



InvestSMART

GROUP LIMITED



ANNUAL REPORT

2016

Empowering over 700,000 Australian investors

DIRECTORY

REGISTERED OFFICE

Level 9
37 York Street
Sydney NSW 2000

DIRECTORS

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

COMPANY SECRETARY

Peter Friend

SHARE REGISTRY

Boardroom Pty Limited
Level 12
225 George Street
Sydney NSW 2000

SHAREHOLDER ENQUIRIES

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

AUDITORS

Ernst & Young
200 George Street
Sydney NSW 2000

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

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CHAIRMAN'S REPORT

InvestSMART Group Limited is pleased to announce its audited results for the year ended 30 June 2016 showing an increase in operating profit from \$131,204 in the year ended 30 June 2015, to \$2,407,079.

The 2016 financial year was a period of business consolidation, cost restructuring and systems development. Improving services to members was a core focus and sets the scene for organic growth in member engagement and revenue in the 2017 financial year.

On 4 April 2016, InvestSMART completed the acquisition of Eureka Report Pty Ltd using existing cash reserves. This is a very important strategic acquisition which enables us to scale-up both member services and distribution and has doubled our registered members to over 700,000, increasing paying members by nearly 30% and increasing total revenue by approximately 28%.

It is pleasing to note that despite market deterioration during the 2016 financial year we were still able to post an overall modest growth of 2% in our core revenue streams of commissions on funds under administration and subscriptions.

The following commentary provides a brief breakdown on significant line items within our audited accounts:

Commissions

Revenue resulting from funds under administration fell from \$8,517,513 in 2015 to \$ 7,907,634 for the year ended 30 June 2016, in line with deteriorating market conditions reflected in a reduction in the All Ordinaries Index of approximately 3%.

Subscriptions

Revenues from subscriptions continued to grow in the 2016 financial year from both organic growth and after taking into account the 3 months of subscription revenue from the Eureka Report acquisition.

Consulting fees and Other income

Consulting and other income revenue dropped substantially from previous year as a result of business consolidation and discontinuation of fund manager advertising contract and AWI Ventures. Revenue from these sources decreased year on year by \$1,056,131.

Rebates Paid

Commissions rebated to members as part of our cashback services reduced both in line with deteriorating market conditions and the final flow through of reductions in our cashback scheme.

Employee costs and other operating Expenses

Employee costs and other operating expenses reduced significantly as a result of business consolidation due to a reduced level of senior staff, despite the inclusion of 3 months of Eureka expenses.

Basic earnings per share was 0.16 cents, and diluted earnings per share was 0.14 cents per share, compared to (6.48) for the 2015 financial year and (8.07) for the 2014 financial year for basic and diluted earnings.

The net profit of \$175,160 for 2016 includes the non-cash deductions for amortisation of intangibles acquired in subsidiaries of \$1,597,839 and the employee benefit expense of \$562,877 relating to the Long Term Incentive Plan, and a net corporate tax expense of \$78,705. The tax expense was net of a Research and Development grant received of approximately \$277,000.

Performance in our key metrics for the year ended 30 June 2016 was as follows:

	Q1 FY16	Q2 FY16	Q3 FY16	Q4 FY16
	(to 30/9/15)	(to 31/12/15)	(to 31/3/16)	(to 30 6/16)
Unique visitors	488,210	446,271	567,926	807,713
Customers*	27,067	27,595	27,896	38,543
ARPC (\$)**	\$449	\$409	\$386	\$371

*Strong member growth and addition of Eureka Report resulted in large increases in customers in Q4 FY16

**Average annualised gross revenue per customer per annum (ARPC)

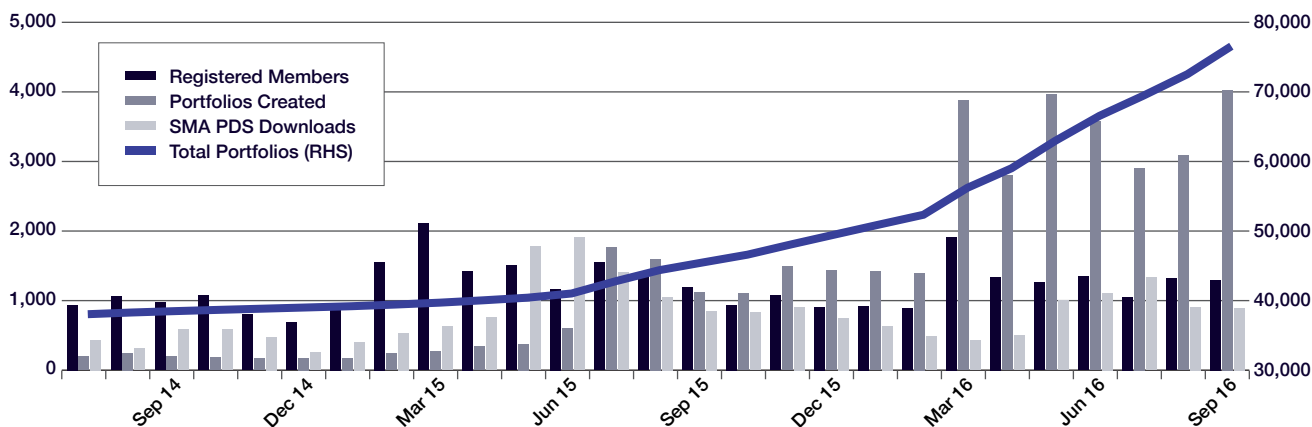
Unique visitors to our websites continue to grow as we improve our member services across the board, integrate systems and improve search engine marketing.

Paying customers grew organically quarter on quarter for the year, with a marked increase in customer numbers in the fourth quarter due to the Eureka Report acquisition. Further consolidation of Eureka Report systems, services and members into the larger group is ongoing and will provide continued growth over the 2017 financial year.

Average revenue per customer fell throughout the year in line with a lower subscription price for Eureka subscribers.

Engagement activity across our automated investment advice tools markedly increased over the months up to June 2016. Improved scalability, systems and content services have started to demonstrate our ability to reach the mass market of Australian retail investors. We expect this enhanced engagement will convert into paying clients over time as our members continue to build trust in our products and services.

InvestSMART Portfolio Services



InvestSMART differentiates itself from all other digital wealth advisers through proprietary software, which helps members construct better weighted portfolios against their risk profiles. InvestSMART analyses over 8,000 managed funds, super and listed securities to show members where they are underweight or overweight a particular asset class. Members are then able to invest in our low cost direct Australian equity and asset class specific Exchange Traded Fund portfolios to better diversify their overall investment portfolio.

It has been a very busy year for the InvestSMART team, but a real pleasure to be working on growing the business, not simply battling with issues from the past. With solid and growing cash at bank, no debt and a very talented and highly motivated team, ably led by Ron Hodge, I am really excited about deepening our online conversations with the 700,000 people who use our services, tools and products and accelerating the growth in customer numbers, revenue and in particular, funds under administration. It has been a remarkable turnaround and the future is very bright for the company and all of its stakeholders.

The InvestSMART 2016 Annual General Meeting will be held on 29 November 2016 at 10am at Level 13, 60 Margaret Street, Sydney. I look forward to reporting to shareholders on our progress at that meeting.

Yours sincerely

Paul Clitheroe AM
Chairman

CORPORATE GOVERNANCE STATEMENT

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

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

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

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

The information in this Statement is current as at 18 October 2016 and has been approved by the Board.

1. CODE OF CONDUCT

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

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

- comply with the spirit, as well as the letter of the law and with the principles of the Code of Conduct;
- ensure compliance with the policies and procedures of the Company, including the Board Charter, Delegations, Securities Trading and Prevention of Insider Trading Policy, Staff Trading and Investment Policy, Continuous Disclosure Policy, Human Resources Policies and Procedures and Risk Management and Compliance Policies.

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

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

2. RESPONSIBILITIES AND FUNCTIONS OF THE BOARD AND MANAGEMENT

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

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

The Board is responsible for:

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

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

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

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

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

3. BOARD STRUCTURE

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

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

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

The Directors' Report included in this Annual Report provides the details of the Directors in office during the year ended 30 June 2016, together with their experience, expertise and qualifications and the number of Board meetings each attended during the year.

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

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

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

The Board has assessed the mix of skills which best suit the business conducted by the Company. The Board believes the current mix of skills among Directors is appropriate for the Company at this time, with the presence of core skills in financial services, governance, marketing, digital distribution and product development. In future the Board will consider expanding and deepening core skills through the expansion of the size of the Board.

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

4. TERMS OF APPOINTMENT OF DIRECTORS

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

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

CORPORATE GOVERNANCE STATEMENT CONTINUED

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

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

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

5. DIRECTORS' INTERESTS AND INDEPENDENCE

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

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

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

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

6. COMMITTEES OF THE BOARD

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

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

6.1 AUDIT, RISK AND COMPLIANCE COMMITTEE

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

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

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

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

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

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

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

Details of the number of meetings of the Committee held during the year ended 30 June 2016 are set out in the Directors' Report included in this Annual Report.

