that carry an entitlement to receive distributions of income received from the Company and which entitle the holder to shares of the Company ('Plan Shares') upon satisfaction of certain conditions that attach to the Plan Shares ('Performance Conditions') before the participants are entitled to the Plan Shares; and
- acquiring or subscribing for and holding Plan Shares in the capital of the Company for the benefit of those participants.

Share Units

A Share Unit will entitle the holder of the Share Unit to have distributed to them in specie a certain number of Plan Shares designated as allocated shares if the performance conditions are met or in other specified circumstances.

Performance Conditions

The right of the eligible person holding Share Units to receive Plan Shares may be subject to Performance Conditions as determined by the Board.

Cessation of Employment

On cessation of employment, other than by reason of special circumstances, the Share Units will lapse and the holder will not be entitled to transfer the allotted shares.

Issue Price

The issue price of Share Units and Plan Shares respectively will be determined by the Board at the time of issue. There may be different issue prices for different participants.

Adcorp Australia Limited
Directors' report
30 June 2018

Issue of Units on 1 July 2018

The following were agreed to be issued to Directors and key management personnel on 1 July 2018, and are yet to be issued:

Alex Parsons

Tranche A - 12,000,000 units representing 12,000,000 ordinary shares
 Tranche B - 12,000,000 units representing 12,000,000 ordinary shares
 Tranche C - 12,000,000 units representing 12,000,000 ordinary shares

David Morrison

Tranche A - 4,000,000 units representing 4,000,000 ordinary shares
 Tranche B - 4,000,000 units representing 4,000,000 ordinary shares
 Tranche C - 4,000,000 units representing 4,000,000 ordinary shares

Use of remuneration consultants

During the financial year ended 30 June 2018, the Company did not engage remuneration consultants to review its existing remuneration policies and provide recommendations on how to improve both the STI and LTI programs.

Voting and comments made at the Company's 2017 Annual General Meeting ('AGM')

At the last AGM 89.1% of the shareholders voted to adopt the remuneration report for the year ended 30 June 2017. The Company did not receive any specific feedback at the AGM regarding its remuneration practices.

Details of remuneration

The key management personnel of the Consolidated Entity consisted of the following Directors of Adcorp Australia Limited:

- Ian Rodwell - Non-Executive Chairman
- Alex Parsons (appointed 13 March 2018) - Managing Director and Chief Executive Officer
- David Morrison - Executive Director and Former Chief Executive Officer
- Dean Capobianco - Non-Executive Director
- Garry Lemair (resigned 17 October 2017) - Former Non-Executive Director

Details of the remuneration of the Directors and key management personnel are set out in the following tables:

| | Short-term benefits | | | Post-employment benefits | Long-term benefits | Share-based payments | Total |
|---------------------------------|----------------------|----------|----------|--------------------------|--------------------|----------------------|----------------|
| | Cash salary and fees | Bonus | Other | Super-annuation | Leave benefits | Equity-settled | |
| 2018 | \$ | \$ | \$ | \$ | \$ | \$ | \$ |
| <i>Non-Executive Directors:</i> | | | | | | | |
| D Capobianco | 43,800 | - | - | - | - | - | 43,800 |
| G Lemair** | 14,600 | - | - | - | - | - | 14,600 |
| <i>Executive Directors:</i> | | | | | | | |
| A Parsons* | 172,436 | - | - | 16,381 | - | - | 188,817 |
| D Morrison | 323,530 | - | - | 20,049 | - | - | 343,579 |
| | <u>554,366</u> | <u>-</u> | <u>-</u> | <u>36,430</u> | <u>-</u> | <u>-</u> | <u>590,796</u> |

* Remuneration disclosed is for the period 13 March 2018 to 30 June 2018.

** Remuneration disclosed is for the period 1 July 2017 to 17 October 2017.

Adcorp Australia Limited
Directors' report
30 June 2018

| | Short-term benefits | | | Post-employment benefits | Long-term benefits | Share-based payments | Total |
|--|----------------------|-------|--------|--------------------------|--------------------|----------------------|---------|
| | Cash salary and fees | Bonus | Other | Super-annuation | Leave benefits | Equity-settled | |
| 2017 | \$ | \$ | \$ | \$ | \$ | \$ | \$ |
| <i>Non-Executive Directors:</i> | | | | | | | |
| D Capobianco | 43,800 | - | - | - | - | - | 43,800 |
| G Lemair | 43,800 | - | - | - | - | - | 43,800 |
| <i>Executive Directors:</i> | | | | | | | |
| D Morrison | 323,530 | - | - | 19,616 | - | - | 343,146 |
| <i>Other Key Management Personnel:</i> | | | | | | | |
| N Kountouris* | 72,532 | - | 20,064 | 8,292 | - | - | 100,888 |
| | 483,662 | - | 20,064 | 27,908 | - | - | 531,634 |

There is no remuneration disclosed for Ian Rodwell in either 2018 or 2017 as he waived his Directors fees from 1 July 2013.

The proportion of remuneration linked to performance and the fixed proportion are as follows:

| Name | Fixed remuneration | | At risk - STI | | At risk - LTI | |
|--|--------------------|------|---------------|------|---------------|------|
| | 2018 | 2017 | 2018 | 2017 | 2018 | 2017 |
| <i>Non-Executive Directors:</i> | | | | | | |
| D Capobianco | 100% | 100% | - | - | - | - |
| G Lemair | 100% | 100% | - | - | - | - |
| <i>Executive Directors:</i> | | | | | | |
| A Parsons | 100% | - | - | - | - | - |
| D Morrison | 100% | 100% | - | - | - | - |
| <i>Other Key Management Personnel:</i> | | | | | | |
| N Kountouris | - | 100% | - | - | - | - |

Service agreements

Remuneration and other terms of employment for key management personnel are formalised in service agreements. Details of these agreements are as follows:

Name: Alex Parsons
Title: Managing Director and Chief Executive Officer
Agreement commenced: 13 March 2018
Term of agreement: No fixed term
Details: Remuneration package of \$500,000. 12 month restraint provision applies.

Name: David Morrison
Title: Executive Director and Former Chief Executive Officer
Agreement commenced: 21 March 2011
Term of agreement: No fixed term
Details: Remuneration package of \$340,000 with discretionary indexed CPI increase annually plus short term incentives based on financial performance of the Company for the year.

Adcorp Australia Limited
Directors' report
30 June 2018

Executives' employment contracts require employees to provide three months' notice or the Consolidated Entity to provide a standard three months' notice. Other than the terms outlined, the employment contracts of key management personnel are consistent with normal employment contracts of the Consolidated Entity.

In addition, all executives, other than the CEO, are entitled to annual bonuses payable upon the achievement of annual profitability measures and other KPI's including achievement of new business targets.

Key management personnel have no entitlement to termination payments in the event of removal for misconduct.

Share-based compensation

Issue of shares

There were no shares issued to Directors and other key management personnel as part of compensation during the year ended 30 June 2018.

Additional disclosures relating to key management personnel

Shareholding

The number of shares in the Company held during the financial year by each Director and other members of key management personnel of the Consolidated Entity, including their personally related parties, is set out below:

| | Balance at the start of the year | Received as part of remuneration | Additions | Disposals/ other | Balance at the end of the year |
|------------------------|--|--|-----------|---------------------|--------------------------------------|
| <i>Ordinary shares</i> | | | | | |
| Ian Rodwell | 135,312,960 | - | - | - | 135,312,960 |
| David Morrison | 3,677,081 | - | - | - | 3,677,081 |
| | <u>138,990,041</u> | <u>-</u> | <u>-</u> | <u>-</u> | <u>138,990,041</u> |

This concludes the remuneration report, which has been audited.

Loans to Directors and executives

On 7 June 2018, shareholders agreed to the provision of directors loans to certain directors to fund the issue of Share Units in the Adcorp Executive Incentive Scheme. The loans were approved on 1 July 2018 and are yet to be issued. They will have interest rates of 5% per annum. Interest is payable on 1 July each year commencing 1 July 2019.

| | Consolidated 2018 \$ |
|---|-------------------------------------|
| Approvals for loans have been granted from 1 July 2018 but are yet to be advanced in the Adcorp Executive Incentive Scheme: | |
| - Alex Parsons | 1,483,200 |
| - David Morrison | <u>494,400</u> |
| | <u><u>1,977,600</u></u> |

Indemnity and insurance of officers

The Company has indemnified the Directors of the Company for costs incurred, in their capacity as a Director, for which they may be held personally liable, except where there is a lack of good faith.

The Company paid an insurance premium of \$15,763 in respect of a contract insuring each of the Directors of the Company named earlier in this report, and each Director and secretary of the Consolidated Entity, against all liabilities and expenses arising as a result of work performed in their respective capacities, to the extent permitted by law.

Indemnity and insurance of auditor

The Company has not, during or since the financial year, indemnified or agreed to indemnify the auditor of the Company or any related entity against a liability incurred by the auditor.

During the financial year, the Company has not paid a premium in respect of a contract to insure the auditor of the Company or any related entity.

Proceedings on behalf of the Company

No person has applied to the Court under section 237 of the Corporations Act 2001 for leave to bring proceedings on behalf of the Company, or to intervene in any proceedings to which the Company is a party for the purpose of taking responsibility on behalf of the Company for all or part of those proceedings.

Non-audit services

Details of the amounts paid or payable to the auditor for non-audit services provided during the financial year by the auditor are outlined in note 28 to the financial statements.

The Directors are satisfied that the provision of non-audit services during the financial year, by the auditor (or by another person or firm on the auditor's behalf), is compatible with the general standard of independence for auditors imposed by the Corporations Act 2001.

The Directors are of the opinion that the services as disclosed in note 28 to the financial statements do not compromise the external auditor's independence requirements of the Corporations Act 2001 for the following reasons:

- all non-audit services have been reviewed and approved to ensure that they do not impact the integrity and objectivity of the auditor; and
- none of the services undermine the general principles relating to auditor independence as set out in APES 110 Code of Ethics for Professional Accountants issued by the Accounting Professional and Ethical Standards Board, including reviewing or auditing the auditor's own work, acting in a management or decision-making capacity for the Company, acting as advocate for the Company or jointly sharing economic risks and rewards.

Officers of the Company who are former partners of Grant Thornton Audit Pty Ltd

There are no officers of the Company who are former partners of Grant Thornton Audit Pty Ltd.

Auditor's independence declaration

A copy of the Auditor's independence declaration as required under section 307C of the Corporations Act 2001 is set out immediately after this Directors' report.

Auditor

Grant Thornton Audit Pty Ltd continues in office in accordance with section 327 of the Corporations Act 2001.

This report is made in accordance with a resolution of Directors, pursuant to section 298(2)(a) of the Corporations Act 2001.

On behalf of the Directors



Alex Parsons
Chief Executive Officer and Managing Director

31 August 2018
Sydney

Auditor's Independence Declaration

To the Directors of Adcorp Australia Limited

In accordance with the requirements of section 307C of the Corporations Act 2001, as lead auditor for the audit of Adcorp Australia Limited for the year ended 30 June 2018, I declare that, 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.



Grant Thornton Audit Pty Ltd
Chartered Accountants



R J Isbell
Partner – Audit & Assurance

Sydney, 31 August 2018

Grant Thornton Audit Pty Ltd ACN 130 913 594
a subsidiary or related entity of Grant Thornton Australia Ltd ABN 41 127 556 389

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Adcorp Australia Limited
Statement of profit or loss and other comprehensive income
For the year ended 30 June 2018

| | Note | Consolidated 2018 \$ | 2017 \$ |
|--|------|----------------------------|--------------------|
| Revenue | 5 | 12,786,202 | 13,301,528 |
| Share of losses of associates accounted for using the equity method | 13 | (45,029) | (46,930) |
| Expenses | | | |
| Client service expenses | | (8,958,045) | (9,443,748) |
| Administrative expenses | | (1,048,337) | (906,954) |
| Marketing expenses | | (681,192) | (735,345) |
| Office and communication expenses | | (2,298,003) | (2,662,249) |
| Production expenses | | (2,054,115) | (580,190) |
| Finance costs | 6 | (63,666) | (12,894) |
| Loss before income tax (expense)/benefit | | (2,362,185) | (1,086,782) |
| Income tax (expense)/benefit | 7 | 277,442 | (322,316) |
| Loss after income tax (expense)/benefit for the year | | (2,084,743) | (1,409,098) |
| Other comprehensive income | | | |
| <i>Items that may be reclassified subsequently to profit or loss</i> | | | |
| Foreign currency translation | | (29,807) | (1,543) |
| Other comprehensive income for the year, net of tax | | (29,807) | (1,543) |
| Total comprehensive income for the year | | <u>(2,114,550)</u> | <u>(1,410,641)</u> |
| Loss for the year is attributable to: | | | |
| Non-controlling interest | | 24,883 | 81,882 |
| Owners of Adcorp Australia Limited | | (2,109,626) | (1,490,980) |
| | | <u>(2,084,743)</u> | <u>(1,409,098)</u> |
| Total comprehensive income for the year is attributable to: | | | |
| Non-controlling interest | | 24,883 | 81,882 |
| Owners of Adcorp Australia Limited | | (2,139,433) | (1,492,523) |
| | | <u>(2,114,550)</u> | <u>(1,410,641)</u> |
| | | Cents | Cents |
| Basic earnings per share | 38 | (1.16) | (0.82) |
| Diluted earnings per share | 38 | (1.16) | (0.82) |

The above statement of profit or loss and other comprehensive income should be read in conjunction with the accompanying notes

