

1st Group Limited

ABN 25 138 897 533

Annual Report - 30 June 2018

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Our vision is to improve people's lives by building a trusted community and platform where health providers and patients connect 1st. We connect patients to a variety of healthcare services and information anytime, anywhere, so they can get well sooner and stay well longer. In FY2018 1st made strong progress in building towards scale, market leadership and profitability. The Group has signed agreements to support more than 7,200 sites and has facilitated over 7 million appointments online.

Dear Shareholders,

2018 has been a successful year for 1st Group Limited.

This year we successfully built our online health patient engagement platforms for scalability and sustainable success, achieving dominant market shares in our chosen verticals. We validated our value proposition to our customers, based on driving convenience, patient education and engagement. It is pleasing to see strong growth in adoption and engagement as we enter FY19 with confidence and continued momentum.

Review of operations

Vision – simple online connection with healthcare providers

The Group's vision is to provide consumers with a simpler and more convenient way to connect and interact online with healthcare practitioners and improve consumers' health through a range of products and trusted healthcare content.

Our platforms provide healthcare practices and businesses an opportunity to help educate patients about their choices, simplifying the referral process to specialists and improving patient health literacy through comprehensive education programs (conducted with consent), and in collaboration with the practices. Revenue derived from these activities forms the basis of our advertising revenue stream. Since our first successful program promoting contact lenses in Q2 FY18, the Group has been building a significant pipeline of new advertising opportunities leveraging our platform capabilities that drive benefits for our healthcare providers, patients and advertisers.

The Group's revenue for FY2018 was up 49% to \$3,432,123 (2017: \$2,306,207), compared to a 16% increase the previous year. Our growth was driven by increases in customer sites, up 44% to 7,271 and in products per site from strong client uptake of the Group's digital engagement products, such as EasyRECALL and EasyFeedback that encourage loyalty and help to improve users' experience. The Group's after-tax loss of \$4,636,076 for FY2018 was reduced from the previous year loss of \$5,129,847.

Momentum is building

The fourth quarter of the financial year saw strong momentum in our PetYeti platform as a result of a number of successful marketing events, as well as our initial launch into the New Zealand market with MyHealth1st and PetYeti. At the end of the financial year, the Group's platform supported more than 7,200 installed sites, and has taken over 7 million online appointments since the service was launched in 2012. Site/customer acquisition continues to grow steadily, with significant progress being achieved in the key markets that 1st Group now dominates, being pharmacy, independent optometry and vet/pet services. Site acquisition lays the foundation for upsell and cross sell opportunities, enabling the Group to drive significant additional value from its customer relationships.

New product launches drive growth

Prior to Q1 FY17, the Group's primary product line was its online appointment booking platforms. In the past 18 months the Group has released a number of additional products, including EasyFeedback, EasyRecalls, EasyCheckin Kiosks, 1st Insights and advertising. As these new products gain market traction and are introduced to our existing customer base, we expect to see the total number of Products per Site and revenue per customer increase.

After several years establishing our services in a number of healthcare markets, we are now moving to the third stage of the Group's corporate strategy: monetising our growing consumer networks through upselling additional digital products and a powerful form of highly targeted advertising to existing and new customers, all aimed at improving healthcare outcomes.

The Group exited FY18 well positioned with positive sales momentum, a healthy pipeline from our new products and additional promising sales opportunities to be pursued in FY19. Given the progress made in building market leading positions in its chosen verticals, the Group remains confident of its performance and in our maiden ACV (Annualised Contract Value from subscription contracts only) guidance issued in July 2018. First-half FY19 ACV is now expected to be between \$4.6m and \$5.1m at the end of December 2018, an expected increase of 13% on June 2018 (based on mid-point of the guidance range and excluding one off, usage and advertising contracts). Despite this continuing progress our share price remains disappointing. We will continue to execute our strategy to increase revenue, contain costs, generate cash flow and build shareholder value.

1st Group Limited
Chairman and CEO's report
30 June 2018

During the year, Richard Arnold resigned as Independent Director and Chair of the Audit and Risk Committee and Paul Welch was appointed as an Independent Director. He has agreed to chair our Audit and Risk Committee. We would like to thank Richard for his dedication and support over his six years as an Independent Director, and welcome Paul to the Board.