6.2 NOMINATION AND REMUNERATION COMMITTEE

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

The Committee:

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

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

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

Details of the number of meetings of the Committee held during the year ended 30 June 2016 are set out in the Directors' Report included in this Annual Report.

Details about the Company's remuneration policies and practices are set out in the 2016 Remuneration Report included in this

Annual Report. The 2016 Remuneration Report distinguishes the structure of Directors' remuneration from that of senior executives.

6.3 INVESTMENT COMMITTEE

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

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

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

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

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

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

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

CORPORATE GOVERNANCE STATEMENT CONTINUED

8. CONTINUOUS DISCLOSURE

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

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

9. INDEPENDENT PROFESSIONAL ADVICE

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

10. PERFORMANCE ASSESSMENT

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

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

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

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

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

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

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

11. GENDER DIVERSITY

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

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

The Company does not currently have any women on the Board or within the Key Management Personnel (as identified in the 2016 Annual Report) however, 42% of the employees in the Group are women. The Company will seek to maintain or increase this level of women employees in the future and to reflect gender diversity within the Board and Key Management Personnel.

12. DIRECTORS' INDUCTION AND CONTINUING EDUCATION

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

13. MANAGEMENT OF RISK AND INTERNAL CONTROL FRAMEWORK

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

The Audit, Risk and Compliance Committee fulfils an essential role in the management of risk and the establishment, review and monitoring of internal controls. In addition, through the reporting of the Managing Director, the Board also monitors

various measurements of absolute and relative risk. Reviews of the Company's risk management framework were undertaken throughout the reporting period.

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

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

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

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

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

14. ENGAGING SHAREHOLDERS

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

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

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

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

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

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

DIRECTORS' REPORT

The Directors present their report on InvestSMART Group Limited (formerly Australasian Wealth Investments Limited) (**the Company**) and its subsidiaries (collectively **the Group**) for the financial year ended 30 June 2016.

DIRECTORS

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

Paul Clitheroe AM

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

Chairman

Bachelor of Arts (UNSW), SNF Fin, CFP

Age 61

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

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

Michael Shepherd AO

(Appointed 1 March 2014)

Lead Independent Non-Executive Director

Chairman of the Audit Risk and Compliance Committee

Chairman of the Nomination and Remuneration Committee

Age 66

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

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

John O'Connell

(Appointed 1 July 2014, resigned 31 August 2015)

Independent Non-Executive Director

Chairman of the Nomination and Remuneration Committee

B.D. SC (QLD), B.COM (QLD), Graduate Diploma in Applied Finance & Investments, SIA (now FINSIA)

Age 52

John is Chief Investment Officer, Banking and Financial Services for Macquarie Bank. John has been with Macquarie since 1998 and over this time has held various senior management positions both in Australia and the United States. John has a deep knowledge of investment technology and global change as it applies to the financial services sector.

Peter Ronald Hodge

(Appointed 31 August 2015, appointed Managing Director 24 February 2016)

Managing Director

FFin

Age 46

Ron Hodge was the founder of InvestSMART in 1999. He later sold this business to Fairfax Media in October 2007 where he continued as General Manager. He has worked in financial services for over 25 years, including at UBS in Singapore and Bell Commodities in Sydney. Ron is also a director and shareholder in Webabout Pty Ltd, which provided web hosting services to one of the Group companies.

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

COMPANY SECRETARY

Peter Friend is a qualified solicitor, and was appointed Company Secretary on 10 February 2014 and held office throughout the financial year.

INTERESTS IN THE SECURITIES OF THE COMPANY

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

Director	Ordinary Shares
Paul Clitheroe	5,000,000
Michael Shepherd	400,000
Peter Ronald Hodge	4,166,666

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

INTERESTS IN CONTRACTS OR PROPOSED CONTRACTS WITH THE COMPANY

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

PRINCIPAL ACTIVITIES

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

DIRECTORS' REPORT CONTINUED

DIVIDENDS

No dividend has been declared for the financial year ended 30 June 2016 (2015: nil).

REVIEW OF OPERATIONS

Financial results for the year

The results below show the audited operating profit for the year, and are based on consolidated accounting for the year to 30 June 2016. The results for the prior year are based on consolidated accounting for the period from 1 January 2015 to 30 June 2015, and investment accounting from the period from 1 July 2014 to 31 December 2014.

	2016	2015
	\$	\$
Operating profit (loss) before income tax benefit	253,235	(7,811,468)
Income tax benefit (expense)	(78,075)	625,904
Operating profit (loss) for the year	175,160	(7,185,564)

The net tangible asset backing of the Company as at 30 June 2016 was \$0.006 (2015: \$0.008) per share before tax. The operating loss in the prior year was largely attributable to a write down in the valuation of the investment in van Eyk Research Pty Ltd of \$7,490,036 at 31 December 2014, following the appointment of a liquidator to that company.

On 4 April 2016, the Group acquired Eureka Report Pty Ltd, a publisher of investment information, based in Melbourne. The financial results of the Group include the revenues and costs from this business since that date up to 30 June 2016, which are detailed in Note 3 of the financial statements.

The group revenues for subscriptions and commissions for the prior year shown in the financial statements below only reflect revenues for the period from 1 January 2015 to 30 June 2015, due to the change in investment policy in January 2015. Unaudited revenues from subscriptions and commissions for the period from 1 July 2014 to 30 June 2015 are shown below.

Comparative Consolidated Financial Information for the prior year

The table below shows the consolidated performance of the Group for the years to 30 June 2016 and 30 June 2015 respectively. This information is audited for the period from 1 July 2015 to 30 June 2016 and unaudited for the period from 1 July 2014 to 30 June 2015, and only shows earnings before tax and amortisation of goodwill and intangibles, and is presented to show the relative changes over the period.

Statement of Consolidated Comprehensive Income

	Year to 30 Jun 2016	Year to 30 Jun 2015
	\$	\$
Continuing operations		
Commission income	7,907,634	8,517,513
Subscription income	4,207,421	3,361,576
Consulting fees	40,414	650,619
Other income	247,986	693,912
Total Income	12,403,455	13,223,620
Total operating expenses	9,996,376	13,095,752
Operating profit before income tax, amortisation and employee benefit expense	2,407,079	127,868
Change in fair value of financial assets at fair value through profit and loss	6,872	(7,490,036)
Profit (loss) before income tax, amortisation and employee benefit expense	2,413,951	(7,362,168)

The major changes to revenues were a fall in commission income over the year due to falls in the share market in Australia, and a decline in consulting fees from the mutual termination of the marketing contract with Forager Funds and the absence of revenues from AWI Ventures. The increase in subscription income results from the inclusion of Eureka Report revenues from 4 April 2016 in the consolidated income.

Operating expenses are significantly lower than 2015, through a reduction in employee costs and in the proportion of commission income rebated to clients.

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

Business strategies and prospects

The Group will continue to pursue its objectives of increasing the number of subscribers to its services, including users of its free portfolio management service, and the number of investors in its fund management products. The Group will introduce a mobile app and automate the portfolio updates on the portfolio management service during the next 12 months. The Group also intends to pursue strategic partnerships with specific product providers over the next 12 months. There is a risk of a material decline in Group revenues if there is a significant and sustained equity market fall, however, the Group has plans to reduce as many variable costs as possible in that event.

SIGNIFICANT CHANGES IN STATE OF AFFAIRS

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

MEETINGS OF DIRECTORS

The number of Directors' Meetings (including Meetings of Committees of Directors) and number of Meetings attended by each of the Directors of the Company during the 2016 financial year were:

	Directors' Meetings		Meetings of Audit, Risk and Compliance Committee		Meetings of Nomination and Remuneration Committee		Meetings of Investment Committee	
	Meetings eligible to attend	Meetings attended	Meetings eligible to attend	Meetings attended	Meetings eligible to attend	Meetings attended	Meetings eligible to attend	Meetings attended
Paul Clitheroe	10	10	1	1	2	2	2	2
Ron Hodge	8	8	–	–	–	–	2	2
John O'Connell	2	2	2	2	–	–	–	–
Michael Shepherd	10	10	2	2	2	2	–	–

The number of Directors' Meetings has been adjusted for each member to reflect the number of Meetings held during their tenure.

EVENTS SUBSEQUENT TO BALANCE DATE

Since 30 June 2016, there have been no significant events up to the date of this report.

EARNINGS PER SHARE

Basic earnings per share was 0.16 cents per share, and diluted earnings per share was 0.14 cents per share, (2015: (6.48) cents per share for basic and diluted earnings).

DIRECTORS' REPORT CONTINUED

REMUNERATION REPORT (AUDITED)

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

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

All Directors must have a deep understanding and commitment to good corporate governance. The primary role of the Non- Executive Directors is to ensure adherence to good governance.