Adcorp Australia Limited
Statement of financial position
As at 30 June 2018

| | Note | Consolidated 2018 \$ | 2017 \$ |
|--|------|----------------------------|---------------------|
| Assets | | | |
| Current assets | | | |
| Cash and cash equivalents | 8 | 1,466,553 | 3,054,760 |
| Trade and other receivables | 9 | 4,875,626 | 5,108,830 |
| Intangibles | 10 | 1,280,617 | 1,006,848 |
| Other financial assets | 11 | - | 481,525 |
| Income tax refund due | 7 | 87 | 7,887 |
| Other | 12 | 647,038 | 729,433 |
| Total current assets | | <u>8,269,921</u> | <u>10,389,283</u> |
| Non-current assets | | | |
| Investments accounted for using the equity method | 13 | 917,225 | 962,254 |
| Property, plant and equipment | 14 | 611,357 | 642,231 |
| Intangibles | 15 | 338,367 | 383,808 |
| Deferred tax | 7 | 1,108,071 | 769,826 |
| Total non-current assets | | <u>2,975,020</u> | <u>2,758,119</u> |
| Total assets | | <u>11,244,941</u> | <u>13,147,402</u> |
| Liabilities | | | |
| Current liabilities | | | |
| Trade and other payables | 16 | 10,388,392 | 10,487,530 |
| Borrowings | 17 | 81,205 | 29,868 |
| Income tax | 7 | 17,661 | 90,049 |
| Provisions | 18 | 829,148 | 830,744 |
| Other financial liabilities | 19 | 548,428 | - |
| Deferred revenue | | 29,000 | 374,271 |
| Total current liabilities | | <u>11,893,834</u> | <u>11,812,462</u> |
| Non-current liabilities | | | |
| Payables | | 105,981 | 93,128 |
| Borrowings | 20 | 193,379 | 57,656 |
| Deferred tax | 7 | 127,050 | 103,165 |
| Provisions | 21 | 302,237 | 343,981 |
| Total non-current liabilities | | <u>728,647</u> | <u>597,930</u> |
| Total liabilities | | <u>12,622,481</u> | <u>12,410,392</u> |
| Net assets/(liabilities) | | <u>(1,377,540)</u> | <u>737,010</u> |
| Equity | | | |
| Issued capital | 22 | 32,353,386 | 32,353,386 |
| Purchased controlling interest reserve | | (113,074) | (113,074) |
| Foreign currency reserve | | (375,932) | (346,125) |
| Accumulated losses | | <u>(33,372,979)</u> | <u>(31,263,353)</u> |
| Equity/(deficiency) attributable to the owners of Adcorp Australia Limited | | (1,508,599) | 630,834 |
| Non-controlling interest | 23 | 131,059 | 106,176 |
| Total equity/(deficiency) | | <u>(1,377,540)</u> | <u>737,010</u> |

The above statement of financial position should be read in conjunction with the accompanying notes

Adcorp Australia Limited
Statement of changes in equity
For the year ended 30 June 2018

| Consolidated | Issued capital \$ | Purchased controlling interest reserve \$ | Foreign currency reserve \$ | Accumulated losses \$ | Non-controlling interest \$ | Total equity \$ |
|---|-----------------------------|---|---------------------------------------|---------------------------------|---------------------------------------|---------------------------|
| Balance at 1 July 2016 | 32,353,386 | (113,074) | (344,582) | (29,772,373) | 24,294 | 2,147,651 |
| Profit/(loss) after income tax expense for the year | - | - | - | (1,490,980) | 81,882 | (1,409,098) |
| Other comprehensive income for the year, net of tax | - | - | (1,543) | - | - | (1,543) |
| Total comprehensive income for the year | - | - | (1,543) | (1,490,980) | 81,882 | (1,410,641) |
| Balance at 30 June 2017 | <u>32,353,386</u> | <u>(113,074)</u> | <u>(346,125)</u> | <u>(31,263,353)</u> | <u>106,176</u> | <u>737,010</u> |

| Consolidated | Issued capital \$ | Purchased controlling interest reserve \$ | Foreign currency reserve \$ | Accumulated losses \$ | Non-controlling interest \$ | Total deficiency in equity \$ |
|---|-----------------------------|---|---------------------------------------|---------------------------------|---------------------------------------|---|
| Balance at 1 July 2017 | 32,353,386 | (113,074) | (346,125) | (31,263,353) | 106,176 | 737,010 |
| Profit/(loss) after income tax benefit for the year | - | - | - | (2,109,626) | 24,883 | (2,084,743) |
| Other comprehensive income for the year, net of tax | - | - | (29,807) | - | - | (29,807) |
| Total comprehensive income for the year | - | - | (29,807) | (2,109,626) | 24,883 | (2,114,550) |
| Balance at 30 June 2018 | <u>32,353,386</u> | <u>(113,074)</u> | <u>(375,932)</u> | <u>(33,372,979)</u> | <u>131,059</u> | <u>(1,377,540)</u> |

Purchased controlling interest reserve

The purchased controlling interest reserve reflects the change in non-controlling interest due to changing levels of ownership of controlled assets.

Foreign currency reserve

The reserve is used to recognise exchange differences arising from translation of the financial statements of foreign operations to Australian dollars.

The above statement of changes in equity should be read in conjunction with the accompanying notes

Adcorp Australia Limited
Statement of cash flows
For the year ended 30 June 2018

| | Note | Consolidated 2018 \$ | 2017 \$ |
|--|------|----------------------------|--------------|
| Cash flows from operating activities | | | |
| Receipts from customers (inclusive of GST) | | 48,573,569 | 58,470,476 |
| Payments to suppliers and employees (inclusive of GST) | | (48,893,879) | (58,564,239) |
| | | (320,310) | (93,763) |
| Interest received | | 13,522 | 23,767 |
| Interest and other finance costs paid | | (63,666) | (12,894) |
| Income taxes refunded | | 7,595 | 25,112 |
| Income taxes paid | | (113,464) | (55,149) |
| Net cash used in operating activities | 35 | (476,323) | (112,927) |
| Cash flows from investing activities | | | |
| Payments for investments | 13 | - | (764,664) |
| Payment for expenses relating to acquisitions | | - | (44,520) |
| Payments for property, plant and equipment | | (279,243) | (197,174) |
| Payments for intangibles | | (1,929,566) | (196,289) |
| Payments for security deposits | | (5,984) | (273,780) |
| Proceeds from disposal of property, plant and equipment | | 150 | 4,100 |
| Proceeds from release of security deposits | | 37,098 | - |
| Net cash used in investing activities | | (2,177,545) | (1,472,327) |
| Cash flows from financing activities | | | |
| Payments for invoice financing | | (33,766,300) | (44,599,631) |
| Proceeds from invoice financing | | 34,644,900 | 44,513,386 |
| Proceeds from borrowings | | 953,918 | 97,662 |
| Repayment of borrowings | | (766,857) | (10,468) |
| Net cash from financing activities | | 1,065,661 | 949 |
| Net decrease in cash and cash equivalents | | (1,588,207) | (1,584,305) |
| Cash and cash equivalents at the beginning of the financial year | | 3,054,760 | 4,639,065 |
| Cash and cash equivalents at the end of the financial year | 8 | 1,466,553 | 3,054,760 |

The above statement of cash flows should be read in conjunction with the accompanying notes

Note 1. General information

The financial statements cover Adcorp Australia Limited as a Consolidated Entity consisting of Adcorp Australia Limited ('Company' or 'parent entity') and the entities it controlled at the end of, or during, the year (collectively referred to as 'Consolidated Entity' or 'Adcorp'). The financial statements are presented in Australian dollars, which is Adcorp Australia Limited's functional and presentation currency.

Adcorp Australia Limited is a listed public company limited by shares, incorporated and domiciled in Australia. Its registered office and principal place of business is:

Level 2
309 George Street
Sydney NSW 2000

A description of the nature of the Consolidated Entity's operations and its principal activities are included in the Directors' report, which is not part of the financial statements.

The financial statements were authorised for issue, in accordance with a resolution of Directors, on 31 August 2018. The Directors have the power to amend and reissue the financial statements.

Note 2. Significant accounting policies

The principal accounting policies adopted in the preparation of the financial statements are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated.

New or amended Accounting Standards and Interpretations adopted

The Consolidated Entity has adopted all of the new or amending Accounting Standards and Interpretations issued by the Australian Accounting Standards Board ('AASB') that are mandatory for the current reporting period. The adoption of these Accounting Standards and Interpretations did not have any significant impact on the financial performance or position of the Consolidated Entity.

Any new or amended Accounting Standards or Interpretations that are not yet mandatory have not been early adopted.

Going concern

As at 30 June 2018, the Consolidated Entity had cash and cash equivalents of \$1,466,553 (2017: \$3,054,760) and has a net current liability position of \$3,623,913 (2017: \$1,423,179). Loss for the year after non-controlling interest and other comprehensive income was \$2,109,626 (2017: \$1,410,641) and net cash outflows from operating activities were \$476,323 (2017: \$112,927).

Due to continued losses, management is restructuring the business and is making significant reductions in the cost base to mitigate against further losses. The termination of the Colliers service agreement will deliver further cost savings in the second half of the next financial year.

The Consolidated Entity will continue to utilise a debtor finance facility and draw down on the Millennium loan to fund working capital requirements and will continue to manage these arrangements to ensure financing is available when needed. Other financing arrangements are being reviewed and considered by the board and management. These facilities, complemented by robust processes for cash management, are considered adequate to support short term cash needs during restructuring and transition.

Therefore, while there is material uncertainty that the Consolidated Entity will achieve its projected cashflows, the Directors are of a view that it is a going concern. The Consolidated Entity has, and will continue to, initiate a number of substantial changes in order to return to profitability and positive net asset value and the Consolidated Entity will be able to meet its debts as they fall due. The financial statements have therefore been prepared on a going concern basis. The financial statements do not include any adjustments relating to recoverability and classification of recorded asset amounts or the amount and classification of liabilities that might not be necessary should the Consolidated Entity not continue as a going concern.

Note 2. Significant accounting policies (continued)

Basis of preparation

These general purpose financial statements have been prepared in accordance with Australian Accounting Standards and Interpretations issued by the Australian Accounting Standards Board ('AASB') and the Corporations Act 2001, as appropriate for for-profit oriented entities. These financial statements also comply with International Financial Reporting Standards as issued by the International Accounting Standards Board ('IASB').

Historical cost convention

The financial statements have been prepared under the historical cost convention.

Critical accounting estimates

The preparation of the financial statements requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Consolidated Entity's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the financial statements, are disclosed in note 3.

Parent entity information

In accordance with the Corporations Act 2001, these financial statements present the results of the Consolidated Entity only. Supplementary information about the parent entity is disclosed in note 32.

Principles of consolidation

The consolidated financial statements incorporate the assets and liabilities of all subsidiaries of Adcorp Australia Limited as at 30 June 2018 and the results of all subsidiaries for the year then ended.

Subsidiaries are all those entities over which the Consolidated Entity has control. The Consolidated Entity controls an entity when the Consolidated Entity is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power to direct the activities of the entity. Subsidiaries are fully consolidated from the date on which control is transferred to the Consolidated Entity. They are de-consolidated from the date that control ceases.

Intercompany transactions, balances and unrealised gains on transactions between entities in the Consolidated Entity are eliminated. 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 Consolidated Entity.

The acquisition of subsidiaries is accounted for using the acquisition method of accounting. A change in ownership interest, without the loss of control, is accounted for as an equity transaction, where the difference between the consideration transferred and the book value of the share of the non-controlling interest acquired is recognised directly in equity attributable to the parent.

Non-controlling interest in the results and equity of subsidiaries are shown separately in the statement of profit or loss and other comprehensive income, statement of financial position and statement of changes in equity of the Consolidated Entity. Losses incurred by the Consolidated Entity are attributed to the non-controlling interest in full, even if that results in a deficit balance.

Where the Consolidated Entity loses control over a subsidiary, it derecognises the assets including goodwill, liabilities and non-controlling interest in the subsidiary together with any cumulative translation differences recognised in equity. The Consolidated Entity recognises the fair value of the consideration received and the fair value of any investment retained together with any gain or loss in profit or loss.

Operating segments

Operating segments are presented using the 'management approach', where the information presented is on the same basis as the internal reports provided to the Chief Operating Decision Makers ('CODM'). The CODM is responsible for the allocation of resources to operating segments and assessing their performance.

Note 2. Significant accounting policies (continued)

Foreign currency translation

Foreign currency transactions

Foreign currency transactions are translated into Australian dollars using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at financial year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in profit or loss.

Foreign operations

The assets and liabilities of foreign operations are translated into Australian dollars using the exchange rates at the reporting date. The revenues and expenses of foreign operations are translated into Australian dollars using the average exchange rates, which approximate the rates at the dates of the transactions, for the period. All resulting foreign exchange differences are recognised in other comprehensive income through the foreign currency reserve in equity.

The foreign currency reserve is recognised in profit or loss when the foreign operation or net investment is disposed of.

Revenue recognition

Revenue is recognised when it is probable that the economic benefit will flow to the Consolidated Entity and the revenue can be reliably measured. Revenue is measured at the fair value of the consideration received or receivable.

Operating revenues

Media, media related production, creative, digital and video production revenue, net of direct costs which are collected on behalf of third parties, are brought to account when billed to the client once an advertisement has appeared or published material produced. For cash flow purposes, the amounts are shown as gross receipts and gross payments.

Production revenues – Royalties

Royalties (and Advances of royalties) received from the distribution of television productions are brought to account as gross revenue upon delivery of the production where substantiated by contractual terms and on a monthly or quarterly basis where ongoing royalties are earned accordingly.

Production revenues – Grants

Grants received from government agencies for the development or producing of a television series are brought to account as gross revenue upon fulfilment of the contractual obligations for the grants received.

Interest

Interest revenue is recognised as interest accrues using the effective interest method. This is a method of calculating the amortised cost of a financial asset and allocating the interest income over the relevant period using the effective interest rate, which is the rate that exactly discounts estimated future cash receipts through the expected life of the financial asset to the net carrying amount of the financial asset.

Other revenue

Other revenue is recognised when it is received or when the right to receive payment is established.

Income tax

The income tax expense or benefit for the period is the tax payable on that period's taxable income based on the applicable income tax rate for each jurisdiction, adjusted by the changes in deferred tax assets and liabilities attributable to temporary differences, unused tax losses and the adjustment recognised for prior periods, where applicable.

Deferred tax assets and liabilities are recognised for temporary differences at the tax rates expected to be applied when the assets are recovered or liabilities are settled, based on those tax rates that are enacted or substantively enacted, except for:

- When the deferred income tax asset or liability arises from the initial recognition of goodwill or an asset or liability in a transaction that is not a business combination and that, at the time of the transaction, affects neither the accounting nor taxable profits; or
- When the taxable temporary difference is associated with interests in subsidiaries, associates or joint ventures, and the timing of the reversal can be controlled and it is probable that the temporary difference will not reverse in the foreseeable future.