We would like to thank our dedicated employees and management team for the hard work that has delivered our progress during the past year and also our fellow Board members for their enthusiasm and commitment to the Group. On behalf of the Board and our whole team we would also like to thank our valued clients and partners and also our shareholders for their continuing support. We look forward to making further progress towards our goal of being a strong, successful and sustainable Company.



Trevor Matthews
Chairman

28 September 2018
Sydney



Klaus Bartosch
Managing Director

1st Group Limited
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1st Group Limited
Directors' report
30 June 2018

The Directors present their report, together with the financial statements, on the consolidated entity (referred to hereafter as the 'Group') consisting of 1st Group Limited (referred to hereafter as the 'Company' or 'parent entity') and the entities it controlled at the end of, or during, the year ended 30 June 2018.

Directors

The following persons were Directors of 1st Group Limited during the whole of the financial year and up to the date of this report, unless otherwise stated:

Trevor Matthews
Klaus Bartosch
Amanda Hagan
Paul Welch (appointed on 1 March 2018)
Richard Arnold (resigned on 28 February 2018)

Principal activities

During the financial year the principal continuing activities of the Group consisted of the provision of healthcare and corporate online search and appointment booking services.

Dividends

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

Review of operations

The loss for the Group after providing for income tax amounted to \$4,636,076 (30 June 2017: \$5,129,847).

Refer to the Chairman and CEO's report for further commentary on the review of operations.

Significant changes in the state of affairs

On 2 August 2017, the Company entered into a convertible debt facility ('Standby facility') agreement with its cornerstone shareholder, Mr John Plummer, for a maximum drawdown of \$2,000,000. Interest is payable at the Reserve Bank of Australia ('RBA') cash rate plus 8.5% per annum, payable quarterly in arrears. The maximum term of the facility is 2 years ending 1 August 2019. The facility is convertible to equity in the Company at the election of the Company (subject to Shareholder approval and compliance with the Corporations Act) at a 15% discount to the 30 Day Volume weighted average share price ('VWAP') prior to conversion.

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

Matters subsequent to the end of the financial year

On 13 July 2018, the Group provided a notice to Mr. Plummer to draw down a further \$500,000 of the \$2,000,000 Standby facility.

On 24 September 2018, the Group provided a notice to Mr. Plummer to draw down a further \$250,000 of the Standby facility. Accordingly, after these drawdowns are completed, the Group will have \$250,000 remaining in the Standby facility.

On 27 September 2018, the Group announced it had entered into an additional convertible debt facility agreement with its cornerstone shareholder, Mr. Plummer, for a maximum draw-down of \$1,000,000 on the same terms as the existing \$2,000,000 Standby facility

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

Likely developments and expected results of operations

Information on likely developments in the operations of the Group and the expected results of operations has been included in the Chairman and CEO's report preceding this report.

Environmental regulation

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

1st Group Limited
Directors' report
30 June 2018

Information on Directors

Name:	Trevor Matthews
Title:	Non-Executive Chairman
Qualifications:	Trevor holds a Master of Arts degree in Actuarial Studies from Macquarie University. Trevor is a Fellow of both the Institute of Actuaries of Australia and the Institute and Faculty of Actuaries in the United Kingdom. Trevor is a Fellow of the Australian Institute of Company Directors.
Experience and expertise:	Trevor has more than 40 years' experience in the financial services industry in Australia, North America, Asia and Europe. He is currently a board member of AMP Limited, Bupa Australia and New Zealand, FNZ Asia Pacific, TokioMarine Asia, Edelweiss Tokio Life and chairman of the State Insurance Regulatory Authority and AMP Life. He was previously an executive director of Aviva Plc, a leading global life and general insurer and chairman of the UK and French businesses. Prior to that, he held CEO level positions in life and general insurance companies in the UK, Japan, Canada and Australia. Trevor has been a commissioner of the UK Commission for Employment and Skills, Chairman of the Financial Services Skills Council in the United Kingdom, President of the Chartered Insurance Institute and has served on the boards of several national life industry associations.
Other current directorships:	Director of AMP Limited (ASX: AMP)
Former directorships (last 3 years):	CoverMore Group Limited (ASX: CVO) - delisted on 18 April 2017
Special responsibilities:	Chairman of the Board; Member of the Audit and Risk Committee and Member of the Nomination and Remuneration Committee
Interests in shares:	5,000,000
Interests in options:	1,000,000