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

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

The Directors will be entitled to receive the following benefits:

- (a) the maximum total remuneration of the Directors of the Company (excluding the Managing Director) has been set at \$400,000 per annum to be divided amongst them in such proportions as they agree. Directors are not required to allocate the entire amount.
- (b) Mr Paul Clitheroe is eligible to participate in the LTIP and received 4,000,000 shares at 25 cents per share and a corresponding limited recourse loan on 26 November 2014, as approved by shareholders. 1,333,333 of these shares vested on 30 May 2016, when the share price reached \$0.33 per share. The second tranche vests when the share price reaches \$0.42 per share after 26 November 2016. The final tranche vests when the share price reaches \$0.50 per share after 26 November 2017.
- (c) Mr Ronald Hodge, as Managing Director, is eligible to participate in the LTIP and received 4,166,666 shares at 25 cents per share and a corresponding limited recourse loan on 8 September 2015, as approved by shareholders. Mr Hodge's shares have no performance conditions and vest in three equal tranches on 8 September 2016, 8 September 2017 and 8 September 2018 respectively.

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

The Directors' remuneration for the year ended 30 June 2016 is detailed in the following table. There was only accrued long service leave for the Managing Director at 30 June 2016.

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

The Directors' remuneration for the year ended 30 June 2015 is detailed in the following table.

Name of Director	Base fee \$	Superannuation \$	Accrued Annual Leave \$	LTIP Expense \$	Share based Expense \$	Termination Benefits \$	Total \$
Paul Clitheroe	54,175	-	-	80,320	-	-	134,495
John O'Connell	45,000	4,275	-	-	-	-	49,275
Michael Shepherd	-	45,000	-	-	-	-	45,000
Andrew Barnes (resigned 17 November 2014)	21,679	-	-	-	(3,848)	-	17,831
John Reynolds (resigned 17 February 2015)	20,000	1,900	-	-	-	-	21,900
Ben Heap (resigned 31 March 2015)	337,500	19,594	40,909	(94,941)	-	223,228	526,290
TOTAL	478,354	70,769	40,909	(14,621)	(3,848)	223,228	794,791

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

KEY MANAGEMENT PERSONNEL

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

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

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

The remuneration of the key management personnel who were not Directors for the year to 30 June 2015 is shown below.

Name of Key Management Personnel	Base Remuneration \$	Superannuation \$	Accrued Annual Leave \$	LTIP Expense \$	Total \$
Ronald Hodge	239,055	29,018	10,273	7,268	285,614
Nigel Poole	205,385	19,512	20,212	7,268	252,377
Alastair Davidson	209,500	9,500	10,256	7,268	236,524

DIRECTORS' REPORT CONTINUED

Shares held by Key Management Personnel and Directors

For the year ended 30 June 2016

Ordinary Shares	Balance at 1 July 2015	Shares held on appointment	Shares acquired / (disposed)	Shares vested	Balance at 30 June 2016
Paul Clitheroe (appointed 26 November 2014)	1,000,000	–	–	1,333,333	2,333,333
Michael Shepherd	300,000	–	100,000	–	400,000
Alastair Davidson	327,674	–	–	–	327,674

Shareholdings relating to LTIP

Executive	Balance at 1 July 2015	Tranches	Shares acquired / (disposed) per Tranche	Approval or Issue date	Value at issue date	Estimated or actual vesting date	Balance at 30 June 2016
Paul Clitheroe Executive Chairman (appointed 26 November 2014)	4,000,000	Tranche 1	1,333,333	26/11/2014	0.0542	30/5/2016	–
		Tranche 2	1,333,333		0.0663	22/04/2017	1,333,333
		Tranche 3	1,333,334		0.0733	22/07/2018	1,333,334
Ron Hodge	4,166,666	Tranche 1	1,388,888	17/06/2015	0.0767	8/09/2016	4,166,666
		Tranche 2	1,388,888		0.0826	8/09/2017	
		Tranche 3	1,388,890		0.0878	8/09/2018	
Nigel Poole	4,166,666	Tranche 1	1,388,888	17/06/2015	0.0767	8/09/2016	4,166,666
		Tranche 2	1,388,888		0.0826	8/09/2017	
		Tranche 3	1,388,890		0.0878	8/09/2018	
Alastair Davidson	4,166,666	Tranche 1	1,388,888	17/06/2015	0.0767	8/09/2016	4,166,666
		Tranche 2	1,388,888		0.0826	8/09/2017	
		Tranche 3	1,388,890		0.0878	8/09/2018	

The LTIP shares issued to Paul Clitheroe will vest in three equal tranches on the later of the first, second and third anniversary of the grant date, or the date the share price is at or above \$0.33, \$0.42 or \$0.50 respectively for each tranche. The performance of the share price was selected as the performance criteria in order to vest the LTIP shares as this closely aligns performance to shareholder returns. The share price closed at \$0.335 on 30 May 2016 and therefore the first tranche of LTIP shares have vested.

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

Shares held by Key Management Personnel and Directors

For the year ended 30 June 2015

Ordinary Shares	Balance at 1 July 2014	Shares held on appointment	Shares acquired / (disposed)	Shares vested	Balance at 30 June 2015
Andrew Barnes (resigned 17 November 2014)	3,617,907	–	(3,541,240)	–	76,667
Paul Clitheroe – Executive Chairman (appointed 26 November 2014)	–	–	1,000,000	–	1,000,000
Alastair Davidson – Chief Financial Officer	327,674	–	–	–	327,674
Ben Heap (resigned 31 March 2015)	100,000	–	–	–	100,000

Shareholdings relating to LTIP

Executive	Balance at 1 July 2014	Tranches	Shares acquired / (disposed) per Tranche	Approval or Issue date	Value at issue date	Estimated or actual vesting date	Balance at 30 June 2015
Paul Clitheroe Executive Chairman (appointed 26 November 2014)	–	Tranche 1	1,333,333	26/11/2014	0.0542	26/11/2015	4,000,000
		Tranche 2	1,333,333		0.0663	22/04/2017	
		Tranche 3	1,333,334		0.0733	22/07/2018	
Ron Hodge Chief Operating Officer	–	Tranche 1	1,388,888	17/06/2015	0.0767	17/06/2016	4,166,666
		Tranche 2	1,388,888		0.0826	17/06/2017	
		Tranche 3	1,388,890		0.0878	17/06/2018	
Nigel Poole Chief Technology Officer	–	Tranche 1	1,388,888	17/06/2015	0.0767	17/06/2016	4,166,666
		Tranche 2	1,388,888		0.0826	17/06/2017	
		Tranche 3	1,388,890		0.0878	17/06/2018	
Alastair Davidson Chief Financial Officer	–	Tranche 1	1,388,888	17/06/2015	0.0767	17/06/2016	4,166,666
		Tranche 2	1,388,888		0.0826	17/06/2017	
		Tranche 3	1,388,890		0.0878	17/06/2018	
Ben Heap (resigned 31 March 2015)	10,569,384	Tranche 1	(3,523,128)	3/12/2013	0.1047	22/07/2021	–
		Tranche 2	(3,523,128)		0.1253	25/02/2023	
		Tranche 3	(3,523,128)		0.1424	15/06/2024	
Options issued to Directors							
Andrew Barnes (resigned 17 November 2014)	3,370,000	Tranche 1	(1,685,000)	17/12/2013	0.0887	–	–
		Tranche 2	(1,685,000)	17/12/2013	0.0536	–	–

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

Transactions with Key Management Personnel

Webabout Pty Ltd (an entity controlled by R. Hodge, N. Poole and A. Davidson) provided web hosting services to a subsidiary of the Group and received a total of \$24,140 for the period (2015: \$31,946), of which \$nil was unpaid at 30 June 2016. In addition, Webabout received a contract termination payment of \$800,000 in 2015, of which \$400,000 was paid in June 2015, and \$400,000 was paid in June 2016.

This concludes the Remuneration Report which has been audited.

INSURANCE OF DIRECTORS

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

INDEMNIFICATION OF AUDITORS

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

DIRECTORS' REPORT CONTINUED

PROCEEDINGS ON BEHALF OF THE GROUP

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

NON-AUDIT SERVICES

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

AUDITOR'S INDEPENDENCE DECLARATION

The auditor's independence declaration for the year ended 30 June 2016 has been received and can be found on page 21.

Signed in accordance with a resolution of the Directors.



Paul Clitheroe AM
Chairman

Dated 25 August 2016 at Sydney

AUDITOR'S INDEPENDENCE DECLARATION



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

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

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

As lead auditor for the audit of InvestSMART Group Limited for the financial year ended 30 June 2016, I declare to the best of my knowledge and belief, there have been:

- a) no contraventions of the auditor independence requirements of the Corporations Act 2001 in relation to the audit; and
- b) no contraventions of any applicable code of professional conduct in relation to the audit.

Ernst & Young

A handwritten signature in black ink, appearing to read 'Jonathan Pye', written over a horizontal line.