Note 2. Significant accounting policies (continued)

Deferred tax assets are recognised for deductible temporary differences only if it is probable that future taxable amounts will be available to utilise those temporary differences. Deferred tax assets are recognised for unused tax losses if it is probable that future taxable amounts will be available to utilise those losses; however where a tax entity has consecutive periods of losses, the tax losses are only recognised if there is convincing evidence.

The carrying amount of recognised and unrecognised deferred tax assets are reviewed at each reporting date. Deferred tax assets recognised are reduced to the extent that it is no longer probable that future taxable profits will be available for the carrying amount to be recovered. Previously unrecognised deferred tax assets are recognised to the extent that it is probable that there are future taxable profits available to recover the asset.

Deferred tax assets and liabilities are offset only where there is a legally enforceable right to offset current tax assets against current tax liabilities and deferred tax assets against deferred tax liabilities; and they relate to the same taxable authority on either the same taxable entity or different taxable entities which intend to settle simultaneously.

Adcorp Australia Limited (the 'head entity') and its wholly-owned Australian subsidiaries have formed an income tax consolidated group under the tax consolidation regime. The head entity and each subsidiary in the tax consolidated group continue to account for their own current and deferred tax amounts. The tax consolidated group has applied the 'separate taxpayer within group' approach in determining the appropriate amount of taxes to allocate to members of the tax consolidated group.

In addition to its own current and deferred tax amounts, the head entity also recognises the current tax liabilities (or assets) and the deferred tax assets arising from unused tax losses and unused tax credits assumed from each subsidiary in the tax consolidated group.

Assets or liabilities arising under tax funding agreements with the tax consolidated entities are recognised as amounts receivable from or payable to other entities in the tax consolidated group. The tax funding arrangement ensures that the intercompany charge equals the current tax liability or benefit of each tax consolidated group member, resulting in neither a contribution by the head entity to the subsidiaries nor a distribution by the subsidiaries to the head entity.

Current and non-current classification

Assets and liabilities are presented in the statement of financial position based on current and non-current classification.

An asset is classified as current when: it is either expected to be realised or intended to be sold or consumed in the entity's normal operating cycle; it is held primarily for the purpose of trading; it is expected to be realised within 12 months after the reporting period; or the asset is cash or cash equivalent unless restricted from being exchanged or used to settle a liability for at least 12 months after the reporting period. All other assets are classified as non-current.

A liability is classified as current when: it is either expected to be settled in the entity's normal operating cycle; it is held primarily for the purpose of trading; it is due to be settled within 12 months after the reporting period; or there is no unconditional right to defer the settlement of the liability for at least 12 months after the reporting period. All other liabilities are classified as non-current.

Deferred tax assets and liabilities are always classified as non-current.

Cash and cash equivalents

Cash and cash equivalents includes cash on hand, deposits held at call with financial institutions, other short-term, highly liquid investments with original maturities of three months or less that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value.

Trade and other receivables

Trade receivables are initially recognised at fair value and subsequently measured at amortised cost using the effective interest method, less any provision for impairment. Trade receivables are generally due for settlement within 30 days.

Note 2. Significant accounting policies (continued)

Collectability of trade receivables is reviewed on an ongoing basis. Debts which are known to be uncollectable are written off by reducing the carrying amount directly. A provision for impairment of trade receivables is raised when there is objective evidence that the Consolidated Entity will not be able to collect all amounts due according to the original terms of the receivables. Significant financial difficulties of the debtor, probability that the debtor will enter bankruptcy or financial reorganisation and default or delinquency in payments (more than 60 days overdue) are considered indicators that the trade receivable may be impaired. The amount of the impairment allowance is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the original effective interest rate. Cash flows relating to short-term receivables are not discounted if the effect of discounting is immaterial.

Other receivables are recognised at amortised cost, less any provision for impairment.

Associates

Associates are entities over which the Consolidated Entity has significant influence but not control or joint control. Investments in associates are accounted for using the equity method. Under the equity method, the share of the profits or losses of the associate is recognised in profit or loss and the share of the movements in equity is recognised in other comprehensive income. Investments in associates are carried in the statement of financial position at cost, plus costs directly attributable to the acquisition and plus post-acquisition changes in the Consolidated Entity's share of net assets of the associate. Goodwill relating to the associate is included in the carrying amount of the investment and is neither amortised nor individually tested for impairment. Dividends received or receivable from associates reduce the carrying amount of the investment.

When the Consolidated Entity's share of losses in an associate equals or exceeds its interest in the associate, including any unsecured long-term receivables, the Consolidated Entity does not recognise further losses, unless it has incurred obligations or made payments on behalf of the associate.

The Consolidated Entity discontinues the use of the equity method upon the loss of significant influence over the associate and recognises any retained investment at its fair value. Any difference between the associate's carrying amount, fair value of the retained investment and proceeds from disposal is recognised in profit or loss.

Joint ventures

A joint venture is a joint arrangement whereby the parties that have joint control of the arrangement have rights to the net assets of the arrangement. Investments in joint ventures are accounted for using the equity method. Under the equity method, the share of the profits or losses of the joint venture is recognised in profit or loss and the share of the movements in equity is recognised in other comprehensive income. Investments in joint ventures are carried in the statement of financial position at cost plus post-acquisition changes in the Consolidated Entity's share of net assets of the joint venture. Goodwill relating to the joint venture is included in the carrying amount of the investment and is neither amortised nor individually tested for impairment. Income earned from joint venture entities reduce the carrying amount of the investment.

Property, plant and equipment

Plant and equipment is stated at historical cost less accumulated depreciation and impairment. Historical cost includes expenditure that is directly attributable to the acquisition of the items.

Depreciation is calculated on a straight-line and diminishing value basis to write off the net cost of each item of property, plant and equipment over their expected useful lives as follows:

| | |
|------------------------|-----------------|
| Office equipment | 3-5 years |
| Furniture and fittings | over lease term |

The residual values, useful lives and depreciation methods are reviewed, and adjusted if appropriate, at each reporting date, and reflect the pattern of consumption of the assets future economic benefit.

Leasehold improvements and plant and equipment under lease are depreciated over the unexpired period of the lease or the estimated useful life of the assets, whichever is shorter.

An item of property, plant and equipment is derecognised upon disposal or when there is no future economic benefit to the Consolidated Entity. Gains and losses between the carrying amount and the disposal proceeds are taken to profit or loss.

Note 2. Significant accounting policies (continued)

Leases

The determination of whether an arrangement is or contains a lease is based on the substance of the arrangement and requires an assessment of whether the fulfilment of the arrangement is dependent on the use of a specific asset or assets and the arrangement conveys a right to use the asset.

A distinction is made between finance leases, which effectively transfer from the lessor to the lessee substantially all the risks and benefits incidental to the ownership of leased assets, and operating leases, under which the lessor effectively retains substantially all such risks and benefits.

Finance leases are capitalised. A lease asset and liability are established at the fair value of the leased assets, or if lower, the present value of minimum lease payments. Lease payments are allocated between the principal component of the lease liability and the finance costs, so as to achieve a constant rate of interest on the remaining balance of the liability.

Leased assets acquired under a finance lease are depreciated over the asset's useful life or over the shorter of the asset's useful life and the lease term if there is no reasonable certainty that the Consolidated Entity will obtain ownership at the end of the lease term.

Operating lease payments, net of any incentives received from the lessor, are charged to profit or loss on a straight-line basis over the term of the lease.

Intangible assets

Software licences

Significant costs associated with software are deferred and amortised on a straight-line and diminishing value basis over the period of their expected benefit, being their finite life of 2 to 3 years. The method of amortisation reflects the pattern of consumption of the assets future economic benefit.

Production assets

Production assets include the unamortised cost of completed television series, series currently in production or series where management has determined the project is commercially viable and will generate sufficient future net cash flows. Production assets are capitalised in accordance with AASB 138 Intangible Assets. Production assets are stated at the lower of cost, less accumulated amortisation, or fair value.

Production assets begin amortisation when the asset is available for use, that is, when it has been delivered in accordance with any contractual agreement or is in a condition necessary for it to be capable of operating in the manner intended by management. Amortisation ceases at the earlier of the date that the asset is classified as held for sale and the date it is derecognised. The amortisation method used reflects the pattern in which the asset's future economic benefits are expected to be received. If that pattern cannot be determined reliably, the straight-line method is used.

Production assets will be impaired at any point in which management determine the carrying amount exceeds its recoverable amount.

Impairment of non-financial assets

Goodwill and other intangible assets that have an indefinite useful life are not subject to amortisation and are tested annually for impairment, or more frequently if events or changes in circumstances indicate that they might be impaired. Other non-financial assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount.

Recoverable amount is the higher of an asset's fair value less costs of disposal and value-in-use. The value-in-use is the present value of the estimated future cash flows relating to the asset using a pre-tax discount rate specific to the asset or cash-generating unit to which the asset belongs. Assets that do not have independent cash flows are grouped together to form a cash-generating unit.

Trade and other payables

These amounts represent liabilities for goods and services provided to the Consolidated Entity prior to the end of the financial year and which are unpaid. Due to their short-term nature they are measured at amortised cost and not discounted. The amounts are unsecured and are usually paid within 30 days of recognition except for media creditors who are on 45 day terms. Other payables have repayment terms of less than 12 months.

Note 2. Significant accounting policies (continued)

Borrowings

Loans and borrowings are initially recognised at the fair value of the consideration received, net of transaction costs. They are subsequently measured at amortised cost using the effective interest method.

Finance costs

Finance costs attributable to qualifying assets are capitalised as part of the asset. All other finance costs are expensed in the period in which they are incurred.

Provisions

Provisions are recognised when the Consolidated Entity has a present (legal or constructive) obligation as a result of a past event, it is probable the Consolidated Entity will be required to settle the obligation, and a reliable estimate can be made of the amount of the obligation. The amount recognised as a provision is the best estimate of the consideration required to settle the present obligation at the reporting date, taking into account the risks and uncertainties surrounding the obligation. If the time value of money is material, provisions are discounted using a current pre-tax rate specific to the liability. The increase in the provision resulting from the passage of time is recognised as a finance cost.

Employee benefits

Short-term employee benefits

Liabilities for wages and salaries and other employee benefits expected to be settled wholly within 12 months of the reporting date are measured at the amounts expected to be paid when the liabilities are settled.

Long-term employee benefits

Employee benefits not expected to be settled wholly within 12 months of the reporting date is 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. Consideration is given to expected future wage and salary levels, experience of employee departures and periods of service. Expected future payments are discounted using market yields at the reporting date on high quality corporate bonds with terms to maturity and currency that match, as closely as possible, the estimated future cash outflows.

Defined contribution superannuation expense

Contributions to defined contribution superannuation plans are expensed in the period in which they are incurred.

Share-based payments

Equity-settled and cash-settled share-based compensation benefits are provided to employees.

Equity-settled transactions are awards of shares, or options over shares, that are provided to employees in exchange for the rendering of services. Cash-settled transactions are awards of cash for the exchange of services, where the amount of cash is determined by reference to the share price.

The cost of equity-settled transactions are measured at fair value on grant date. Fair value is independently determined using either the Binomial or Black-Scholes option pricing model that takes into account the exercise price, the term of the option, the impact of dilution, the share price at grant date and expected price volatility of the underlying share, the expected dividend yield and the risk free interest rate for the term of the option, together with non-vesting conditions that do not determine whether the Consolidated Entity receives the services that entitle the employees to receive payment. No account is taken of any other vesting conditions.

The cost of equity-settled transactions are recognised as an expense with a corresponding increase in equity over the vesting period. The cumulative charge to profit or loss is calculated based on the grant date fair value of the award, the best estimate of the number of awards that are likely to vest and the expired portion of the vesting period. The amount recognised in profit or loss for the period is the cumulative amount calculated at each reporting date less amounts already recognised in previous periods.

Note 2. Significant accounting policies (continued)

The cost of cash-settled transactions is initially, and at each reporting date until vested, determined by applying either the Binomial or Black-Scholes option pricing model, taking into consideration the terms and conditions on which the award was granted. The cumulative charge to profit or loss until settlement of the liability is calculated as follows:

- during the vesting period, the liability at each reporting date is the fair value of the award at that date multiplied by the expired portion of the vesting period.
- from the end of the vesting period until settlement of the award, the liability is the full fair value of the liability at the reporting date.

All changes in the liability are recognised in profit or loss. The ultimate cost of cash-settled transactions is the cash paid to settle the liability.

Market conditions are taken into consideration in determining fair value. Therefore any awards subject to market conditions are considered to vest irrespective of whether or not that market condition has been met, provided all other conditions are satisfied.

If equity-settled awards are modified, as a minimum an expense is recognised as if the modification has not been made. An additional expense is recognised, over the remaining vesting period, for any modification that increases the total fair value of the share-based compensation benefit as at the date of modification.

If the non-vesting condition is within the control of the Consolidated Entity or employee, the failure to satisfy the condition is treated as a cancellation. If the condition is not within the control of the Consolidated Entity or employee and is not satisfied during the vesting period, any remaining expense for the award is recognised over the remaining vesting period, unless the award is forfeited.

If equity-settled awards are cancelled, it is treated as if it has vested on the date of cancellation, and any remaining expense is recognised immediately. If a new replacement award is substituted for the cancelled award, the cancelled and new award is treated as if they were a modification.

Fair value measurement

When an asset or liability, financial or non-financial, is measured at fair value for recognition or disclosure purposes, the fair value is based on the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date; and assumes that the transaction will take place either: in the principal market; or in the absence of a principal market, in the most advantageous market.

Fair value is measured using the assumptions that market participants would use when pricing the asset or liability, assuming they act in their economic best interests. For non-financial assets, the fair value measurement is based on its highest and best use. Valuation techniques that are appropriate in the circumstances and for which sufficient data are available to measure fair value, are used, maximising the use of relevant observable inputs and minimising the use of unobservable inputs.

Assets and liabilities measured at fair value are classified, into three levels, using a fair value hierarchy that reflects the significance of the inputs used in making the measurements. Classifications are reviewed at each reporting date and transfers between levels are determined based on a reassessment of the lowest level of input that is significant to the fair value measurement.