Name:	Klaus Bartosch
Title:	Managing Director and Chief Executive Officer
Qualifications:	Klaus holds an AD in Civil Engineering obtained from the South East Queensland University. Klaus is a Member of the Australian Institute of Company Directors.
Experience and expertise:	Klaus is an experienced company executive in both publicly listed and private companies and brings extensive expertise in the development and operation of large consumer focused online search and appointment booking engines, websites and aggregators. Klaus has been instrumental in the development of the Company's strategy and the formation of the Board and executive team. Klaus was the executive chairman of the Company from 16 December 2011 until 20 September 2013, at which time he accepted the appointment as managing director. Klaus was a founding executive and founding shareholder in CloudTech Group and Virtual Ark, where he led a global team in marketing cloud based services to enterprise consumers, and which was recognised in 2011 as a Gartner Cool Vendor. Klaus was formerly Sales and marketing director for the then publicly listed Hostworks Limited that was acquired by Broadcast Australia (then a part of the Macquarie Group) in 2007. During his tenure at Hostworks, the company was responsible for the management of the online systems for many leading online brands including wotif.com, seek.com, carsales.com.au, realestate.com.au, graysonline.com, ticketek.com, SBS.com.au, ninemsn.com.au, and ten.com.au. In previous roles, Klaus has served as the chief executive officer and has held various senior executive roles for major multi-national companies in the information technology industry.
Other current directorships:	None
Former directorships (last 3 years):	None
Special responsibilities:	Member of the Audit and Risk Committee and Member of the Nomination and Remuneration Committee
Interests in shares:	3,224,226
Interests in options:	7,051,386

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Name: Amanda Hagan
 Title: Non-Executive Director
 Qualifications: Amanda holds a Bachelor of Science degree in Business Information Technology from the University of NSW, a graduate diploma in Applied Finance & Investment from the Securities Institute of Australia and is a graduate of the Australian Institute of Company Directors.
 Experience and expertise: Amanda has over 20 years' experience in the healthcare, financial services and energy sectors, including experience in senior roles and consulting on strategic projects for a range of companies including AGL, Energy Australia, American Express and the Australian Securities Exchange. Amanda joined Australian Unity in May 2006. As Chief Executive Officer, Healthcare and Director of Australian Unity Health Limited, Grand United Corporate Health Limited and Remedy Healthcare, she is responsible for all elements of Australian Unity's healthcare operations and strategic development of the business. On 31 May 2016, Amanda took on the new and additional responsibility for executing the Australian Unity Group's digital agenda, leading the newly created Digital Transformation Centre. Before joining Australian Unity, Amanda held various executive roles with Perpetual Limited. Amanda is also a director of the Australian Health Service Alliance Limited (a cooperative hospital contracting company formed by 24 health insurance funds) and Members Own Health Funds Limited.
 Other current directorships: None
 Former directorships (last 3 years): None
 Special responsibilities: Chair of the Nomination & Remuneration Committee
 Interests in shares: 769,230
 Interests in options: 500,000

Name: Paul Welch
 Title: Non-Executive Director
 Experience and expertise: Paul has extensive commercial experience in the technology sector having advised a broad array of growing and established businesses in Australia and Silicon Valley. Paul continues to advise a number of businesses and entrepreneurs in both a governance and advisory capacity. Paul is also a practicing solicitor, a Fellow of the Governance Institute of Australia and a Member of the Society of Trust and Estate Planners. Paul is an Executive Director of JR Richards & Sons, an entity which provides waste and recycling services. Paul was previously a partner at PricewaterhouseCoopers Australia, Baker McKenzie and Deloitte Australia.
 Other current directorships: None
 Former directorships (last 3 years): None
 Special responsibilities: Chair of the Audit and Risk Committee
 Interests in shares: None
 Interests in options: None

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

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

Company secretary

Andrew Whitten has held the role of company secretary since 18 September 2012.

Andrew is an admitted solicitor and an Executive Director of the Automic Group of Companies, Australia's only professional service provider that delivers a complete and integrated ecosystem of Registry, Company Secretarial, Legal, CFO and Accounting services.