Jonathan Pye
Partner

25 August 2016

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

	Notes	2016 \$	2015 \$
Dividend income		–	1,350,000
Interest		28,928	69,738
Commission income	4	7,907,634	4,292,850
Subscription income	4	4,207,421	1,875,595
Consulting fees		40,414	650,618
Other		219,058	176,795
Total Income		12,403,455	8,415,596
Change in fair value of financial assets at fair value through profit and loss	5	6,872	(7,490,036)
Accounting and administrative costs		(165,831)	(137,357)
Audit fees	17	(126,000)	(116,298)
Employee costs		(4,830,356)	(3,723,171)
Marketing and advertising		(762,833)	(316,809)
Directors' fees		(188,438)	(147,562)
Employee benefit expense	6	(562,877)	(3,336)
Travel and accommodation		(51,917)	(99,334)
Legal and statutory expenses		(65,215)	(237,830)
Rent		(385,070)	(159,502)
Commission rebates		(1,862,126)	(1,205,323)
Depreciation and amortisation		(1,691,899)	(653,154)
Other expenses		(874,489)	(523,249)
Market data costs		(196,217)	(91,199)
Termination of Webabout contract	18	–	(800,000)
Software and website costs		(393,812)	(516,307)
Interest expense		(12)	(6,597)
Total expenses		(12,150,220)	(16,227,064)
Profit (loss) before income tax		253,235	(7,811,468)
Income tax benefit/(expense)	8	(78,075)	625,904
Profit (loss) for the year		175,160	(7,185,564)
Other comprehensive income, net of income tax		–	–
Total comprehensive income (loss) for the year		175,160	(7,185,564)
Basic per share (cents per share)	22	0.16 cents	(6.48) cents
Diluted earnings per share (cents per share)	22	0.14 cents	(6.48) cents

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

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

The above Consolidated Statement of Comprehensive Income for 2015 comprises investment accounted income for the period from 1 July 2014 to 31 December 2014 and consolidated income for the period from 1 January 2015 to 30 June 2015.

	Notes	2016 \$	2015 \$
ASSETS			
Cash and cash equivalents		4,986,827	3,292,828
Trade and other receivables	7	622,379	785,899
Prepayments		169,760	163,284
Rental deposit		56,264	93,290
Financial assets at fair value through profit and loss	9	1,638,448	1,711,576
Fixed assets, including software less accumulated depreciation	10	264,340	265,679
Deferred tax asset	8	613,248	765,596
Intangibles	12	8,988,770	9,447,700
Goodwill	11	23,610,664	21,595,696
Total assets		40,950,700	38,121,548
LIABILITIES			
Other payables and provisions	14	1,786,751	1,347,544
Trade payables	13	82,964	439,211
Subscriptions received in advance		4,437,135	1,889,715
Trail commissions to rebate		1,339,828	1,741,968
Deferred tax liability	8	2,697,185	2,834,310
Total liabilities		10,343,863	8,252,748
Net assets		30,606,837	29,868,800
Equity			
Issued capital	15	58,522,440	58,522,440
Employee Benefit reserve	6	665,002	102,125
Retained losses	16	(28,580,605)	(28,755,765)
Total equity		30,606,837	29,868,800

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

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

	Notes	Issued Capital \$	Retained losses \$	Employee Benefit Reserve \$	Total Equity \$
Balance as at 1 July 2014		58,522,440	(21,570,201)	98,789	37,051,028
Comprehensive loss for the year		-	(7,185,564)	-	(7,185,564)
Employee benefit share reserve	6	-	-	3,336	3,336
Balance as at 30 June 2015		<u>58,522,440</u>	<u>(28,755,765)</u>	<u>102,125</u>	<u>29,868,800</u>
Balance as at 1 July 2015	15	58,522,440	(28,755,765)	102,125	29,868,800
Comprehensive income for the year		-	175,160	-	175,160
Employee benefit share reserve	6	-	-	562,877	562,877
Balance as at 30 June 2016		<u>58,522,440</u>	<u>(28,580,605)</u>	<u>665,002</u>	<u>30,606,837</u>

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

CONSOLIDATED STATEMENT OF CASH FLOWS

	Notes	2016 \$	2015 \$
Cash flows from operating activities			
Receipts from customers		13,791,852	7,576,780
Interest received		28,928	69,738
Dividends received		–	2,100,000
Interest paid		(12)	(6,597)
GST paid		(1,253,804)	(688,798)
Payments to suppliers and employees		(9,896,305)	(9,589,968)
Net cash used in operating activities	21(a)	<u>2,670,659</u>	<u>(538,845)</u>
Cash flows from investing activities			
Purchase of fixed assets		(149,023)	(59,168)
Purchase of investments and subsidiary		(3,182,478)	(500,796)
Proceeds from sale of investments		100,000	–
Rental deposit paid		37,026	–
Loans to investee companies		–	(816,253)
Net cash (used in) investing activities		<u>(3,194,475)</u>	<u>(1,376,217)</u>
Cash flows from financing activities			
Net cash inflow from financing activities		<u>–</u>	<u>–</u>
Net (decrease) / increase in cash and cash equivalents		(523,816)	(1,915,062)
Cash and cash equivalents at beginning of the year		3,292,828	3,383,947
Cash acquired through acquisitions		2,217,815	1,823,943
Cash and cash equivalents at the end of the year	21(b)	<u>4,986,827</u>	<u>3,292,828</u>

On 4 April 2016, the Group acquired 100% of the issued shares of Eureka Report Pty Ltd and acquired the cash balance noted above.

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

1. REPORTING ENTITY

InvestSMART Group Limited (the “**Company**”) is domiciled in Australia, is the parent entity of the group which includes the entities listed in Note 3 (the “**Group**”) and is a for profit company limited by shares incorporated in Australia whose shares are publicly traded on the Australian Securities Exchange. The consolidated financial statements of the Group are presented for the year ended 30 June 2016. The Group is primarily involved in operating businesses delivering financial services to retail investors in Australia, primarily in wealth management.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

(a) Basis of Preparation

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

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

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

The financial statements were authorised for issue by the Directors on 25th August 2016. The directors and shareholders have the power to amend these financial statements after issue.

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

ADOPTION OF NEW AND REVISED ACCOUNTING STANDARDS

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

NEW STANDARDS AND INTERPRETATIONS NOT YET ADOPTED

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

AASB 15 – Revenue from Contracts with Customers

AASB 15 *Revenue from Contracts with Customers* replaces the existing revenue recognition standards AASB 111 *Construction Contracts*, AASB 118 *Revenue* and related Interpretations (Interpretation 13 *Customer Loyalty Programmes*, Interpretation 15 *Agreements for the Construction of Real Estate*, Interpretation 18 *Transfers of Assets from Customers*, Interpretation 131 *Revenue—Barter Transactions Involving Advertising Services* and Interpretation 1042 *Subscriber Acquisition Costs in the Telecommunications Industry*). AASB 15 incorporates the requirements of IFRS 15 *Revenue from Contracts with Customers* issued by the International Accounting Standards Board (IASB)

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

AASB 15 specifies the accounting treatment for revenue arising from contracts with customers (except for contracts within the scope of other accounting standards such as leases or financial instruments). The core principle of AASB 15 is that an entity recognises 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. An entity recognises revenue in accordance with that core principle by applying the following steps:

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

The Group has a liability to service customers who have purchased subscriptions in advance and recognises revenue when that subscription service has been delivered. An exposure draft has been issued by the AASB with the effective date of 1 January 2018. Management are still assessing the potential impact of implementation of this standard, however, they believe the impact will be minimal.

AASB 16 – Leases

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

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

AASB 16 contains disclosure requirements for lessees. Lessees will need to apply judgement in deciding upon the information to disclose to meet the objective of providing a basis for users of financial statements to assess the effect that leases have on the financial position, financial performance and cash flows of the lessee.

AASB 16 substantially carries forward the lessor accounting requirements in AASB 117 Leases. Accordingly, a lessor continues to classify its leases as operating leases or finance leases, and to account for those two types of leases differently. AASB 16 also requires enhanced disclosures to be provided by lessors that will improve information disclosed about a lessor's risk exposure, particularly to residual value risk.

This Standard is applicable to annual reporting periods beginning on or after 1 January 2019 and management are still assessing the potential impact on the financial statements of the implementation of this standard.

COMPLIANCE WITH IFRS

The financial report complies with Australian Accounting Standards as issued by the Australian Accounting Standards Board, and International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board.

The preparation of the financial statements in conformity with IFRS requires the use of certain accounting estimates and judgments, which are included below.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

CURRENT VERSUS NON-CURRENT CLASSIFICATION

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

INVESTMENTS AT FAIR VALUE

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

Transaction costs directly attributable to the acquisition of the investments are expensed in the Statement of Comprehensive Income as incurred.

PRINCIPLES OF CONSOLIDATION

The consolidated financial statements incorporate the assets and liabilities of all subsidiaries of the Group as at 30 June 2016 and the results of all subsidiaries for the period from 1 July 2015 to 30 June 2016, with the exception of Eureka Report Pty Ltd, whose results are included from the date of acquisition, 4 April 2016.

Control is achieved when the Company is exposed, or has rights, to variable returns from its involvement with the subsidiary and has the ability to affect those returns through its power over the subsidiary.