For recurring and non-recurring fair value measurements, external valuers may be used when internal expertise is either not available or when the valuation is deemed to be significant. External valuers are selected based on market knowledge and reputation. Where there is a significant change in fair value of an asset or liability from one period to another, an analysis is undertaken, which includes a verification of the major inputs applied in the latest valuation and a comparison, where applicable, with external sources of data.

Issued 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.

Note 2. Significant accounting policies (continued)

Earnings per share

Basic earnings per share

Basic earnings per share is calculated by dividing the profit attributable to the owners of Adcorp Australia Limited, excluding any costs of servicing equity other than ordinary shares, by the weighted average number of ordinary shares outstanding during the financial year, adjusted for bonus elements in ordinary shares issued during the financial year.

Diluted earnings per share

Diluted earnings per share adjusts the figures used in the determination of basic earnings per share to take into account the after income tax effect of interest and other financing costs associated with dilutive potential ordinary shares and the weighted average number of shares assumed to have been issued for no consideration in relation to dilutive potential ordinary shares.

Goods and Services Tax ('GST') and other similar taxes

Revenues, expenses and assets are recognised net of the amount of associated GST, unless the GST incurred is not recoverable from the tax authority. In this case it is recognised as part of the cost of the acquisition of the asset or as part of the expense.

Receivables and payables are stated inclusive of the amount of GST receivable or payable. The net amount of GST recoverable from, or payable to, the tax authority is included in other receivables or other payables in the statement of financial position.

Cash flows are presented on a gross basis. The GST components of cash flows arising from investing or financing activities which are recoverable from, or payable to the tax authority, are presented as operating cash flows.

Commitments and contingencies are disclosed net of the amount of GST recoverable from, or payable to, the tax authority.

Comparative information

Certain comparatives have been restated to reflect current year disclosure. No changes to profit or loss and net assets has occurred for any restatement.

New Accounting Standards and Interpretations not yet mandatory or early adopted

Australian Accounting Standards and Interpretations that have recently been issued or amended but are not yet mandatory, have not been early adopted by the Consolidated Entity for the annual reporting period ended 30 June 2018. The Consolidated Entity's assessment of the impact of these new or amended Accounting Standards and Interpretations, most relevant to the Consolidated Entity, are set out below.

AASB 9 Financial Instruments

This standard is applicable to annual reporting periods beginning on or after 1 January 2018. The standard replaces all previous versions of AASB 9 and completes the project to replace IAS 39 'Financial Instruments: Recognition and Measurement'. AASB 9 introduces new classification and measurement models for financial assets. New simpler hedge accounting requirements are intended to more closely align the accounting treatment with the risk management activities of the entity. New impairment requirements will use an 'expected credit loss' ('ECL') model to recognise an allowance. The Consolidated Entity will adopt this standard from 1 July 2018 but has determined the standard will not have a significant impact.

AASB 15 Revenue from Contracts with Customers

This standard is currently applicable to annual reporting periods beginning on or after 1 January 2018. The standard provides a single standard for revenue recognition. The core principle of the standard is that an entity will recognise revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services). The Consolidated Entity will adopt this standard from 1 July 2018 but has determined the standard will not have a significant impact.

Note 2. Significant accounting policies (continued)

AASB 16 Leases

This standard is applicable to annual reporting periods beginning on or after 1 January 2019. The standard replaces AASB 117 'Leases' and for lessees will eliminate the classifications of operating leases and finance leases. Subject to exceptions, a 'right-of-use' asset will be capitalised in the statement of financial position, measured as the present value of the unavoidable future lease payments to be made over the lease term. The exceptions relate to short-term leases of 12 months or less and leases of low-value assets (such as personal computers and small office furniture) where an accounting policy choice exists whereby either a 'right-of-use' asset is recognised or lease payments are expensed to profit or loss as incurred. A liability corresponding to the capitalised lease will also be recognised, adjusted for lease prepayments, lease incentives received, initial direct costs incurred and an estimate of any future restoration, removal or dismantling costs. Straight-line operating lease expense recognition will be replaced with a depreciation charge for the leased asset (included in operating costs) and an interest expense on the recognised lease liability (included in finance costs). In the earlier periods of the lease, the expenses associated with the lease under AASB 16 will be higher when compared to lease expenses under AASB 117. However EBITDA (Earnings Before Interest, Tax, Depreciation and Amortisation) results will be improved as the operating expense is replaced by interest expense and depreciation in profit or loss under AASB 16. For classification within the statement of cash flows, the lease payments will be separated into both a principal (financing activities) and interest (either operating or financing activities) component. For lessor accounting, the standard does not substantially change how a lessor accounts for leases. The Consolidated Entity will adopt this standard from 1 July 2019. Management has reviewed the impact and recognises there will be a material change in relation to the accounting treatment for leases for rental properties. Whilst this will result in recognising both an asset and liability, it will not impact the overall net asset position nor will it affect any financial covenants for financiers (for which there presently are none). Management has reviewed the impact of other leases (primarily computer equipment) and has determined it will not have a significant impact with respect to these leases.

IASB revised Conceptual Framework for Financial Reporting

The revised Conceptual Framework has been issued by the International Accounting Standards Board ('IASB'), but the Australian equivalent has yet to be published. The revised framework is applicable for annual reporting periods beginning on or after 1 January 2020 and the application of the new definition and recognition criteria may result in future amendments to several accounting standards. Furthermore, entities who rely on the conceptual framework in determining their accounting policies for transactions, events or conditions that are not otherwise dealt with under Australian Accounting Standards may need to revisit such policies. The Consolidated Entity will apply the revised conceptual framework from 1 July 2020 and is yet to assess its impact.

Other amending accounting standards

Other amending accounting standards issued are not considered to have a significant impact on the financial statements of the Consolidated Entity as their amendments provide either clarification of existing accounting treatment or editorial amendments. Accordingly, these standards have not been detailed as they are not material to the operations of the entity.

Note 3. Critical accounting judgements, estimates and assumptions

The preparation of the financial statements requires management to make judgements, estimates and assumptions that affect the reported amounts in the financial statements. Management continually evaluates its judgements and estimates in relation to assets, liabilities, contingent liabilities, revenue and expenses. Management bases its judgements, estimates and assumptions on historical experience and on other various factors, including expectations of future events, management believes to be reasonable under the circumstances. The resulting accounting judgements and estimates will seldom equal the related actual results. The judgements, estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities (refer to the respective notes) within the next financial year are discussed below.

Recognition, amortisation and impairment of Production Assets

Production assets are recognised when management determine that a project or television series will generate sufficient future net cash flows. Production assets includes cost directly related to television series, executive salaries and employee costs directly attributable to a project to the extent they can be reliably measured, legal and consultant fees directly related to the project and other expenses to the extent permissible by AASB 138 and can be demonstrated they are directly attributable to preparing the asset for use.

Note 3. Critical accounting judgements, estimates and assumptions (continued)

In determining the period of amortisation, management will refer to any contractual agreement which stipulates the period of revenue streams; in the absence of a contractual agreement management will rely on its own knowledge taking into consideration historical performance of similar productions, general market trends and any other information deemed to be relevant.

Production assets will be impaired at any point in which management determine the carrying amount exceeds its recoverable amount. In making this decision, management will consult with its Distributors and rely on its own knowledge taking into consideration historical performance of similar productions, general market trends and any other information deemed to be relevant.

Provision for impairment of receivables

The provision for impairment of receivables assessment requires a degree of estimation and judgement. The level of provision is assessed by taking into account the recent sales experience, the ageing of receivables, historical collection rates and specific knowledge of the individual debtor's financial position.

Estimation of useful lives of assets

The Consolidated Entity determines the estimated useful lives and related depreciation and amortisation charges for its property, plant and equipment and finite life intangible assets. The useful lives could change significantly as a result of technical innovations or some other event. The depreciation and amortisation charge will increase where the useful lives are less than previously estimated lives, or technically obsolete or non-strategic assets that have been abandoned or sold will be written off or written down.

Impairment of non-financial assets other than goodwill and other indefinite life intangible assets

The Consolidated Entity assesses impairment of non-financial assets other than goodwill and other indefinite life intangible assets at each reporting date by evaluating conditions specific to the Consolidated Entity and to the particular asset that may lead to impairment. If an impairment trigger exists, the recoverable amount of the asset is determined. This involves fair value less costs of disposal or value-in-use calculations, which incorporate a number of key estimates and assumptions.

Recovery of deferred tax assets

Deferred tax assets are recognised for deductible temporary differences only if it is probable that future taxable amounts will be available to utilise those temporary differences. Deferred tax assets are recognised for unused tax losses if it is probable that future taxable amounts will be available to utilise those losses against; however where a taxable entity has consecutive periods of losses, the tax losses are only recognised if there is convincing evidence.

Employee benefits provision

As discussed in note 2, the liability for employee benefits expected to be settled more than 12 months from the reporting date are recognised and measured at the present value of the estimated future cash flows to be made in respect of all employees at the reporting date. In determining the present value of the liability, estimates of attrition rates and pay increases through promotion and inflation have been taken into account.

Decommissioning provision

A provision has been made for the present value of anticipated costs for future restoration of leased premises. The provision includes future cost estimates associated with closure of the premises. The calculation of this provision requires assumptions such as application of closure dates and cost estimates. The provision recognised for each site is periodically reviewed and updated based on the facts and circumstances available at the time. Changes to the estimated future costs for sites are recognised in the statement of financial position by adjusting the asset and the provision. Reductions in the provision that exceed the carrying amount of the asset will be recognised in profit or loss.

Significant influence over associates

Management have determined that the Consolidated Entity has significant influence over the associate Shootsta Holdings Pty Ltd, based on its 15% ownership interest and Adcorp taking a seat on the board as part of the acquisition.

Note 4. Operating segments

Identification of reportable operating segments

The Consolidated Entity has identified its operating segments based on the internal reports that are reviewed and used by the Board (the chief operating decision maker ('CODM')) in assessing performance and determining the allocation of resources.

Segment information is reported to the CODM on the basis of geographical region. The Consolidated Entity's products and services are the same within both geographical segments.

The information reported to the CODM is on a monthly basis.

Major customers

There are no significant customers in any reported segment that comprise greater than 10% of the segments aggregated revenues.

Operating segment information

| Consolidated - 2018 | Australia \$ | New Zealand \$ | Total \$ |
|---------------------------------------|-------------------|----------------------|--------------------|
| Revenue | | | |
| Sales to external customers | 10,453,546 | 2,319,134 | 12,772,680 |
| Other revenue | 13,149 | 373 | 13,522 |
| Total revenue | <u>10,466,695</u> | <u>2,319,507</u> | <u>12,786,202</u> |
| Adjusted EBITDA * | (152,196) | (110,714) | (262,910) |
| Depreciation and amortisation | | | (2,002,525) |
| Impairment of assets | | | (1,577) |
| Interest revenue | | | 13,522 |
| Finance costs | | | (63,666) |
| Share of loss of associate | | | (45,029) |
| Loss before income tax benefit | | | <u>(2,362,185)</u> |
| Income tax benefit | | | 277,442 |
| Loss after income tax benefit | | | <u>(2,084,743)</u> |
| Assets | | | |
| Segment assets | <u>8,591,375</u> | <u>1,545,495</u> | 10,136,870 |
| <i>Unallocated assets:</i> | | | |
| Deferred tax asset | | | <u>1,108,071</u> |
| Total assets | | | <u>11,244,941</u> |
| Liabilities | | | |
| Segment liabilities | <u>11,419,112</u> | <u>1,076,319</u> | 12,495,431 |
| <i>Unallocated liabilities:</i> | | | |
| Deferred tax liability | | | <u>127,050</u> |
| Total liabilities | | | <u>12,622,481</u> |

* Earnings before interest, tax, depreciation, amortisation, impairment and share of losses of associate.

Note 4. Operating segments (continued)

| Consolidated - 2017 | Australia \$ | New Zealand \$ | Total \$ |
|---------------------------------------|-------------------|----------------------|--------------------|
| Revenue | | | |
| Sales to external customers | 10,776,671 | 2,500,607 | 13,277,278 |
| Other revenue | 19,531 | 4,719 | 24,250 |
| Total revenue | <u>10,796,202</u> | <u>2,505,326</u> | <u>13,301,528</u> |
| Adjusted EBITDA * | <u>(282,765)</u> | <u>(82,960)</u> | <u>(365,725)</u> |
| Depreciation and amortisation | | | (685,000) |
| Interest revenue | | | 23,767 |
| Finance costs | | | (12,894) |
| Share of losses of associate | | | (46,930) |
| Loss before income tax expense | | | <u>(1,086,782)</u> |
| Income tax expense | | | (322,316) |
| Loss after income tax expense | | | <u>(1,409,098)</u> |
| Assets | | | |
| Segment assets | <u>10,602,441</u> | <u>1,775,135</u> | 12,377,576 |
| <i>Unallocated assets:</i> | | | |
| Deferred tax asset | | | 769,826 |
| Total assets | | | <u>13,147,402</u> |
| Liabilities | | | |
| Segment liabilities | <u>11,239,046</u> | <u>1,068,181</u> | 12,307,227 |
| <i>Unallocated liabilities:</i> | | | |
| Deferred tax liability | | | 103,165 |
| Total liabilities | | | <u>12,410,392</u> |

* Earnings before interest, tax, depreciation, amortisation, impairment and share of losses of associate.