Andrew is currently the company secretary for a number of publicly listed companies. He has been involved in numerous corporate and investment transactions including IPOs on the ASX and NSX, corporate reconstructions, reverse mergers and takeovers over two decades.

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Andrew holds a Bachelor of Arts (Economics, UNSW); Master of Laws and Legal Practice (Corporate Finance and Securities Law, UTS); Graduate Diploma in Applied Corporate Governance from the Governance Institute and is an elected Associate of that institute.

Meetings of Directors

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

	Full Board		Nomination and Remuneration Committee*		Audit and Risk Committee	
	Attended	Held	Attended	Held	Attended	Held
Trevor Matthews	11	11	-	-	3	3
Klaus Bartosch	11	11	-	-	3	3
Amanda Hagan	11	11	-	-	-	-
Paul Welch	3	4	-	-	-	-
Richard Arnold	7	7	-	-	3	3

Held: represents the number of meetings held during the time the Director held office.

* The Board considered nomination and remuneration matters in a full session of the Board.

Remuneration report (audited)

The remuneration report which has been audited, details the key management personnel ('KMP') remuneration arrangements for the Group, in accordance with the requirements of the Corporations Act 2001 and its Regulations.

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

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

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

Principles used to determine the nature and amount of remuneration

The objective of the Group's executive reward framework is to ensure reward for performance is competitive and appropriate for the results delivered. The framework aligns executive reward with the achievement of strategic objectives and the creation of value for shareholders, and it is considered to conform to the market best practice for the delivery of reward. The Board ensures that executive reward satisfies the following key criteria for good reward governance practices:

- competitiveness and reasonableness;
- acceptability to shareholders;
- performance linkage / alignment of executive compensation; and
- transparency.

The Nomination and Remuneration Committee is responsible for determining and reviewing remuneration arrangements for its Directors and executives. The performance of the Group depends on the quality of its Directors and executives. The remuneration philosophy is to attract, motivate and retain high performance and high quality personnel.

The Nomination and Remuneration Committee has structured an executive remuneration framework that is market competitive and complementary to the reward strategy of the Group.

The reward framework is designed to align executive reward to shareholders' interests. The Board has considered that it should seek to enhance shareholders' interests by:

- having economic profit as a core component of plan design;
- focusing on sustained growth in shareholder wealth, consisting of dividends and growth in share price, and delivering constant or increasing return on assets as well as focusing the executives on key non-financial drivers of value; and
- attracting and retaining high calibre executives.

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

- rewarding capability and experience;
- reflecting competitive reward for contribution to growth in shareholder wealth; and
- providing a clear structure for earning rewards.

In accordance with best practice corporate governance, the structure of Non-Executive Director and Executive Director remuneration is separate.

Non-Executive Directors' remuneration

Fees and payments to Non-Executive Directors reflect the demands and responsibilities of their roles. Non-Executive Directors' fees and payments are reviewed annually by the Nomination and Remuneration Committee. The Nomination and Remuneration Committee may, from time to time, receive advice from independent remuneration consultants to ensure Non-Executive Directors' fees and payments are appropriate and in line with the market. The Chairman's fees are determined independently to the fees of other Non-Executive Directors based on comparative roles in the external market. The Chairman is not present at any discussions relating to the determination of his own remuneration. Non-Executive Directors may receive shares and options as part of their remuneration.

ASX listing rules require the aggregate Non-Executive Directors remuneration be determined periodically by a general meeting. The most recent determination was at the Annual General Meeting held on 24 November 2015, where the shareholders approved a maximum annual aggregate remuneration of \$500,000 per annum.

The annual Non-Executive Directors' fees currently agreed to be paid are \$60,000 to the Chairman and \$40,000 for other Non-Executive Directors, plus statutory superannuation. Non-Executive Directors' remuneration may include an incentive portion consisting of options, as considered appropriate by the Board, which may be subject to shareholder approval in accordance with ASX listing rules.

In addition to their annual remuneration, the Directors may also be reimbursed for expenses properly incurred by them in connection with the affairs of the Group including travel and other expenses. Non-Executive Directors may be paid such additional or special remuneration as the Board decide is appropriate where a Director performs extra work or services which are not in the capacity as Director. Directors are not currently entitled to any additional remuneration for time spent in connection with acting as a member of any committee of the Board.

There are no retirement benefit schemes for Directors, other than statutory superannuation contributions.