Subsidiaries are all entities (including special purpose entities) over which the Company has the power to govern the financial and operating policies, generally accompanying a shareholding of more than one-half of the voting rights and excludes those subsidiaries determined to be investments held for resale by the Directors. The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether the Group controls another entity. Subsidiaries are fully consolidated from the date on which control is transferred to the Group, or when they are established.

INTERCOMPANY TRANSACTIONS AND BALANCES

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

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

When a Company acquires control through a change in investment policy, the entity is remeasured to its fair value with the change in carrying amount recognised in profit or loss. The fair value is the initial carrying amount for the purposes of subsequently accounting for the retained interest as an associate, jointly controlled entity or financial asset. Any amounts above net tangible assets are held as goodwill or intangibles at that point.

BUSINESS COMBINATIONS AND GOODWILL

Business combinations are accounted for using the acquisition method. The cost of an acquisition is measured as the aggregate of the fair value consideration transferred, measured at acquisition date and the amount of any non-controlling interests in the acquiree. For each business combination, the Group elects whether to measure the non-controlling interests in the acquiree at fair value or at the proportionate

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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

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

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

INTANGIBLE ASSETS

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

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

Gains or losses arising from derecognition of an intangible asset are measured as the difference between the net disposal proceeds and the carrying amount of the asset and are recognised in the statement of profit or loss when the asset is derecognised.

IMPAIRMENT OF FINANCIAL ASSETS

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

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

INVESTMENT INCOME

Net changes in fair value of investments

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

SHARE-BASED PAYMENTS TO EMPLOYEES AND DIRECTORS

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

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

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

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

INCOME TAX

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

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

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

Deferred income tax expense reflects movements in deferred tax asset and deferred tax liability balances during the year as well as unused tax losses.

Current and deferred income tax expense is charged or credited outside profit or loss when the tax relates to items that are recognised outside profit and loss. No deferred income tax is recognised from the initial recognition of an asset or liability, excluding a business combination, where there is no effect on accounting or taxable profit or loss.

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

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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

REVENUE RECOGNITION

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

Subscription revenue

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

Commission revenue

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

Dividend income

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

Interest income

Interest Income is recognised as it accrues.

Other income

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

CASH AND CASH EQUIVALENTS

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

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

LONG SERVICE AND ANNUAL LEAVE PROVISIONS

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

EXPENSES

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

PROPERTY, PLANT AND EQUIPMENT

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

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

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

GOODS AND SERVICES TAX (GST)

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

Cash flows are presented in the Statement of Cash Flows on a gross basis, except the GST component of investing and financing activities, which are disclosed as operating cash flows.

EARNINGS PER SHARE

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

SHARE CAPITAL

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

FUNCTIONAL AND PRESENTATION CURRENCY

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

COMPARATIVES

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

CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectation of future events that may have a financial impact on the entity and that are believed to be reasonable under the circumstances. Estimates of future cash flows have been used to estimate fair value of the assets acquired and liabilities assumed in the business combination. In particular, the fair value of intangible assets has been calculated using management's estimates of future cash flows from each entity's identified intangible assets for the period of their expected useful life.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

The residual goodwill arising from a business combination is tested for impairment at each balance date (30 June) and when circumstances indicate that the carrying value may be impaired. The Group bases its assumptions used to test the impairment of goodwill on detailed budgets and forecasts which are prepared for the Group's cash generating unit (**CGU**). These budgets generally cover a five-year period, and a long-term growth rate (net of inflation) is used for longer periods.

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

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

The Group has not recognised deferred tax assets relating to carried forward realised capital losses on the basis that it does not expect to derive sufficient future capital gains to utilise the current losses within a 3 to 5-year time period. The potential deferred tax asset that could be realised is \$4,031,827 at 30 June 2016.

3. BUSINESS COMBINATIONS AND ACQUISITIONS

At 30 June 2016, the Company owned the following subsidiaries:

	30 June 2016	30 June 2015
Intelligent Investor Holdings Pty Ltd	100%	100%
InvestSmart Financial Services Pty Ltd	100%	100%
Personal Investment Direct Access Pty Ltd	100%	100%
Ziel Two Pty Ltd	100%	100%
Yourshare Financial Services Pty Ltd	100%	100%
Yourshare Plus Pty Ltd	100%	100%
AWI Ventures Pty Ltd	100%	100%
Eureka Report Pty Ltd (acquired 4 April 2016)	100%	-

Assets acquired and Liabilities assumed in acquisition of Eureka Report Pty Ltd

On 4 April 2016, InvestSMART Group Ltd acquired 100% of the shares of Eureka Report Pty Ltd, and consolidated the operations of that entity in the InvestSMART Group from that date.

The fair value of the identified assets acquired and the liabilities assumed at 4 April 2016 were:

	\$
Assets	
Cash and cash equivalents	2,217,815
Prepayments	127,023
Fixed assets, including software	16,476
	<hr/>
	2,361,314
Liabilities	
Trade payables	102,857
Subscriptions received in advance	1,981,200
Other accruals	77,717
	<hr/>
	2,161,774
Total Identifiable Net Tangible Assets	199,540
Intangible assets identified on acquisition	1,138,910
Goodwill arising on acquisition (Note 11)	1,824,028
	<hr/>
Acquisition consideration	3,162,478
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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

3. BUSINESS COMBINATIONS AND ACQUISITIONS (CONTINUED)

The calculation of fair value of the identified assets and liabilities is provisional and may be amended in the 12 months following the acquisition date.

The intangible asset acquired through the acquisition of the Eureka Report Pty Ltd, includes the subscriber lists for newsletters, which assume a conservative renewal rate and a finite life, and the historical content which also has a finite life.

The goodwill arising on the acquisition of Eureka Report can be attributed to the expected future synergy benefits and customer lists (where not identified as an asset above) which are not separable. The goodwill arising on the acquisition is not deductible for tax purposes.

The table below shows the income and expenses before tax included in the consolidated results for Eureka Report Pty Ltd, since 4 April 2016:

	\$
Income	
Subscription income	871,146
Other income	4,697
	<u>875,843</u>
Expenses	
Employee costs	(484,546)
Rent	(66,581)
Other expenses	(182,719)
	<u>(733,846)</u>
Net profit before tax	<u>141,997</u>

4. REVENUE FROM COMMISSIONS AND SUBSCRIPTIONS

	2016	2015
	\$	\$
Commission income	7,907,634	4,292,850
Subscription revenue	4,207,421	1,875,595
	<u>12,115,055</u>	<u>6,168,445</u>

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

	2016	2015
	\$	\$
Unrealised loss on investment in van Eyk Group Holdings Pty Ltd	-	(7,490,036)
Net unrealised gain on investment in Separately Managed Accounts	6,872	-
	<u>6,872</u>	<u>(7,490,036)</u>

6. EMPLOYEE BENEFIT RESERVE

	2016	2015
	\$	\$
Long Term Incentive Plan (LTIP)	562,877	7,184
Company issued options	-	(3,848)
	<u>562,877</u>	<u>3,336</u>
Opening balance	102,125	98,789
Expense	562,877	3,336
Closing balance	<u>665,002</u>	<u>102,125</u>

6. EMPLOYEE BENEFIT RESERVE (CONTINUED)

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

7. TRADE AND OTHER RECEIVABLES

	2016	2015
	\$	\$
Trade receivables	622,379	785,899
	<u>622,379</u>	<u>785,899</u>

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

8. INCOME TAX

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

	2016	2015
	\$	\$
The components of income tax expense:		
Current income tax (expense) benefit	(587,024)	(129,716)
R&D expenditure adjustments for prior years	92,568	–
Other adjustments for prior years	240,664	(9,976)
Deferred tax income relating to the origination and reversal of temporary differences	175,717	765,596
Total income tax (expense) benefit	<u>(78,075)</u>	<u>625,904</u>
Deferred income tax related to items charged directly to equity	217,856	2,834,310

(b) Income tax expense

A reconciliation of income tax expense applicable to accounting profit before income tax at the statutory income tax rate to income tax expense at the entity's effective income tax rate for the years ended 30 June 2016 and 2015 is as follows:

Prima facie income tax benefit calculated at 30% (2015: 30%) on the operating profit

	(75,970)	2,343,440
Add/(Less) tax effect of:		
Expenditure not deductible in current year	(191,872)	(87,620)
Differences arising on consolidation	–	405,000
Tax losses utilised from prior years	–	344,342
Adjustments for prior years	189,767	(132,247)
Recognition (de-recognition) of current year deferred tax benefit	–	(2,247,011)
Income tax (expense) / benefit	<u>(78,075)</u>	<u>625,904</u>

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

8. INCOME TAX (CONTINUED)

(c) Deferred tax assets and liabilities

DEFERRED TAX ASSETS

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

	2016 \$	2015 \$
Accruals and provisions not deductible in this period	267,138	246,641
Deductible capital expenditure	303,459	419,038
Tax losses carried forward	42,651	99,917
Closing balance	<u>613,248</u>	<u>765,596</u>
Movements in deferred tax assets		
Opening balance	765,596	–
Benefit (expense) in the income statement	(179,264)	765,596
Deferred tax asset acquired	26,916	–
	<u>613,248</u>	<u>765,596</u>

DEFERRED TAX LIABILITIES

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

Future tax expense for intangibles acquired	2,696,632	2,834,310
Prepayments not deductible if future years	553	–
Closing balance	<u>2,697,185</u>	<u>2,834,310</u>

The deferred tax liability arising from amortisation of the intangible assets has been charged against the goodwill arising on consolidation.