Note 5. Revenue

| | Consolidated | |
|----------------------|---------------------|-------------------|
| | 2018 | 2017 |
| | \$ | \$ |
| <i>Sales revenue</i> | | |
| Operating revenues | 11,235,744 | 12,979,168 |
| Production revenues | 1,536,936 | 298,593 |
| | <u>12,772,680</u> | <u>13,277,761</u> |
| <i>Other revenue</i> | | |
| Interest | 13,522 | 23,767 |
| Revenue | <u>12,786,202</u> | <u>13,301,528</u> |

Note 6. Expenses

| | Consolidated | |
|--|------------------|------------------|
| | 2018 | 2017 |
| | \$ | \$ |
| Loss before income tax includes the following specific expenses: | | |
| <i>Depreciation</i> | | |
| Office equipment | 143,237 | 102,595 |
| Furniture and fittings | 159,677 | 165,581 |
| | <u>302,914</u> | <u>268,176</u> |
| Total depreciation | | |
| <i>Amortisation</i> | | |
| Software licences | 146,802 | 175,493 |
| Trademarks and other intellectual property | 242 | 952 |
| Production assets | 1,552,567 | 239,775 |
| | <u>1,699,611</u> | <u>416,220</u> |
| Total amortisation | | |
| Total depreciation and amortisation | <u>2,002,525</u> | <u>684,396</u> |
| <i>Impairment of assets</i> | | |
| Production assets | 1,577 | - |
| | <u>1,577</u> | <u>-</u> |
| Total impairment of assets | | |
| <i>Finance costs</i> | | |
| Bank loans, overdrafts and interest on invoices financed | 63,666 | 12,894 |
| | <u>63,666</u> | <u>12,894</u> |
| Total finance costs | | |
| <i>Net loss/(gain) on disposal</i> | | |
| Net loss/(gain) on disposal of property, plant and equipment | 1,822 | 7,808 |
| | <u>1,822</u> | <u>7,808</u> |
| Total net loss/(gain) on disposal | | |
| <i>Rental expense relating to operating leases</i> | | |
| Minimum lease payments | 1,150,547 | 1,266,501 |
| | <u>1,150,547</u> | <u>1,266,501</u> |
| Total rental expense relating to operating leases | | |
| <i>Superannuation expense</i> | | |
| Defined contribution superannuation expense | 559,195 | 559,630 |
| | <u>559,195</u> | <u>559,630</u> |
| Total superannuation expense | | |
| <i>Employee benefits expense excluding superannuation</i> | | |
| Employee benefits expense excluding superannuation | 8,637,651 | 9,087,631 |
| | <u>8,637,651</u> | <u>9,087,631</u> |
| Total employee benefits expense excluding superannuation | | |

Note 7. Income tax

| | Consolidated | |
|---|--------------|-------------|
| | 2018 | 2017 |
| | \$ | \$ |
| <i>Income tax expense/(benefit)</i> | | |
| Current tax | 52,692 | 112,192 |
| Deferred tax - origination and reversal of temporary differences | (314,360) | 227,124 |
| Adjustment recognised for prior periods | (15,774) | (17,000) |
| | (277,442) | 322,316 |
| Aggregate income tax expense/(benefit) | (277,442) | 322,316 |
| Deferred tax included in income tax expense/(benefit) comprises: | | |
| Decrease/(increase) in deferred tax assets | (338,245) | 429,649 |
| Increase/(decrease) in deferred tax liabilities | 23,885 | (202,525) |
| | (314,360) | 227,124 |
| Deferred tax - origination and reversal of temporary differences | (314,360) | 227,124 |
| <i>Numerical reconciliation of income tax expense/(benefit) and tax at the statutory rate</i> | | |
| Loss before income tax (expense)/benefit | (2,362,185) | (1,086,782) |
| Tax at the statutory tax rate of 30% | (708,656) | (326,035) |
| Tax effect amounts which are not deductible/(taxable) in calculating taxable income: | | |
| Expenditure non-deductible for tax purposes | 81,469 | (167,000) |
| Non-assessable items | (43,822) | 187,351 |
| | (671,009) | (305,684) |
| Adjustment recognised for prior periods | (15,774) | (17,000) |
| Current year tax losses not recognised | 406,573 | 182,000 |
| Difference in overseas tax rates | 2,768 | 2,000 |
| Prior year tax losses now impaired | - | 461,000 |
| | (277,442) | 322,316 |
| Income tax expense/(benefit) | (277,442) | 322,316 |
| | | |
| | Consolidated | |
| | 2018 | 2017 |
| | \$ | \$ |
| <i>Tax losses not recognised</i> | | |
| Unused tax losses for which no deferred tax asset has been recognised | 1,355,243 | 1,445,000 |
| Potential tax benefit @ 30% | 406,573 | 433,500 |

The above potential tax benefit for tax losses has not been recognised in the statement of financial position. These tax losses can only be utilised in the future if the continuity of ownership test is passed, or failing that, the same business test is passed.

Note 7. Income tax (continued)

| | Consolidated | |
|---|---------------------|----------------|
| | 2018 | 2017 |
| | \$ | \$ |
| <i>Deferred tax asset</i> | | |
| Deferred tax asset comprises temporary differences attributable to: | | |
| Amounts recognised in profit or loss: | | |
| Tax losses | 91,057 | 69,000 |
| Property, plant and equipment | 581 | 1,000 |
| Employee benefits | 249,672 | 247,000 |
| Intangibles | 389,004 | - |
| Black hole legal deductions | 49,072 | 88,000 |
| Other | 328,685 | 364,826 |
| Deferred tax asset | <u>1,108,071</u> | <u>769,826</u> |
| Movements: | | |
| Opening balance | 769,826 | 1,199,475 |
| Credited/(charged) to profit or loss | 338,245 | (429,649) |
| Closing balance | <u>1,108,071</u> | <u>769,826</u> |
| Consolidated | | |
| | 2018 | 2017 |
| | \$ | \$ |
| <i>Deferred tax liability</i> | | |
| Deferred tax liability comprises temporary differences attributable to: | | |
| Amounts recognised in profit or loss: | | |
| Work in progress | 53,974 | 15,000 |
| Other | 73,076 | 88,165 |
| Deferred tax liability | <u>127,050</u> | <u>103,165</u> |
| Movements: | | |
| Opening balance | 103,165 | 305,690 |
| Charged/(credited) to profit or loss | 23,885 | (202,525) |
| Closing balance | <u>127,050</u> | <u>103,165</u> |
| Consolidated | | |
| | 2018 | 2017 |
| | \$ | \$ |
| <i>Income tax refund due</i> | | |
| Income tax refund due | <u>87</u> | <u>7,887</u> |
| Consolidated | | |
| | 2018 | 2017 |
| | \$ | \$ |
| <i>Provision for income tax</i> | | |
| Provision for income tax | <u>17,661</u> | <u>90,049</u> |

Note 8. Current assets - cash and cash equivalents

| | Consolidated | |
|-----------------|---------------------|------------------|
| | 2018 | 2017 |
| | \$ | \$ |
| Cash at bank | 1,028,029 | 2,575,593 |
| Cash on deposit | 438,524 | 479,167 |
| | <u>1,466,553</u> | <u>3,054,760</u> |

Note 9. Current assets - trade and other receivables

| | Consolidated | |
|---|---------------------|------------------|
| | 2018 | 2017 |
| | \$ | \$ |
| Trade receivables | 4,758,157 | 5,119,451 |
| Less: Provision for impairment of receivables | (105,765) | (76,801) |
| | <u>4,652,392</u> | <u>5,042,650</u> |
| Other receivables | 223,234 | 66,180 |
| | <u>4,875,626</u> | <u>5,108,830</u> |

Impairment of receivables

The Consolidated Entity has recognised an expense of \$28,964 (2017: \$43,539) in respect of doubtful debt provision for the year ended 30 June 2018.

The ageing of the impaired receivables provided for above are as follows:

| | Consolidated | |
|-----------------------|---------------------|---------------|
| | 2018 | 2017 |
| | \$ | \$ |
| Over 3 months overdue | <u>105,765</u> | <u>76,801</u> |

Movements in the provision for impairment of receivables are as follows:

| | Consolidated | |
|----------------------------------|---------------------|---------------|
| | 2018 | 2017 |
| | \$ | \$ |
| Opening balance | 76,801 | 73,262 |
| Additional provisions recognised | 28,964 | 43,539 |
| Unused amounts reversed | - | (40,000) |
| | <u>105,765</u> | <u>76,801</u> |

Past due but not impaired

Customers with balances past due but without provision for impairment of receivables amount to \$1,481,950 as at 30 June 2018 (\$1,776,000 as at 30 June 2017).

The Consolidated Entity did not consider a credit risk on the aggregate balances after reviewing the credit terms of customers based on recent collection practices.

Note 9. Current assets - trade and other receivables (continued)

The ageing of the past due but not impaired receivables are as follows:

| | Consolidated | |
|-----------------------|---------------------|------------------|
| | 2018 | 2017 |
| | \$ | \$ |
| 1 to 3 months overdue | 966,175 | 942,000 |
| Over 3 months overdue | 515,775 | 834,000 |
| | <u>1,481,950</u> | <u>1,776,000</u> |

The receivable due from Dentsu Mitchell for \$424,911 relates to invoices for services rendered which is expected to be recovered based on Adcorp's legal position as at 30 June 2018. Refer to Note 29 for further information on contingent liabilities.

Note 10. Current assets - intangibles

| | Consolidated | |
|--------------------------------|---------------------|------------------|
| | 2018 | 2017 |
| | \$ | \$ |
| Production assets | 3,074,536 | 1,246,623 |
| Less: Accumulated amortisation | (1,793,919) | (239,775) |
| | <u>1,280,617</u> | <u>1,006,848</u> |

Reconciliations

Reconciliations of the written down values at the beginning and end of the current and previous financial year are set out below:

| Consolidated | Production assets \$ |
|----------------------------|-------------------------------------|
| Balance at 1 July 2016 | 616,971 |
| Additions | 629,652 |
| Amortisation expense | <u>(239,775)</u> |
| Balance at 30 June 2017 | 1,006,848 |
| Additions | 1,808,207 |
| Impairment of assets | (1,577) |
| Transfers from non-current | 19,706 |
| Amortisation expense | <u>(1,552,567)</u> |
| Balance at 30 June 2018 | <u>1,280,617</u> |

Note 11. Current assets - other financial assets

| | Consolidated | |
|-------------------|---------------------|----------------|
| | 2018 | 2017 |
| | \$ | \$ |
| Invoice financing | - | 481,525 |
| | <u>-</u> | <u>481,525</u> |

Note 12. Current assets - other

| | Consolidated | |
|-------------------|---------------------|----------------|
| | 2018 | 2017 |
| | \$ | \$ |
| Prepayments | 366,974 | 455,353 |
| Security deposits | 280,064 | 274,080 |
| | <u>647,038</u> | <u>729,433</u> |

Note 13. Non-current assets - investments accounted for using the equity method

| | Consolidated | |
|---|---------------------|-------------|
| | 2018 | 2017 |
| | \$ | \$ |
| Investment in associate - Shootsta Holdings Pty Ltd | 917,225 | 962,254 |

Interests in associates

Interests in associates are accounted for using the equity method of accounting. Information relating to associates that are material to the Consolidated Entity are set out below:

| Name | Principal place of business / Country of incorporation | Ownership interest | |
|---------------------------|---|---------------------------|-------------|
| | | 2018 | 2017 |
| | | % | % |
| Shootsta Holdings Pty Ltd | Australia | 15.00% | 15.00% |

On 22 July 2016, Adcorp purchased a 15% investment in Shootsta Holdings Pty Ltd ('Shootsta'), a company that empowers companies to create their own professional videos using a Shootsta kit. Adcorp also took a seat on the Shootsta board as part of the transaction.

Note 13. Non-current assets - investments accounted for using the equity method (continued)

Summarised financial information

| | Shootsta Holdings Pty Ltd | |
|--|----------------------------------|------------------|
| | 2018 | 2017 |
| | \$ | \$ |
| <i>Summarised statement of financial position</i> | | |
| Current assets | 1,715,670 | 727,140 |
| Non-current assets | 1,292,073 | 578,559 |
| Total assets | 3,007,743 | 1,305,699 |
| Current liabilities | 2,739,838 | 359,886 |
| Non-current liabilities | 62,822 | 658,125 |
| Total liabilities | 2,802,660 | 1,018,011 |
| Net assets | 205,083 | 287,688 |
| <i>Summarised statement of profit or loss and other comprehensive income</i> | | |
| Revenue | 5,560,201 | 2,080,543 |
| Expenses | (5,864,845) | (2,393,409) |
| Loss before income tax | (304,644) | (312,866) |
| Other comprehensive income | - | - |
| Total comprehensive income | (304,644) | (312,866) |
| <i>Reconciliation of the Consolidated Entity's carrying amount</i> | | |
| Opening carrying amount | 962,254 | - |
| Share of loss after income tax | (45,029) | (46,930) |
| Purchase price - cash | - | 764,664 |
| Purchase price - in-kind services | - | 200,000 |
| Acquisition costs | - | 44,520 |
| Closing carrying amount | 917,225 | 962,254 |

Interests in joint ventures

Interests in joint ventures are accounted for using the equity method of accounting. Information relating to joint ventures that are material to the Consolidated Entity are set out below:

| Name | Principal place of business / Country of incorporation | Ownership interest | |
|------------------------|---|---------------------------|-------------|
| | | 2018 | 2017 |
| | | % | % |
| HR by the Hour Pty Ltd | Australia | 50.00% | 50.00% |

HR by the Hour Pty Ltd ('HRBTH') is a 50% owned joint venture entity incorporated on 14 January 2016. HRBTH provides Recruitment and HR related services. The joint venture is accounted for under the equity accounting method, however as at 30 June 2018 the share of profits in HRBTH was not material (2017: not material).