Executive remuneration

The Group aims to reward executives with a level and mix of remuneration based on their positions and responsibilities. The remuneration has both fixed and variable components.

The executive remuneration and reward framework has four components:

- base pay and non-monetary benefits;
- short-term performance incentives;
- share-based payments; and
- other remuneration such as superannuation and long service leave.

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

Fixed remuneration, consisting of base salary, superannuation and non-monetary benefits, is reviewed annually by the Nomination and Remuneration Committee or a full session of the independent Non-Executive Directors, based on individual and business unit performance, the overall performance of the Group and comparable market remuneration.

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

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Variable remuneration

The short-term incentives ('STI') program is designed to align the financial performance of the Group to executives responsible for meeting those targets. STI payments are granted to executives based on specific annual targets and key performance indicators ('KPIs') being achieved. KPIs include earnings before interest, tax, depreciation and amortisation ('EBITDA'), closing monthly recurring revenue ('MRR') at the end of the reporting period and closing average monthly transaction revenue ('AMTR') at the end of the reporting period. The minimum performance targets for these KPIs were not achieved during the year and therefore no STI were awarded to KMPs in the period. However, STI payments that were discretionary in nature were made to a KMP during the financial year.

Long term incentives ('LTI')

The objective of the LTI program is to reward KMPs in a manner which aligns this element of remuneration with the creation of shareholder value. The incentive portion is payable based upon attainment of objectives related to the KMPs' roles and responsibilities. The objectives vary by individual, but all are targeted to relate directly to the Group's business and financial performance and thus to shareholder value.

LTI grants to KMP are delivered in the form of share options. The options are issued at an exercise price determined by the Board at the time of issue. The exercise price is usually set at or above the current 30 day volume weighted average price ('VWAP') in order to link the benefit to the creation of shareholder value.

The objective of granting options to KMP is to align remuneration with the creation of long term shareholder value. The level of LTI granted is dependent on the Company's recent share price performance, the seniority of the KMP and their responsibilities, the requirements of the ASX listing rules and the Company's option plan rules.

Typically, the grant of LTI occurs at the commencement of employment for key individuals in order to attract and retain high performing individuals.

Group performance and link to remuneration

The board has implemented a number of KPIs for KMPs that directly linked the STI program to the financial performance of the Group. The payment of the cash bonus for KMPs will be dependent on the achievement of the financial targets determined by the board. The remaining portion of the cash bonus and incentive payments will be at the discretion of the Nomination and Remuneration Committee.

The Nomination and Remuneration Committee is of the opinion that the results can be improved through the adoption of performance based compensation and is satisfied that this will continue to increase shareholder wealth if maintained over the coming years.

Use of remuneration consultants

During the financial year ended 30 June 2018, the Group did not engage any remuneration consultants.

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

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

Details of remuneration

Amounts of remuneration

Details of the remuneration of KMP of the Group are set out in the following tables.

The KMP of the Group consisted of the Directors of 1st Group Limited and the following persons:

- Joel Reynolds - Chief Technology Officer
- Graham Mason - Chief Financial Officer

Changes since the end of the reporting period:

Graham Mason resigned as the Chief Financial Officer on 27 July 2018.

Richard Rogers was appointed as the Chief Financial Officer with effect from 11 July 2018.

**1st Group Limited
Directors' report
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2018	Short-term benefits			Post-employment benefits	Share-based payments		Total
	Cash salary and fees	Cash bonus	Non-monetary	Super-annuation	Shares	Options	
	\$	\$	\$	\$	\$	\$	
<i>Non-Executive Directors:</i>							
Trevor Matthews	60,000	-	-	5,700	-	14,997	80,697
Amanda Hagan	40,000	-	-	3,800	-	3,333	47,133
Paul Welch*	13,333	-	-	1,267	-	-	14,600
Richard Arnold**	29,200	-	-	-	-	4,175	33,375
<i>Executive Directors:</i>							
Klaus Bartosch	270,000	-	-	25,650	-	34,011	329,661
<i>Other Key Management Personnel:</i>							
Joel Reynolds	197,000	-	-	18,715	-	19,448	235,163
Graham Mason	230,000	10,000	-	22,800	-	25,966	288,766
	<u>839,533</u>	<u>10,000</u>	<u>-</u>	<u>77,932</u>	<u>-</u>	<u>101,930</u>	<u>1,029,395</u>