	2016 \$	2015 \$
Movements in deferred tax liabilities		
Opening balance	2,834,310	–
Benefit (expense) in the income statement	(354,981)	–
Benefit (expense) to goodwill	217,856	2,834,310
Closing balance at 30 June	<u>2,697,185</u>	<u>2,834,310</u>

9. FINANCIAL ASSETS HELD AT FAIR VALUE

	2016 \$	2015 \$
AWI Ventures investee companies	1,510,000	1,610,000
Investments in Separately Managed Accounts	128,448	101,576
Financial assets at fair value through profit and loss	<u>1,638,448</u>	<u>1,711,576</u>

10. FIXED ASSETS INCLUDING SOFTWARE

	Buildings \$	Plant and equipment \$	Software \$
Cost or valuation			
Opening balance 1 July 2015	24,248	117,750	211,790
Additions	–	149,680	–
Acquired in subsidiaries	–	16,746	–
Disposals	–	(122,934)	–
Balance at 30 June 2016	<u>24,248</u>	<u>161,242</u>	<u>211,790</u>
Depreciation and Impairment			
Opening balance at 1 July 2015	506	21,643	68,705
Depreciation charge for the period	854	40,370	54,063
Disposals	–	(53,201)	–
Balance at 30 June 2016	<u>1,360</u>	<u>8,812</u>	<u>122,768</u>
Net book value at 30 June 2015	<u>23,742</u>	<u>96,107</u>	<u>142,785</u>
Net book value at 30 June 2016	<u>22,888</u>	<u>152,430</u>	<u>89,022</u>

11. GOODWILL

	2016 \$	2015 \$
Entity:		
Intelligent Investor Holdings Pty Ltd	7,629,593	7,629,593
InvestSMART Financial Services Pty Ltd	2,854,976	2,854,976
Personal Investment Direct Access Pty Ltd	538,087	538,087
Yourshare Financial Services Pty Ltd	6,896,290	6,896,290
Yourshare Plus Pty Ltd	471,038	471,038
Ziel Two Pty Ltd	371,402	371,402
Eureka Report Pty Ltd	1,824,028	–
Deferred tax liability arising from amortisation of intangibles acquired	<u>3,025,250</u>	<u>2,834,310</u>
Total Goodwill	<u>23,610,664</u>	<u>21,595,696</u>
Impairment charge	–	–
Goodwill balance carried forward	<u>23,610,664</u>	<u>21,595,696</u>

Goodwill is tested for impairment at each balance date using a discounted cash flow model on the net cash flows from the business. The Group performed its annual impairment test at 30 June 2016. The Group considered the relationship between its market capitalisation and its book value, among other factors, when reviewing for indicators of impairment. As at 30 June 2016, the market capitalisation of the Group was higher than the book value of its equity, supporting the decision not to impair goodwill or impair the assets of the operating segment.

The Group has determined it has one cash generating unit (**CGU**). The recoverable amount of the CGU, as at 30 June 2016, has been determined based on a value in use calculation using cash flow projections from financial budgets approved by senior management covering a five-year period. The projected cash flows have been updated to reflect a projected increased demand for products and services. The pre-tax discount rate applied to cash flow projections is 15% and cash flows beyond the five-year period are extrapolated using a 2.5% growth rate that is the same as the long-term average growth rate for the financial services sector, and a long term inflation rate of 2.5%. It was concluded

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

11. GOODWILL (CONTINUED)

that the carrying value less costs of disposal did not exceed the value in use. As a result of this analysis, management has not recognised an impairment charge against goodwill.

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

- The future growth in the share market
- Discount rates
- Expected growth in wages and employee costs
- Growth rates used to extrapolate cash flows beyond the forecast period

Growth in share market – Growth in the share market is based on the long term averages for growth in the All Ordinaries accumulation index. A large proportion of the CGU's revenue is based on trailing commissions or investment management fees which are highly correlated with the movements in the Australian share market. A decrease of 2.50% in the All Ordinaries Accumulation Index would result in an impairment in the cash generating unit.

Discount rates – Discount rates represent the current market assessment of the risks specific to the CGU, taking into consideration the time value of money and the risks incorporated in the cash flow estimates. The discount rate calculation is based on the specific circumstances of the Group and its operating segments and is derived from its weighted average cost of capital (WACC). The WACC takes into account both debt and equity. The cost of equity is derived from the expected return on investment by the Group's investors. The cost of debt is based on the expected cost of interest-bearing borrowings the Group may be obliged to service. The beta factors are evaluated annually based on publicly available market data. Adjustments to the discount rate are made to factor in the specific amount and timing of the future tax flows in order to reflect a pre-tax discount rate. A rise in the pre-tax discount rate of 1.25% (i.e. +0.5%) would result in an impairment of \$422,380 (2015: \$1,574,607).

Wage and Employee cost inflation – Management has considered the possibility of greater than forecast increases in employee costs. This may occur if inflation causes higher than forecast wage increases in the future. Forecast price inflation lies within a range of 1.5 to 2.5%. If wage costs increases are greater than the forecast price inflation and the Group is unable to pass on or absorb these increases through efficiency improvements, then the Group will have an impairment.

Growth rate estimates – Rates are based on long term expected growth rates for the Australian economy. Management recognises that the speed of technological change and the possibility of new entrants can have a significant impact on growth rate assumptions. The effect of new entrants may have an adverse impact on the forecasts, and reduce the estimated long-term growth rate of 2.5%. A long-term growth rate of 1 % would result in impairment in the carrying value of goodwill of \$168,113 (2015: \$66,869).

12. INTANGIBLES

Intangibles acquired at 1 January 2015	Fund distribution contracts	Content	Subscriber lists
	\$	\$	\$
Acquired	8,774,000	–	1,236,000
Amortisation	(438,700)	–	(123,600)
Intangible balance at 30 June 2015	8,335,300	–	1,112,400
Acquired at 4 April 2016 in Eureka Report	–	412,724	726,185
Amortisation	(877,400)	(412,724)	(307,715)
Intangible balance at 30 June 2016	7,457,900	–	1,530,870

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

13. TRADE PAYABLES

	2016	2015
	\$	\$
Trade payables	82,964	439,211
	<u>82,964</u>	<u>439,211</u>

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

14. OTHER PAYABLES

	2016	2015
	\$	\$
Annual leave provision	248,808	137,340
Long service leave provision	52,938	29,858
PAYG and superannuation payables	142,039	233,428
GST payable	416,670	250,917
Other payables	596,690	296,001
Tax payable	329,606	–
Webabout payable	–	400,000
	<u>1,786,751</u>	<u>1,347,544</u>

Other payables are non-interest bearing and unsecured.

15. ISSUED CAPITAL

	2016	2015
	\$	\$
Ordinary shares	<u>58,522,440</u>	<u>58,522,440</u>

At 30 June 2016, 110,885,360 ordinary shares were on issue (2015: 110,885,360). An additional 16,500,000 were issued, as part of the LTIP detailed in Note 6, but of which 15,166,667 remain unvested at 30 June 2016. The 1,333,333 vested shares have a non-recourse loan outstanding.

(a) Terms and conditions

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

(b) Capital Management

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

The primary objective of the Group's capital management is to ensure that it maintains healthy capital ratios to support its business and maximise shareholder value. The Group manages its capital structure and makes adjustments to it in light of changes in economic conditions. To maintain or adjust the capital structure, the Company may adjust any dividend payment to investors, capital returns or issue new shares. No changes were made in the objectives, policies or processes for managing capital during the years ended 30 June 2016 and 30 June 2015.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

16. RETAINED LOSSES

	2016	2015
	\$	\$
Opening balance	(28,755,765)	(21,570,201)
Profit (loss) attributable to members of the Group	175,160	(7,185,564)
Closing balance	<u>(28,580,605)</u>	<u>(28,755,765)</u>

17. AUDITORS REMUNERATION

	2016	2015
	\$	\$
Auditing and reviewing the financial reports of the Group:		
Ernst and Young – audit fees	<u>126,000</u>	<u>133,900</u>
	<u>126,000</u>	<u>133,900</u>

18. RELATED PARTY INFORMATION

(a) Key management personnel

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

Paul Clitheroe (until 24 February 2016 – resigned as Executive Chair)

Ron Hodge

Nigel Poole

Alastair Davidson

(b) Key management personnel remuneration

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

	Short-term Employee Benefit Cash Salary & Fees	Employment Benefit Superannuation	Accrued Annual Leave	Employee share benefit	Termination benefit	Total
2016	680,598	64,656	46,334	473,985	–	1,265,573
2015	1,325,827	90,123	3,336	102,125	223,228	1,642,514