Note 14. Non-current assets - property, plant and equipment

| | Consolidated | |
|----------------------------------|-----------------------|-----------------------|
| | 2018 | 2017 |
| | \$ | \$ |
| Office equipment - at cost | 3,881,224 | 3,672,504 |
| Less: Accumulated depreciation | (3,074,969) | (2,986,761) |
| Less: Impairment | (373,000) | (373,000) |
| | <u>433,255</u> | <u>312,743</u> |
| Furniture and fittings - at cost | 3,477,660 | 3,609,928 |
| Less: Accumulated depreciation | (2,799,460) | (2,780,342) |
| Less: Impairment | (500,098) | (500,098) |
| | <u>178,102</u> | <u>329,488</u> |
| | <u><u>611,357</u></u> | <u><u>642,231</u></u> |

Reconciliations

Reconciliations of the written down values at the beginning and end of the current and previous financial year are set out below:

| Consolidated | Office equipment \$ | Furniture and fittings \$ | Total \$ |
|-------------------------|------------------------------------|--|---------------------|
| Balance at 1 July 2016 | 240,382 | 485,079 | 725,461 |
| Additions | 186,286 | 11,642 | 197,928 |
| Disposals | (11,075) | (2,061) | (13,136) |
| Exchange differences | (255) | 409 | 154 |
| Depreciation expense | (102,595) | (165,581) | (268,176) |
| | <u>312,743</u> | <u>329,488</u> | <u>642,231</u> |
| Balance at 30 June 2017 | 312,743 | 329,488 | 642,231 |
| Additions | 267,367 | 12,153 | 279,520 |
| Disposals | (2,779) | (2,475) | (5,254) |
| Exchange differences | (839) | (1,387) | (2,226) |
| Depreciation expense | (143,237) | (159,677) | (302,914) |
| | <u>433,255</u> | <u>178,102</u> | <u>611,357</u> |

Note 15. Non-current assets - intangibles

| | Consolidated | |
|--|-----------------------|-----------------------|
| | 2018 | 2017 |
| | \$ | \$ |
| Software licences - at cost | 3,360,751 | 3,358,081 |
| Less: Accumulated amortisation | (3,180,277) | (3,152,114) |
| Less: Impairment | (125,817) | (125,817) |
| | <u>54,657</u> | <u>80,150</u> |
| Trademarks and other intellectual property - at cost | 2,910 | 2,910 |
| Less: Accumulated amortisation | (901) | (659) |
| | <u>2,009</u> | <u>2,251</u> |
| Production assets - at cost | 281,701 | 301,407 |
| | <u><u>338,367</u></u> | <u><u>383,808</u></u> |

Note 15. Non-current assets - intangibles (continued)

Reconciliations

Reconciliations of the written down values at the beginning and end of the current and previous financial year are set out below:

| Consolidated | Software licences \$ | Trademarks and other intellectual property \$ | Production assets \$ | Total \$ |
|-------------------------|----------------------------|---|----------------------------|----------------|
| Balance at 1 July 2016 | 63,306 | 784 | - | 64,090 |
| Additions | 193,870 | 2,419 | 301,407 | 497,696 |
| Disposals | (1,533) | - | - | (1,533) |
| Amortisation expense | (175,493) | (952) | - | (176,445) |
| Balance at 30 June 2017 | 80,150 | 2,251 | 301,407 | 383,808 |
| Additions | 121,309 | - | - | 121,309 |
| Transfers to current | - | - | (19,706) | (19,706) |
| Amortisation expense | (146,802) | (242) | - | (147,044) |
| Balance at 30 June 2018 | <u>54,657</u> | <u>2,009</u> | <u>281,701</u> | <u>338,367</u> |

Note 16. Current liabilities - trade and other payables

| | Consolidated 2018 \$ | 2017 \$ |
|------------------------|-------------------------------------|--------------------|
| Trade payables | 6,039,307 | 6,376,245 |
| Deferred consideration | 89,138 | 167,326 |
| Other payables | 4,259,947 | 3,943,959 |
| | <u>10,388,392</u> | <u>10,487,530</u> |

Refer to note 25 for further information on financial instruments.

Note 17. Current liabilities - borrowings

| | Consolidated 2018 \$ | 2017 \$ |
|------------------|-------------------------------------|--------------------|
| Chattel mortgage | <u>81,205</u> | <u>29,868</u> |

Refer to note 20 for further information on assets pledged as security and financing arrangements.

Refer to note 25 for further information on financial instruments.

Note 18. Current liabilities - provisions

| | Consolidated | |
|-------------------|---------------------|----------------|
| | 2018 | 2017 |
| | \$ | \$ |
| Employee benefits | 775,804 | 737,173 |
| Decommissioning | 53,344 | 93,571 |
| | <u>829,148</u> | <u>830,744</u> |

Decommissioning

The provision represents the present value of the estimated costs to make good the premises leased by the Consolidated Entity at the end of the respective lease terms.

Refer to note 21 for details of the movements in provision.

Note 19. Current liabilities - other financial liabilities

| | Consolidated | |
|-------------------|---------------------|-------------|
| | 2018 | 2017 |
| | \$ | \$ |
| Invoice financing | 548,428 | - |

Note 20. Non-current liabilities - borrowings

| | Consolidated | |
|------------------|---------------------|-------------|
| | 2018 | 2017 |
| | \$ | \$ |
| Chattel mortgage | 193,379 | 57,656 |

Refer to note 25 for further information on financial instruments.

Total secured liabilities

The total secured liabilities (current and non-current) are as follows:

| | Consolidated | |
|------------------|---------------------|-------------|
| | 2018 | 2017 |
| | \$ | \$ |
| Chattel mortgage | 274,584 | 87,524 |

Note 20. Non-current liabilities - borrowings (continued)

Assets pledged as security

The chattel mortgage is secured through the Consolidated Entity's debt financier who holds security over all the Consolidated Entity's assets.

Financing arrangements

Unrestricted access was available at the reporting date to the following lines of credit:

| | Consolidated | Consolidated |
|------------------------------|---------------------|---------------------|
| | 2018 | 2017 |
| | \$ | \$ |
| Total facilities | | |
| Chattel mortgage | 274,584 | 87,524 |
| Used at the reporting date | | |
| Chattel mortgage | 274,584 | 87,524 |
| Unused at the reporting date | | |
| Chattel mortgage | - | - |

Note 21. Non-current liabilities - provisions

| | Consolidated | Consolidated |
|-------------------|---------------------|---------------------|
| | 2018 | 2017 |
| | \$ | \$ |
| Employee benefits | 61,080 | 91,268 |
| Decommissioning | 241,157 | 252,713 |
| | <u>302,237</u> | <u>343,981</u> |

Decommissioning

The provision represents the present value of the estimated costs to make good the premises leased by the Consolidated Entity at the end of the respective lease terms.

Movements in provisions

Movements in each class of provision (current and non-current) during the current financial year, other than employee benefits, are set out below:

| Consolidated - 2018 | Decom- missioning \$ |
|--|-------------------------------------|
| Carrying amount at the start of the year | 346,284 |
| Unused amounts reversed | (51,783) |
| Carrying amount at the end of the year | <u>294,501</u> |

Note 22. Equity - issued capital

| | 2018 | Consolidated | 2018 | 2017 |
|------------------------------|---------------|---------------------|-------------|-------------|
| | Shares | 2017 | \$ | \$ |
| | | Shares | | |
| Ordinary shares - fully paid | 182,029,806 | 182,029,806 | 32,353,386 | 32,353,386 |

Note 22. Equity - issued capital (continued)

Ordinary shares

Ordinary shares entitle the holder to participate in dividends and the proceeds on the winding up of the Company in proportion to the number of and amounts paid on the shares held. The fully paid ordinary shares have no par value and the Company does not have a limited amount of authorised capital.

On a show of hands every member present at a meeting in person or by proxy shall have one vote and upon a poll each share shall have one vote.

Share buy-back

There is no current on-market share buy-back.

Capital risk management

When managing capital, management's objective is to ensure the Company and Consolidated Entity continues as a going concern as well as to maintain optimal returns to shareholders. Management are constantly reviewing the capital structure of the Company and Consolidated Entity in light of any expected changes in market conditions. Management has no current plans to issue further shares on the market or to reduce the capital structure by conducting share buybacks.

Capital is regarded as total equity, as recognised in the statement of financial position, plus net debt. Net debt is calculated as total borrowings less cash and cash equivalents.

Management aim to return a high level of profits to shareholders as dividend payments, whilst maintaining sufficient cash in the business for meeting working capital requirements.

The capital risk management policy remains unchanged from the 30 June 2017 Annual Report.

Note 23. Equity - non-controlling interest

| | Consolidated | |
|--------------------|---------------------|----------------|
| | 2018 | 2017 |
| | \$ | \$ |
| Contributed equity | 202,030 | 202,030 |
| Reserves | 32,251 | 32,251 |
| Accumulated losses | (103,222) | (128,105) |
| | <u>131,059</u> | <u>106,176</u> |

The non-controlling interest has 25% (2017: 25%) equity holding in Quadrant Creative Pty Ltd.

Note 24. Equity - dividends

Dividends

There were no dividends paid, recommended or declared during the current or previous financial year.

Franking credits

| | Consolidated | |
|--|---------------------|------------------|
| | 2018 | 2017 |
| | \$ | \$ |
| Franking credits available for subsequent financial years based on a tax rate of 30% | <u>5,153,235</u> | <u>5,043,159</u> |

The above amounts represent the balance of the franking account as at the end of the financial year, adjusted for:

- franking credits that will arise from the payment of the amount of the provision for income tax at the reporting date
- franking debits that will arise from the payment of dividends recognised as a liability at the reporting date
- franking credits that will arise from the receipt of dividends recognised as receivables at the reporting date

Note 25. Financial instruments

Financial risk management objectives

The Consolidated Entity's principal financial liabilities comprise trade payables. These financial liabilities arise directly from the consolidated entity's operations. The Consolidated Entity has various financial assets such as trade receivables and cash and short-term deposits, which arise directly from its operations.

Risk management is carried out by senior finance executives ('finance') under policies approved by the Board of Directors ('the Board'). These policies include identification and analysis of the risk exposure of the Consolidated Entity and appropriate procedures, controls and risk limits. Finance identifies, evaluates and hedges financial risks within the Consolidated Entity's operating units. Finance reports to the Board on a monthly basis.

Market risk

Foreign currency risk

The Consolidated Entity has transactional foreign currency exposures. Such exposure arises from purchases by the Consolidated Entity in currencies other than the functional currency of the operating units. Approximately 2% of the Consolidated Entity's purchases are denominated in currencies other than the functional currency of the operating unit making the subsequent sale. These amounts include the payables of foreign creditors, which are not effectively hedged by other foreign currency denominated items.

The Consolidated Entity's main foreign currency exposure is New Zealand Dollars, as shown below. Based on this exposure, had the Australian Dollar weakened by 10% or strengthened by 10% against the New Zealand Dollar with all other variables held constant, the movement would have an immaterial impact on the Consolidated Entity. The Consolidated Entity is not sensitive to movements in other currencies.

The carrying amount of the Consolidated Entity's foreign currency denominated financial assets and financial liabilities at the reporting date were as follows:

| | Assets | | Liabilities | |
|---------------------|-----------|-----------|-------------|---------|
| | 2018 | 2017 | 2018 | 2017 |
| Consolidated | \$ | \$ | \$ | \$ |
| New Zealand dollars | 1,606,648 | 1,657,000 | 993,174 | 947,000 |

Price risk

The Consolidated Entity is not exposed to any significant price risk.

Interest rate risk

The Consolidated Entity's principal financial instruments comprise cash and short-term deposits. The main purpose of these financial instruments is to finance the Consolidated Entity's operations.

The Consolidated Entity has various other financial instruments such as trade debtors and trade creditors, which arise directly from its operations.

The Consolidated Entity is not exposed to any significant interest rate risk.

Credit risk

Credit risk arises from the financial assets of the Consolidated Entity, which comprise cash and cash equivalents, trade and other receivables. The Consolidated Entity's exposure to credit risk arises from potential default of the counter party, with a maximum exposure equal to the carrying amount of these instruments.

It is the Consolidated Entity's policy that all customers who wish to trade on credit terms are subject to credit verification procedures including an assessment of their independent credit rating and financial position. Some customer credit risk within the Consolidated Entity is managed by the use of debtors insurance.

In addition, receivable balances are monitored on an ongoing basis with the result that the Consolidated Entity's exposure to bad debts is not considered to be significant.

Note 25. Financial instruments (continued)

Liquidity risk

Liquidity risk is the risk that the Consolidated Entity will be unable to meet its payment obligations when they fall due under normal and stress circumstances. The Consolidated Entity's objective is to maintain a balance between continuity of funding and flexibility through effective management of working capital and the use of available bank credit lines. To limit this risk, management has arranged invoice financing facilities, manages assets with liquidity in mind, and monitors future cash flows and liquidity on a daily basis.

Remaining contractual maturities

The following tables detail the Consolidated Entity's remaining contractual maturity for its financial instrument liabilities. The tables have been drawn up based on the undiscounted cash flows of financial liabilities based on the earliest date on which the financial liabilities are required to be paid. The tables include both interest and principal cash flows disclosed as remaining contractual maturities and therefore these totals may differ from their carrying amount in the statement of financial position.

| Consolidated - 2018 | Weighted average interest rate % | 1 year or less \$ | Between 1 and 2 years \$ | Between 2 and 5 years \$ | Over 5 years \$ | Remaining contractual maturities \$ |
|--------------------------------------|---|----------------------|--------------------------------|--------------------------------|--------------------|--|
| Non-derivatives | | | | | | |
| <i>Non-interest bearing</i> | | | | | | |
| Trade payables | - | 6,039,307 | - | - | - | 6,039,307 |
| Other payables | - | 4,259,947 | 105,981 | - | - | 4,365,928 |
| <i>Interest-bearing - fixed rate</i> | | | | | | |
| Invoice financing | 8.50% | 548,428 | - | - | - | 548,428 |
| Chattel mortgage | 9.79% | 104,459 | 91,786 | 128,965 | - | 325,210 |
| Total non-derivatives | | 10,952,141 | 197,767 | 128,965 | - | 11,278,873 |

| Consolidated - 2017 | Weighted average interest rate % | 1 year or less \$ | Between 1 and 2 years \$ | Between 2 and 5 years \$ | Over 5 years \$ | Remaining contractual maturities \$ |
|--------------------------------------|---|----------------------|--------------------------------|--------------------------------|--------------------|--|
| Non-derivatives | | | | | | |
| <i>Non-interest bearing</i> | | | | | | |
| Trade payables | - | 6,376,245 | - | - | - | 6,376,245 |
| Other payables | - | 4,111,285 | 93,128 | - | - | 4,204,413 |
| <i>Interest-bearing - fixed rate</i> | | | | | | |
| Chattel mortgage | 11.00% | 37,853 | 34,567 | 29,316 | - | 101,736 |
| Total non-derivatives | | 10,525,383 | 127,695 | 29,316 | - | 10,682,394 |

Note 26. Fair value measurement

The carrying amounts of trade and other receivables and trade and other payables are assumed to approximate their fair values due to their short-term nature.

The fair value of financial liabilities is estimated by discounting the remaining contractual maturities at the current market interest rate that is available for similar financial liabilities.

Note 27. Key management personnel disclosures

Compensation

The aggregate compensation made to Directors and other members of key management personnel of the Consolidated Entity is set out below:

| | Consolidated | Consolidated |
|------------------------------|---------------------|---------------------|
| | 2018 | 2017 |
| | \$ | \$ |
| Short-term employee benefits | 554,366 | 503,726 |
| Post-employment benefits | 36,430 | 27,908 |
| | <u>590,796</u> | <u>531,634</u> |

Note 28. Remuneration of auditors

During the financial year the following fees were paid or payable for services provided by Grant Thornton Audit Pty Ltd, the auditor of the Company, its network firms and unrelated firms:

| | Consolidated | Consolidated |
|--|---------------------|---------------------|
| | 2018 | 2017 |
| | \$ | \$ |
| <i>Audit services - Grant Thornton Audit Pty Ltd</i> | | |
| Audit or review of the financial statements | <u>95,125</u> | <u>100,000</u> |
| <i>Other services - Grant Thornton Audit Pty Ltd</i> | | |
| Taxation compliance | <u>18,504</u> | <u>18,000</u> |
| | <u>113,629</u> | <u>118,000</u> |
| <i>Audit services - network firms</i> | | |
| Audit or review of the financial statements | <u>32,746</u> | <u>33,725</u> |
| <i>Other services - network firms</i> | | |
| Other professional services | <u>-</u> | <u>587</u> |
| | <u>32,746</u> | <u>34,312</u> |
| <i>Other services - unrelated firms</i> | | |
| Tax compliance | <u>4,054</u> | <u>3,972</u> |

Note 29. Contingent liabilities

The Consolidated Entity has various guarantees over premises.

| | Consolidated | Consolidated |
|----------|---------------------|---------------------|
| | 2018 | 2017 |
| | \$ | \$ |
| Premises | <u>530,242</u> | <u>567,340</u> |

On 11 November 2016, Adcorp received a letter from Dentsu Mitchell Australia Pty Ltd ('Dentsu') claiming amounts owing by Adcorp. This letter was in response to one from Adcorp dated 9 November 2016 demanding payment of outstanding invoices for services rendered. Adcorp considers Dentsu's letter dated 11 November 2016 to be largely unsubstantiated claims and will vigorously defend this position.

Note 29. Contingent liabilities (continued)

On 22 December 2016, Adcorp responded again demanding payment of outstanding invoices for services rendered and in addition claiming damages for wrongful termination of agreement and engaging in misleading and deceptive conduct.

On 28 April 2017 Adcorp lodged a Statement of Claim in the Supreme Court of New South Wales against Dentsu in relation to this termination of services. Dentsu has lodged a counter claim, however Adcorp maintains Dentsu's claim is largely unsubstantiated and will vigorously defend this position.

On 16 March 2018, Adcorp lodged its lay evidence and on 6 July 2018 lodged its expert evidence. Dentsu is now preparing their evidence in response. Adcorp maintains it has a strong case and will continue to vigorously pursue this legal action.

Note 30. Commitments

| | Consolidated | |
|---|---------------------|-------------|
| | 2018 | 2017 |
| | \$ | \$ |
| <i>Capital commitments</i> | | |
| Committed at the reporting date but not recognised as liabilities, payable: | | |
| Property, plant and equipment | 42,215 | 68,173 |
| <i>Lease commitments - operating</i> | | |
| Committed at the reporting date but not recognised as liabilities, payable: | | |
| Within one year | 1,005,344 | 1,053,837 |
| One to five years | 1,346,855 | 2,242,204 |
| | 2,352,199 | 3,296,041 |

Operating leases are entered into as a means of acquiring access to retail property and IT equipment. Rental payments are generally fixed, but with future inflation escalation clauses. Adcorp Australia Limited is a sub-lessor in one property (2017: one property). The future minimum sub-lease payments expected to be received is \$nil (2017: \$114,590).

Note 31. Related party transactions

Parent entity

Adcorp Australia Limited is the parent entity. Parent entity information is set out in note 32.

Subsidiaries

Interests in subsidiaries are set out in note 33.

Associates

Interests in associates are set out in note 13.

Joint ventures

Interests in joint ventures are set out in note 13.

Key management personnel

Disclosures relating to key management personnel are set out in note 27 and the remuneration report included in the Directors' report.

Transactions with related parties

There were no transactions with related parties during the current and previous financial year.

Receivable from and payable to related parties

The Company carries a provision (raised in the 2011 financial year) of \$37,000 for a discretionary incentive for David Morrison, related to performance in the 2011 financial year in his capacity as head of WA, SA and NT regions.

Note 31. Related party transactions (continued)

Loans to/from related parties

As previously disclosed on 24 January 2018, Adcorp secured a short-term loan of \$500,000 from Millennium Company Pty Ltd ATF The Rodwell (New Millennium) Trust ('Millennium'), a company associated with Adcorp's major shareholder and Chairman, Ian Rodwell. The loan bears interest at 12% per annum. The loan facility is secured by a second ranking security in favour of the lender. As this is a related party loan, Adcorp received a waiver of ASX Listing Rule 10.1 to allow the security to be granted without obtaining shareholder approval. On 27 February 2018, Millennium provided an extension of the loan until 31 March 2019. This loan was repaid in full on 29 March 2018.

On 6 June 2018, Adcorp secured a \$750,000 loan from Millennium Company Pty Ltd ATF The Rodwell (New Millennium) Trust, a company associated with Adcorp's major shareholder and Chairman, Ian Rodwell. This loan replaces the short-term loan mentioned above and will be used as required to fund working capital. The loan bears interest at 12% per annum. The Loan Facility is secured by a second ranking security in favour of the Lender. As this is a related party loan, Adcorp sought and received a waiver of ASX Listing Rule 10.1 to allow the Security to be granted without obtaining Shareholder approval under ASX Listing Rule 10.1. Consent was obtained from the Company's first secured lender, Thorn. Balance drawdown from this loan as at 30 June 2018 is zero. However should we drawdown at a later date, this loan has a repayment date of 31 March 2019.

Terms and conditions

All transactions were made on normal commercial terms and conditions and at market rates.

Note 32. Parent entity information

Set out below is the supplementary information about the parent entity.

Statement of profit or loss and other comprehensive income

| | Parent | |
|--------------------------------|--------------------|----------------|
| | 2018 | 2017 |
| | \$ | \$ |
| Profit/(loss) after income tax | <u>(1,475,177)</u> | <u>823,364</u> |
| Total comprehensive income | <u>(1,475,177)</u> | <u>823,364</u> |

Statement of financial position

| | Parent | |
|---------------------------|-------------------------|-------------------------|
| | 2018 | 2017 |
| | \$ | \$ |
| Total current assets | <u>24,109,975</u> | <u>24,309,468</u> |
| Total assets | <u>27,309,132</u> | <u>27,505,089</u> |
| Total current liabilities | <u>24,987,974</u> | <u>23,845,725</u> |
| Total liabilities | <u>25,788,852</u> | <u>24,509,632</u> |
| Equity | | |
| Issued capital | 32,353,386 | 32,353,386 |
| Accumulated losses | <u>(30,833,106)</u> | <u>(29,357,929)</u> |
| Total equity | <u><u>1,520,280</u></u> | <u><u>2,995,457</u></u> |

Contingent liabilities

The parent entity has various guarantees over premises:

Note 32. Parent entity information (continued)

| | Parent | |
|--|----------------------|----------------------|
| | 2018 \$ | 2017 \$ |
| Premises | <u>256,163</u> | <u>293,260</u> |
| <i>Commitments</i> | | |
| The parent entity had capital commitments for property, plant and equipment: | | |
| | Parent 2018 \$ | Parent 2017 \$ |
| Committed at the reporting date but not recognised as liabilities, payable: | | |
| Property, plant and equipment | <u>36,025</u> | <u>57,686</u> |
| | Parent 2018 \$ | Parent 2017 \$ |
| Operating lease commitments: | | |
| Within one year | 506,601 | 495,699 |
| One to five years | <u>533,019</u> | <u>1,039,621</u> |
| | <u>1,039,620</u> | <u>1,535,320</u> |

Operating leases are entered into as a means of acquiring access to retail property and IT equipment. Rental payments are generally fixed, but with future inflation escalation clauses. Adcorp Australia Limited is a sub-lessor in one property (2017: one property). The future minimum sub-lease payments expected to be received is \$nil (2017: \$114,590) within one year.

Significant accounting policies

The accounting policies of the parent entity are consistent with those of the Consolidated Entity, as disclosed in note 2, except for the following:

- Investments in subsidiaries and associates are accounted for at cost, less any impairment, in the parent entity.
- Dividends received from subsidiaries are recognised as other income by the parent entity and its receipt may be an indicator of an impairment of the investment.
- Management fees are charged to subsidiaries to recover costs of functions performed by the head office. Revenue is recognised as earned.

Note 33. Interests in subsidiaries

The consolidated financial statements incorporate the assets, liabilities and results of the following subsidiaries in accordance with the accounting policy described in note 2:

| Name | Principal place of business / Country of incorporation | Ownership interest | |
|---|---|--------------------|-----------|
| | | 2018 % | 2017 % |
| Adcorp Australia (QLD) Pty. Limited | Australia | 100.00% | 100.00% |
| Adcorp Australia (VIC) Pty. Limited | Australia | 100.00% | 100.00% |
| Adcorp D&D Pty Ltd | Australia | 100.00% | 100.00% |
| Adcorp New Zealand Limited | New Zealand | 100.00% | 100.00% |
| Adcorp SWA Pty Ltd * | Australia | 100.00% | 100.00% |
| Adcorp Technologies Pty Ltd | Australia | 100.00% | 100.00% |
| Andrews Advertising Pty. Limited | Australia | 100.00% | 100.00% |
| Austpac Media Pty Limited * | Australia | 100.00% | 100.00% |
| Donald & Donald (Victoria) Pty. Limited * | Australia | 100.00% | 100.00% |
| Employment Opportunities in Australia Pty Limited | Australia | 100.00% | 100.00% |
| Nancarrow Marketing Company Pty Ltd ** | Australia | 100.00% | 100.00% |
| Quadrant Creative Pty Ltd | Australia | 75.00% | 75.00% |
| R&L Advertising Pty Ltd | Australia | 100.00% | 100.00% |
| Showrunner Productions Pty Ltd | Australia | 100.00% | 100.00% |
| 72 Dangerous Animals Asia Pty Ltd *** | Australia | 100.00% | 100.00% |
| 72 Dangerous Animals Latin America Pty Ltd *** | Australia | 100.00% | 100.00% |
| Adcorp EIS Nominee Pty Ltd | Australia | 100.00% | - |

* These entities are controlled entities of Adcorp D&D Pty Ltd

** This entity is a controlled entity of Donald & Donald (Victoria) Pty Ltd

*** These entities are controlled entities of Showrunner Productions Pty Ltd

Note 34. Deed of cross guarantee

The following entities are party to a deed of cross guarantee under which each company guarantees the debts of the others:

Adcorp Australia Limited
Adcorp Australia (QLD) Pty Ltd
Adcorp Australia (VIC) Pty Ltd
Adcorp D&D Pty Ltd

By entering into the deed, the wholly-owned entities have been relieved from the requirement to prepare financial statements and Directors' report under Corporations Instrument 2016/785 issued by the Australian Securities and Investments Commission.

The above companies represent a 'Closed Group' for the purposes of the Corporations Instrument, and as there are no other parties to the deed of cross guarantee that are controlled by Adcorp Australia Limited, they also represent the 'Extended Closed Group'.

Note 34. Deed of cross guarantee (continued)

Set out below is a consolidated statement of profit or loss and other comprehensive income and statement of financial position of the 'Closed Group'.

| | 2018 | 2017 |
|---|--------------------|--------------------|
| | \$ | \$ |
| Statement of profit or loss and other comprehensive income | | |
| Revenue | 6,902,267 | 8,402,229 |
| Share of losses of associates accounted for using the equity method | (45,029) | (46,930) |
| Other income | 109,149 | 163,100 |
| Client service expenses | (5,684,297) | (6,351,206) |
| Administrative expenses | (866,071) | (752,227) |
| Marketing expenses | (551,201) | (565,131) |
| Office and communication expenses | (1,635,780) | (1,964,482) |
| Finance costs | (63,666) | (12,900) |
| Loss before income tax expense | (1,834,628) | (1,127,547) |
| Income tax expense | - | - |
| Loss after income tax expense | (1,834,628) | (1,127,547) |
| Other comprehensive income for the year, net of tax | - | - |
| Total comprehensive income for the year | (1,834,628) | (1,127,547) |
| | 2018 | 2017 |
| | \$ | \$ |
| Equity - accumulated losses | | |
| Accumulated losses at the beginning of the financial year | (30,638,844) | (29,511,297) |
| Loss after income tax expense | (1,834,628) | (1,127,547) |
| Accumulated losses at the end of the financial year | (32,473,472) | (30,638,844) |

Note 34. Deed of cross guarantee (continued)

| Statement of financial position | 2018 | 2017 |
|---|-------------------|-------------------|
| | \$ | \$ |
| Current assets | | |
| Cash and cash equivalents | 802,655 | 2,219,398 |
| Trade and other receivables | 20,938,423 | 19,697,003 |
| Other financial assets | - | 481,525 |
| Other | 323,217 | 343,921 |
| | <u>22,064,295</u> | <u>22,741,847</u> |
| Non-current assets | | |
| Investments accounted for using the equity method | 917,225 | 962,254 |
| Other financial assets | 1,823,979 | 1,823,979 |
| Property, plant and equipment | 484,490 | 465,503 |
| Intangibles | 61,321 | 86,934 |
| | <u>3,287,015</u> | <u>3,338,670</u> |
| Total assets | <u>25,351,310</u> | <u>26,080,517</u> |
| Current liabilities | | |
| Trade and other payables | 20,031,676 | 19,564,337 |
| Borrowings | 81,205 | 29,868 |
| Income tax | 1,114,452 | 1,114,452 |
| Provisions | 2,834,799 | 2,916,331 |
| Other financial liabilities | 548,428 | - |
| | <u>24,610,560</u> | <u>23,624,988</u> |
| Non-current liabilities | | |
| Payables | 100,985 | 93,129 |
| Borrowings | 193,379 | 57,656 |
| Provisions | 566,472 | 590,202 |
| | <u>860,836</u> | <u>740,987</u> |
| Total liabilities | <u>25,471,396</u> | <u>24,365,975</u> |
| Net assets/(liabilities) | <u>(120,086)</u> | <u>1,714,542</u> |
| Equity | | |
| Issued capital | 32,353,386 | 32,353,386 |
| Accumulated losses | (32,473,472) | (30,638,844) |
| Total equity/(deficiency) | <u>(120,086)</u> | <u>1,714,542</u> |