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

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

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

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

18. RELATED PARTY INFORMATION (CONTINUED)

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

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

For the year ended 30 June 2016

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

For the year ended 30 June 2015

Ordinary Shares	Balance at 1 July 2014	Shares held on appointment	Shares acquired / (disposed)	Balance at 30 June 2015
Andrew Barnes (resigned 17 November 2015)	6,987,907	–	(6,911,240)	76,667
Paul Clitheroe (appointed 26 November 2015)	–	–	5,000,000	5,000,000
Ron Hodge	–	–	4,166,666	4,166,666
Alastair Davidson	327,674	–	4,166,666	4,494,340
Nigel Poole	–	–	4,166,666	4,166,666
Ben Heap (resigned 31 March 2015)	10,669,384	–	(10,569,384)	100,000

(d) Transactions with related parties

Transactions between related parties are on normal commercial terms and conditions no more favourable than those available to other parties unless otherwise stated. Related party transactions in the reporting period with key management personnel were:

Webabout Pty Ltd (an entity controlled by R. Hodge, N. Poole and A. Davidson) provided web hosting services to the Group and received a total of \$24,140 for the period (2015: \$31,946), of which \$nil was unpaid at 30 June 2016 (2015: \$5,486). In addition, Webabout received a contract termination payment of \$800,000, of which \$400,000 was paid at 30 June 2015 and the balance paid at 30 June 2016 as disclosed in previous financial statements.

19. SEGMENT INFORMATION

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

20. FINANCIAL RISK MANAGEMENT

The Group's financial instruments consist mainly of deposits with banks, accounts receivable and payable.

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

20. FINANCIAL RISK MANAGEMENT (CONTINUED)

(i) Credit risk

The standard (AASB 7) defines this as the risk that one party to a financial instrument will cause a financial loss for the other party by failing to discharge an obligation. The maximum exposure to credit risk, excluding the value of any collateral or other security, at balance date to recognised financial assets, is the carrying amount, net of any provisions for impairment of those assets, as disclosed in the statement of financial position and notes to the financial statements. There are no other material amounts of collateral held as security at 30 June 2016.

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

(ii) Liquidity risk

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

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

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

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

	On-demand	Less than 3 months	3 to 12 months	1 to 5 years	Total
	\$	\$	\$	\$	\$
At 30 June 2016					
Other payables	-	1,485,005	248,808	52,938	1,786,751
Subscriptions received in advance	-	1,109,284	2,805,703	522,148	4,437,135
Trail commissions due to customers	-	334,957	1,004,871	-	1,339,828
Trade and other payables	-	82,964	-	-	82,964
Total financial liabilities	-	3,012,210	4,059,382	575,086	7,646,678
At 30 June 2015					
Other payables	-	780,345	537,340	29,858	1,347,543
Trail commissions due to customers	-	237,501	1,504,467	-	1,741,968
Subscriptions received in advance	-	-	1,889,715	-	1,889,715
Trade and other payables	-	439,211	-	-	439,211
Total financial liabilities	-	1,457,057	3,931,522	29,858	5,418,437

(iii) Market risk

The standard (AASB 7) defines this as the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices. A general fall in market prices of 5 per cent and 10 per cent, if spread equally over all investments would lead to a reduction in the Group's equity and increase the reported loss by \$81,922 and \$163,845 respectively (2015: \$85,579 and \$171,158 respectively).

20. FINANCIAL RISK MANAGEMENT (CONTINUED)

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

DERIVATIVE FINANCIAL INSTRUMENTS

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

INTEREST RATE RISK

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

Sensitivity analysis – interest rate risk

An increase of 75 basis points in interest rates over the reporting period would have increased the Group's profit by \$37,401 (2015: \$24,696). A decrease of 75 basis points would have an equal but opposite effect.

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

20. FINANCIAL RISK MANAGEMENT (CONTINUED)

As at 30 June 2015, the Group's exposure to interest rate risk and the effective weighted average interest rate for each class of financial asset and financial liability is set out in the table below:

	Weighted average interest rate (% pa)	Floating interest rate \$	Non-interest bearing \$	Total \$
Financial assets				
Cash assets	1.50	3,292,828	–	3,292,828
Trade and other receivables		–	785,899	785,899
Prepayments		–	163,284	163,284
Rental deposit	1.50	93,290	–	93,290
Financial assets at fair value through profit		–	1,711,576	1,711,576
		<u>3,386,118</u>	<u>2,660,759</u>	<u>6,046,877</u>
Financial liabilities				
Other payables		–	1,347,543	1,347,543
Trail commissions due to customers		–	1,741,968	1,741,968
Subscriptions received in advance		–	1,889,715	1,889,715
Trade and other payables		–	439,211	439,211
		–	<u>5,418,437</u>	<u>5,418,437</u>
Net financial assets		<u>3,386,118</u>	<u>(2,757,678)</u>	<u>628,440</u>

FAIR VALUE HIERARCHY

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

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

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

Assessing the significance of a particular input to the fair value measurement in its entirety requires judgement, considering factors specific to the asset or liability. The determination of what constitutes 'observable' requires significant judgement by the Directors. The Directors consider observable data to be that market data that is readily available, regularly distributed or updated, reliable and verifiable, not proprietary, and provided by independent sources that are actively involved in the relevant market.

20. FINANCIAL RISK MANAGEMENT (CONTINUED)

The table below sets out the Group's financial assets and liabilities (by class) measured at fair value according to the fair value hierarchy at 30 June:

	Level 1 \$	Level 2 \$	Level 3 \$	Total \$
At 30 June 2016				
Financial assets				
Financial assets held at fair value through profit or loss	–	128,448	1,510,000	1,638,448
Total	–	128,448	1,510,000	1,638,448
At 30 June 2015				
Financial assets				
Financial assets held at fair value through profit or loss	–	101,576	1,610,000	1,711,576
Total	–	101,576	1,610,000	1,711,576

During the reporting period ending 30 June 2016 there was no transfers between Level 1 and Level 2 fair value measurements.

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

Financial instruments that trade in markets that are not considered to be active but are valued based on quoted market prices, dealer quotations or alternative pricing sources supported by observable inputs are classified within level 2.

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

Balance as at 1 July 2015	1,610,000
Unlisted equities disposed during the period	(100,000)
Impairment charge on unlisted equities	–
Balance as at 30 June 2016	1,510,000

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

DESCRIPTION OF SIGNIFICANT UNOBSERVABLE INPUTS TO VALUATION OF LEVEL 3 ASSETS

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

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

AWI Ventures Ltd has invested into 11 start-up companies in the financial technology sector. These companies have little or no revenue and therefore cannot be valued using DCF. The fair value of the investee companies has been assessed as the price the value at which each investee company raised a material amount of new capital, or historic cost if they have not raised a material amount of new capital, adjusted for the Directors' view of the likely success of the business model and a liquidity discount based on the likelihood of a liquidity event in the next 3 years.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

21. STATEMENT OF CASH FLOWS

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

	2016 \$	2015 \$
Operating profit (loss)	175,160	(7,185,564)
Non-cash items in operating profit (loss)		
Unrealised change in fair value of financial assets through profit or loss	(6,872)	7,490,036
Employee benefit expense	562,877	3,336
Depreciation and amortisation	1,691,899	653,153
Non-cash transactions with subsidiaries	-	636,434
Decrease (increase) in deferred tax asset	152,348	(765,596)
Loss on disposal of fixed asset	72,778	43,883
Write off of sundry expense	-	145
Change in goodwill through income statement	(190,941)	-
Change in operating assets and liabilities:		
Decrease in trade and other receivables	163,520	787,792
(Increase) in prepayments	(6,475)	(106,680)
Increase / (decrease) in trade and other payables	2,091,116	(2,095,784)
Less net trade payables and receivables acquired in Eureka Report	(2,034,751)	-
Net cash inflow/(outflow) from operating activities	<u>2,670,659</u>	<u>(538,845)</u>

(b) Reconciliation of cash

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

	2016 \$	2015 \$
Cash at bank	<u>4,986,827</u>	<u>3,292,828</u>
	4,986,827	3,292,828

The Group acquired \$2,217,815 of cash at bank through the acquisition of Eureka Report Pty Ltd on 4 April 2016.

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

22. EARNINGS PER SHARE

	2016 cents	2015 cents
Basic earnings per share (cents per share)	<u>0.16</u>	<u>(6.48)</u>
Diluted earnings per share (cents per share)	<u>0.14</u>	<u>(6.48)</u>

As the Group was in a loss position in 2015, share based incentive plans did not affect the diluted earnings per share calculation as potential ordinary shares shall be treated as dilutive when, and only when, their conversion to ordinary shares would decrease earnings per share or increase loss per share from continuing operations.