Note 35. Reconciliation of loss after income tax to net cash used in operating activities

| | Consolidated | |
|---|---------------------|------------------|
| | 2018 | 2017 |
| | \$ | \$ |
| Loss after income tax (expense)/benefit for the year | (2,084,743) | (1,409,098) |
| Adjustments for: | | |
| Depreciation and amortisation | 2,002,525 | 684,396 |
| Impairment of intangibles | 1,577 | - |
| Net loss on disposal of property, plant and equipment | 1,822 | 11,908 |
| Net loss on disposal of intangibles | - | 1,629 |
| Share of loss - associates | 45,029 | 46,930 |
| Foreign exchange differences | (27,581) | (1,543) |
| Non-cash investment (note 13) | - | (200,000) |
| Non-cash expenses | 3,283 | (16,270) |
| Non-cash intangibles (notes 10 and 15) | - | (931,059) |
| Non-operating finance costs | 114,026 | - |
| Change in operating assets and liabilities: | | |
| Decrease in trade and other receivables | 233,204 | 2,360,357 |
| Decrease in income tax refund due | 7,800 | 22,727 |
| Decrease/(increase) in deferred tax assets | (338,245) | 429,649 |
| Decrease/(increase) in prepayments | 88,379 | (31,064) |
| Decrease in trade and other payables | (86,285) | (1,216,550) |
| Increase/(decrease) in provision for income tax | (72,388) | 37,751 |
| Increase/(decrease) in deferred tax liabilities | 23,885 | (202,525) |
| Decrease in other provisions | (43,340) | (74,436) |
| Increase/(decrease) in other operating liabilities | (345,271) | 374,271 |
| Net cash used in operating activities | <u>(476,323)</u> | <u>(112,927)</u> |

Note 36. Non-cash investing and financing activities

| | Consolidated | |
|----------------------------|---------------------|----------------|
| | 2018 | 2017 |
| | \$ | \$ |
| Acquisition of intangibles | <u>1,808,208</u> | <u>931,059</u> |

Note 37. Changes in liabilities arising from financing activities

| Consolidated | Invoice financing \$ | Chattel mortgage \$ | Total \$ |
|--|-------------------------------------|------------------------------------|---------------------|
| Balance at 1 July 2016 | 382,277 | - | 382,277 |
| Net cash from/(used in) financing activities | 86,245 | (87,194) | (949) |
| Other changes | 13,003 | (330) | 12,673 |
| Balance at 30 June 2017 | 481,525 | (87,524) | 394,001 |
| Net cash used in financing activities | (1,029,953) | (187,060) | (1,217,013) |
| Balance at 30 June 2018 | <u>(548,428)</u> | <u>(274,584)</u> | <u>(823,012)</u> |

Note 38. Earnings per share

| | Consolidated | |
|---|---------------------|--------------------|
| | 2018 | 2017 |
| | \$ | \$ |
| Loss after income tax | (2,084,743) | (1,409,098) |
| Non-controlling interest | <u>(24,883)</u> | <u>(81,882)</u> |
| Loss after income tax attributable to the owners of Adcorp Australia Limited | <u>(2,109,626)</u> | <u>(1,490,980)</u> |
| | Number | Number |
| Weighted average number of ordinary shares used in calculating basic earnings per share | <u>182,029,806</u> | <u>182,029,806</u> |
| Weighted average number of ordinary shares used in calculating diluted earnings per share | <u>182,029,806</u> | <u>182,029,806</u> |
| | Cents | Cents |
| Basic earnings per share | (1.16) | (0.82) |
| Diluted earnings per share | (1.16) | (0.82) |

Note 39. Share-based payments

Executive Incentive Share Plan

On 7 June 2018, shareholders approved the Adcorp Australia Limited Executive Incentive Share Plan ('EISP') to assist in attracting, retaining and motivating key employees of the Consolidated Entity.

Eligibility

Participants in the EISP may be employees of the Consolidated Entity, a director of the Consolidated Entity, or any other person determined by the Board to be eligible to participate in the EISP.

Trust

The EISP will be operated and administered through a special purpose Trust known as the Adcorp Executive Incentive Scheme ('EIS') which will be established for the purposes of:

- issuing to certain participants share units in the EIS that carry an entitlement to receive distributions of income received from the Company and which entitle the holder to shares of the Company ('Plan Shares') upon satisfaction of certain conditions that attach to the Plan Shares ('Performance Conditions') before the participants are entitled to the Plan Shares; and
- acquiring or subscribing for and holding Plan Shares in the capital of the Company for the benefit of those participants.

Share Units

A Share Unit will entitle the holder of the Share Unit to have distributed to them in specie a certain number of Plan Shares designated as allocated shares if the performance conditions are met or in other specified circumstances.

Performance Conditions

The right of the eligible person holding Share Units to receive Plan Shares may be subject to Performance Conditions as determined by the Board.

Cessation of Employment

On cessation of employment, other than by reason of special circumstances, the Share Units will lapse and the holder will not be entitled to transfer the allotted shares.

Issue Price

The issue price of Share Units and Plan Shares respectively will be determined by the Board at the time of issue. There may be different issue prices for different participants.

Note 40. Events after the reporting period

On 7 June 2018, shareholders agreed to the provision of directors loans to certain directors to fund the issue of Share Units in the Adcorp Executive Incentive Scheme. The provision of directors loans were approved on 1 July 2018 for a total of \$1,977,600 and have interest rates of 5% per annum, however they are yet to be advanced. Interest is payable on 1 July each year commencing 1 July 2019.

On 16 August 2018, Adcorp made the decision to provide notice to terminate its Service Agreement with Colliers International as its preferred supplier of real estate advertising services. The Service Agreement will conclude on 14 December 2018.

No other matter or circumstance has arisen since 30 June 2018 that has significantly affected, or may significantly affect the Consolidated Entity's operations, the results of those operations, or the Consolidated Entity's state of affairs in future financial years.

Adcorp Australia Limited
Directors' declaration
30 June 2018

In the Directors' opinion:

- the attached financial statements and notes comply with the Corporations Act 2001, the Accounting Standards, the Corporations Regulations 2001 and other mandatory professional reporting requirements;
- the attached financial statements and notes comply with International Financial Reporting Standards as issued by the International Accounting Standards Board as described in note 2 to the financial statements;
- the attached financial statements and notes give a true and fair view of the Consolidated Entity's financial position as at 30 June 2018 and of its performance for the financial year ended on that date;
- there are reasonable grounds to believe that the Company will be able to pay its debts as and when they become due and payable; and
- at the date of this declaration, there are reasonable grounds to believe that the members of the Extended Closed Group will be able to meet any obligations or liabilities to which they are, or may become, subject by virtue of the deed of cross guarantee described in note 34 to the financial statements.

The Directors have been given the declarations required by section 295A of the Corporations Act 2001.

Signed in accordance with a resolution of Directors made pursuant to section 295(5)(a) of the Corporations Act 2001.

On behalf of the Directors



Alex Parsons
Chief Executive Officer and Managing Director

31 August 2018
Sydney

Independent Auditor's Report

To the Members of Adcorp Australia Limited

Report on the audit of the financial report

Opinion

We have audited the financial report of Adcorp Australia Limited (the Company) and its subsidiaries (the Group), which comprises the consolidated statement of financial position as at 30 June 2018, the consolidated statement of profit or loss and other comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and notes to the consolidated 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 Group's financial position as at 30 June 2018 and of its 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.

Material uncertainty related to going concern

We draw attention to Note 2 in the financial statements, which indicates that the Group incurred a net loss after non-controlling interest and other comprehensive income of \$2,109,626 during the year ended 30 June 2018, and as of that date, the Group's current liabilities exceeded its current assets by \$3,623,913. As stated in Note 2, these events or conditions, along with other matters as set forth in Note 2, indicate that a material uncertainty exists that may cast doubt on the Group's ability to continue as a going concern. Our opinion is not modified in respect of this matter.

Key audit matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the financial report of the current period. These matters were addressed in the context of our audit of the financial report as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

In addition to the matter described in the *Material uncertainty related to going concern* section, we have determined the matters described below to be the key audit matters to be communicated in our report.

| Key audit matter | How our audit addressed the key audit matter |
|--|--|
| <p>Recoverability of intangibles relating to TV production costs – (Note 10)</p> <p>The Group capitalises costs in relation to TV production in accordance with AASB 138: <i>Intangible assets</i>. Revenue recognised from royalties and grants received is dependent on completing certain milestones in the distribution contract.</p> <p>The recoverability of the capitalised production costs is dependent on the realisation of future cash flows relating to royalties earned and grants received on the productions for which the costs were incurred and has therefore been assessed in line with AASB 136: <i>Impairment of Assets</i>. The realisation of future cash flows requires significant management judgement.</p> <p>This area is a key audit matter due to the degree of complexity and management judgement involved in estimating the recoverability of the deferred costs.</p> | <p>Our procedures included, amongst others:</p> <ul style="list-style-type: none"> • Obtaining an understanding of the current progress of the TV productions and discussing with management any major updates on the projects; • Agreeing a sample of costs capitalised and assessing whether these costs met the recognition criteria set out within AASB 138; • Considering the amortisation method employed by management on a production by production basis and assessing whether it is appropriate based on the milestones detailed in the distribution contracts; • Assessing the classification of the production assets by determining when they are expected to be recouped; • Comparing the carrying value of the production costs to expected projected cash flows to ensure production costs did not exceed the projected cash flows. For contractual cash flows, we obtained contracts with media distributors to corroborate the assumptions used by management. Where cash flows were not based on contractual inflows, we obtained further explanations and used previous history from management to corroborate these estimates; • Assessing for any indicators of impairment in accordance with AASB 136; and • Reviewing the appropriateness of the accounting policy and disclosures relating to the recoverability of the intangible production asset. |

Information other than the financial report and auditor's report thereon

The Directors are responsible for the other information. The other information comprises the information included in the Group's annual report for the year ended 30 June 2018, 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 we do not express any form of assurance conclusion thereon.

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

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

Responsibilities of the Directors' for the financial report

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

In preparing the financial report, the Directors are responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related 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.

A further description of our responsibilities for the audit of the financial report is located at the Auditing and Assurance Standards Board website at: http://www.auasb.gov.au/auditors_responsibilities/ar1.pdf. This description forms part of our auditor's report.

Report on the remuneration report

Opinion on the remuneration report

We have audited the Remuneration Report included in pages 7 to 12 of the Directors' report for the year ended 30 June 2018.


In our opinion, the Remuneration Report of Adcorp Australia 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.



Grant Thornton Audit Pty Ltd
Chartered Accountants



R J Isbell
Partner – Audit & Assurance

Sydney, 31 August 2018

Adcorp Australia Limited
Shareholder information
30 June 2018

The shareholder information set out below was applicable as at 17 August 2018.

Distribution of equitable securities

Analysis of number of equitable security holders by size of holding:

| | Number of holders of ordinary shares |
|---------------------------------------|---|
| 1 to 1,000 | 146 |
| 1,001 to 5,000 | 243 |
| 5,001 to 10,000 | 114 |
| 10,001 to 100,000 | 205 |
| 100,001 and over | 76 |
| | <hr/> |
| | 784 |
| | <hr/> <hr/> |
| Holding less than a marketable parcel | 646 |
| | <hr/> <hr/> |

Equity security holders

Twenty largest quoted equity security holders

The names of the twenty largest security holders of quoted equity securities are listed below:

| | Ordinary shares % of total shares issued |
|---|---|
| | Number held |
| MCO Nominees Pty Ltd (AAU Unit A/C) | 122,400,489 |
| Rodwell Super Pty Ltd (The Rodwell Family S/F A/C) | 12,912,471 |
| Ego Pty Ltd | 5,312,343 |
| Mr Frederick Benjamin Warmbrand (FB & LJ Warmbrand Super A/C) | 5,082,404 |
| Navigator Australia Ltd (MLC Investment Sett A/C) | 3,677,081 |
| MYJK Pty Ltd (John Murray Super Fund A/C) | 2,000,000 |
| Mrs Maria Czarnocka | 1,470,000 |
| United Family Enterprise Pty Ltd | 1,327,813 |
| Lozotu Pty Limited (Superannuation Fund A/C) | 993,753 |
| Craig G Treasure Pty Ltd (Treasure Super Fund A/C) | 704,916 |
| Mr Peter Howells | 684,000 |
| Mr Christian Merlot | 664,827 |
| Mr Dong Rong Lun + Miss Dan Yan Lun (Lun Superannuation Fund A/C) | 648,209 |
| Ms Christine Dan Yan Lun | 630,000 |
| Mr Alexander James Green | 572,000 |
| Cyberloom Pty Ltd | 534,730 |
| Mark S Campbell Pty Ltd (Mark Campbell Prov Fund A/C) | 520,901 |
| Mr Konstantinos Lazos | 510,000 |
| A&J Andonovski Investments Pty Ltd (Andonovski Group Family A/C) | 500,000 |
| Citicorp Nominees Pty Limited (DPSL A/C) | 498,300 |
| | <hr/> |
| | 161,644,237 |
| | <hr/> <hr/> |
| | 88.81 |

Unquoted equity securities

There are no unquoted equity securities.

Adcorp Australia Limited
Shareholder information
30 June 2018

Substantial holders

Substantial holders in the Company are set out below:

| | Ordinary shares | |
|--|------------------------|---------------------------------|
| | Number held | % of total shares issued |
| MCO Nominees Pty Ltd (AAU Unit A/C) | 122,400,489 | 67.24 |
| Rodwell Super Pty Ltd (The Rodwell Family S/F A/C) | 12,912,471 | 7.09 |

Voting rights

The voting rights attached to ordinary shares are set out below:

Ordinary shares

On a show of hands every member present at a meeting in person or by proxy shall have one vote and upon a poll each share shall have one vote.

There are no other classes of equity securities.