22. EARNINGS PER SHARE (CONTINUED)

Earnings as per Statement of Consolidated Income	175,160	(7,185,564)
Weighted average number of ordinary shares outstanding during the year used in calculating basic earnings per share	110,885,360	110,885,360
Weighted average number of ordinary shares outstanding during the year used in calculating diluted earnings per share if all LTIP shares vest and non-recourse loans are repaid	127,385,360	122,964,569

23. FRANKING ACCOUNT

	2016 \$	2015 \$
Opening balance of franking account	1,805,971	1,723,473
Adjustments for tax payment and tax payable/refundable in respect of the prior year's profits	81,308	82,498
Adjusted franking account balance	1,887,279	1,805,971

24. PARENT ENTITY INFORMATION

	2016 \$	2015 \$
Statement of Financial Position		
Assets		
Current assets	229,242	572,185
Investments	26,302,568	28,745,879
Total Assets	26,531,810	29,318,064
Liabilities		
Current Liabilities	191,167	592,907
Total Liabilities	191,167	592,907
Net Assets	26,340,643	28,725,157
Equity		
Contributed Equity	58,522,441	58,522,441
Employee benefit reserve	665,002	102,125
Retained earnings	(32,846,800)	(29,899,409)
Total Equity	26,340,643	28,725,157
Statement of Profit or Loss and other Comprehensive Income		
Net loss for the year after income tax expense	2,947,391	8,329,207
Total Comprehensive loss for the year	2,947,391	8,329,207

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

At 30 June 2016, InvestSMART Group Limited had commitments for an office lease at Level 9, 37 York Street, Sydney, and Level 4, 356 Collins St, Melbourne, for \$1,365,571 (2015: \$55,155).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

25. EVENTS OCCURRING AFTER REPORTING DATE

Since 30 June 2016, there have been no significant events up to the date of these financial statements.

26. CONTINGENT LIABILITIES AND COMMITMENTS

	2016	2015
	\$	\$
Within one year	395,003	307,739
After one year but less than five years	1,042,909	84,341
Total	<u>1,437,912</u>	<u>392,080</u>

At 30 June 2016, the Group had commitments of \$1,437,912 (2015: \$392,080) for leased premises. The Group has leases over its offices at Level 9, 37 York St, Sydney NSW 2000, until 30 April December 2019, Level 4, 356 Collins St, Melbourne until 1 June 2021, Level 2, 122 Pitt St until 30 September 2016, 36 East Esplanade, Manly until 30 September 2016, and Gibraltar Square, Bowral until 28 February 2017.

There are no other contingent liabilities or commitments at 30 June 2016.

27. COMPANY DETAILS

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

Level 9, 37 York Street
Sydney NSW 2000

DIRECTORS' DECLARATION

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

1. In the opinion of the Directors:

- (a) The financial statements, notes and the additional disclosures included in the Director's Report designated as audited, of the Company are in accordance with the Corporations Act 2001, including:
 - (i) giving a true and fair view of the financial position of the Company as at 30 June 2016 and of its performance for the year ended on that date.
 - (ii) complying with Australian Accounting Standards, International Financial Reporting Standards (IFRS) as disclosed in Note 2(a) and Corporations Regulations 2001.
- (b) There are reasonable grounds to believe that the Company will be able to pay its debts as and when they become due and payable.

2. This declaration has been made after receiving the declarations required to be made to the Directors in accordance with section 295A of the Corporations Act 2001 for the financial year ended 30 June 2016.

On behalf of the Board



Paul Clitheroe AM
Chairman

Dated 25 August 2016 at Sydney

INDEPENDENT AUDITOR'S REPORT



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

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

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF INVESTSMART GROUP LIMITED

Report on the financial report

We have audited the accompanying financial report of InvestSMART Group Limited (the "Company"), which comprises the consolidated statement of financial position as at 30 June 2016, the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, notes comprising a summary of significant accounting policies and other explanatory information, and the directors' declaration of the consolidated entity comprising the Company and the entities it controlled at the year's end or from time to time during the financial year.

Directors' responsibility 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 controls as the directors determine are necessary to enable the preparation of the financial report that is free from material misstatement, whether due to fraud or error. In Note 2a, the directors also state, in accordance with Accounting Standard AASB 101 *Presentation of Financial Statements*, that the financial statements comply with *International Financial Reporting Standards*.

Auditor's responsibility

Our responsibility is to express an opinion on the financial report based on our audit. We conducted our audit in accordance with Australian Auditing Standards. Those standards require that we comply with relevant ethical requirements relating to audit engagements and plan and perform the audit to obtain reasonable assurance about whether the financial report is free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial report. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial report, whether due to fraud or error. In making those risk assessments, the auditor considers internal controls relevant to the Company's preparation and fair presentation of the financial report in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal controls. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the financial report.

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

Independence

In conducting our audit we have complied with the independence requirements of the Corporations Act 2001. We have given to the directors of the Company a written Auditor's Independence Declaration, a copy of which is included in the directors' report.



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

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

Opinion

In our opinion:

- a. the financial report of InvestSMART Group Limited is in accordance with the Corporations Act 2001, including:
 - i giving a true and fair view of the Company's financial position as at 30 June 2016 and of its performance for the year ended on that date; and
 - ii complying with Australian Accounting Standards and the Corporations Regulations 2001; and
- b. the financial report also complies with *International Financial Reporting Standards* as disclosed in Note 2a.

Report on the remuneration report

We have audited the Remuneration Report included in pages 16 to 19 of the directors' report for the year ended 30 June 2016. 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.

Opinion

In our opinion, the Remuneration Report of InvestSMART Group Limited for the year ended 30 June 2016, complies with section 300A of the *Corporations Act 2001*.

Ernst & Young

Jonathan Pye
Partner, Sydney
25 August 2016

ADDITIONAL INFORMATION

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

The security holder information set out below was current as at 9 October 2016.

DISTRIBUTION OF SHAREHOLDERS

There were 127,385,358 fully paid ordinary shares held by 1,265 shareholders, all of which were quoted on the Australian Securities Exchange. There are no restricted shares on issue. There are no unquoted shares on issue.

Category (size of holding)	Number of shareholders	Shares	Percentage
1 – 1,000	354	62,214	0.05
1,001 – 5,000	265	1,119,969	0.88
5,001 – 10,000	200	1,733,567	1.36
10,001 – 100,000	319	11,598,187	9.10
100,001 and over	127	112,869,421	88.61
	1,265	127,385,358	100.00

The number of shareholders holding less than a marketable parcel of fully paid ordinary shares is 318.

TOP 20 SHAREHOLDERS

Holder Name	Number of Shares	Percentage
RBC Investor Services Australia Nominees Pty Ltd <Picredit>	19,009,046	14.92
BNP Paribas Nominees Pty Ltd <Agency Lending DRP A/c>	5,151,534	4.04
Robin Anne Owles & Ron Peter Hodge <Hodge Family No 2 A/c>	4,166,666	3.27
James Noort <Poole Family A/c>	4,166,666	3.27
Onmell Pty Ltd <ONM BPSF A/c>	4,063,183	3.19
JP Morgan Nominees Australia Limited	4,016,970	3.15
Mr Paul Hugh Clitheroe	4,000,000	3.14
Cameron Richard Pty Ltd <IPS PL No 5 Exec B/Plan A/c>	3,922,030	3.08
RBC Investor Services Australia Nominees Pty Limited <Bkcust A/c>	3,760,765	2.95
Ronnscam Pty Ltd <Davidson Family A/c>	3,166,666	2.49
SM & RW Brown Pty Ltd <Robert & Sally Brown SF A/c>	3,000,000	2.36
Patcaieli Pty Ltd <The JKO Super Fund A/c>	2,747,747	2.16
Pendex Pty Ltd <Patcaeli Trust A/c>	2,301,991	1.81
Vadina Pty Limited <Jordan Super Fund A/c>	1,940,000	1.52
JJC SF (2012) Pty Ltd <The Jack Cowin Fund A/c>	1,672,000	1.31
Stuart Andrew Pty Ltd <Campaspe Family A/c>	1,600,000	1.26
Leyland Private Asset Management Pty Ltd	1,500,000	1.18
Myall Resources Pty Ltd <Myall Group Super Fund A/c>	1,400,000	1.10
Farnworth House Pty Ltd	1,190,475	0.94
Linwierik Super Pty Ltd <Linton Super Fund A/c>	1,122,501	0.88
Total	73,898,240	58.03

VOTING RIGHTS

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

SUBSTANTIAL SHAREHOLDERS

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

Name	Date of Interest	No of shares held¹	Percentage²
Leyland Private Asset Management Pty Ltd	18 June 2015	22,531,407	17.69
Perpetual Limited	25 August 2016	18,539,432	14.55
Discovery Asset Management Pty Ltd	1 May 2014	7,521,739	6.19
Peter and Helen Jones	11 July 2016	6,487,232	5.09

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

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

STOCK EXCHANGE LISTING

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



InvestSMART Group Limited

PO Box 744
Queen Victoria Building
NSW 1230, Australia

Phone: 1300 880 160
Email: support@investsmart.com.au

www.investsmart.com.au