* Represents remuneration from the date of appointment as KMP on 1 March 2018

** Represents remuneration up to the date of resignation as KMP on 28 February 2018

2017	Short-term benefits			Post-employment benefits	Share-based payments		Total
	Cash salary and fees	Cash bonus	Non-monetary	Super-annuation	Shares	Options	
	\$	\$	\$	\$	\$	\$	
<i>Non-Executive Directors:</i>							
Trevor Matthews	60,000	-	-	5,700	-	15,182	80,882
Amanda Hagan*	32,464	-	-	3,084	-	3,332	38,880
Richard Arnold	43,800	-	-	-	-	7,558	51,358
Garry Charny**	4,203	-	-	399	-	23,510	28,112
<i>Executive Directors:</i>							
Klaus Bartosch	270,000	-	-	25,650	-	73,816	369,466
<i>Other Key Management Personnel:</i>							
Joel Reynolds	197,000	-	-	18,715	-	9,532	225,247
Graham Mason	230,000	-	-	21,850	-	3,811	255,661
	<u>837,467</u>	<u>-</u>	<u>-</u>	<u>75,398</u>	<u>-</u>	<u>136,741</u>	<u>1,049,606</u>

* Represents remuneration from the date of appointment as KMP on 9 August 2016

** Represents remuneration up to the date of resignation as KMP on 9 August 2016

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

Name	Fixed remuneration 2018	Fixed remuneration 2017	At risk - STI 2018	At risk - STI 2017	At risk - LTI 2018	At risk - LTI 2017
<i>Non-Executive Directors:</i>						
Trevor Matthews	81%	81%	-	-	19%	19%
Amanda Hagan	93%	91%	-	-	7%	9%
Paul Welch	100%	-	-	-	-	-
Richard Arnold	87%	85%	-	-	13%	15%
Garry Charny	-	16%	-	-	-	84%
<i>Executive Directors:</i>						
Klaus Bartosch	90%	80%	-	-	10%	20%
<i>Other Key Management Personnel:</i>						
Joel Reynolds	92%	96%	-	-	8%	4%
Graham Mason	88%	98%	3%	-	9%	2%

Service agreements

Non-Executive Directors do not have fixed term contracts with the Company. On appointment to the Board, all Non-Executive Directors enter into a service agreement with the Company in the form of a letter of appointment. The letter summarises the Board policies and terms, including compensation. Non-Executive directors retire by whichever is the longer period: the third annual general meeting following their appointment, or the third anniversary date of appointment, but may then be eligible for re-election.

Remuneration and other terms of employment for executives are formalised in employment agreements. Details of the employment agreements are as follows:

Name: Klaus Bartosch
Title: Managing Director and Chief Executive Officer ('CEO')
Agreement commenced: 13 April 2015
Term of agreement: Ongoing
Details: The CEO receives fixed remuneration of \$270,000, plus statutory superannuation. He is eligible to receive a STI of up to 50% of fixed remuneration subject to the achievement of key performance indicators, as agreed at the beginning of each financial year. Either party may terminate the contract by giving six months' notice in writing. In case of termination of employment (without cause), the CEO is entitled to pro-rata STI for the year. All LTI that remains unvested at the end of the notice period will lapse. In case of termination of employment (with cause), STI is not awarded and all unvested LTI will lapse immediately.

Name: Joel Reynolds
Title: Chief Technology Officer ('CTO')
Agreement commenced: 6 July 2015
Term of agreement: Ongoing
Details: The CTO receives a fixed remuneration of \$197,000, plus statutory superannuation. He is eligible to receive an STI of up to 25% of fixed remuneration subject to the achievement of key performance indicators, to be determined at the discretion of the Board. The Company may terminate the contract by giving three months' notice in writing. The CTO may terminate the contract by providing eight weeks' notice. In case of termination of employment (without cause), the CTO is entitled to pro-rata STI for the year. All LTI that remains unvested at the end of the notice period will lapse. In case of termination of employment (with cause), STI is not awarded and all unvested LTI will lapse immediately.

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Name: Graham Mason
Title: Chief Financial Officer ('CFO')
Agreement commenced: 24 August 2015
Term of agreement: Ongoing - resigned on 27 July 2018
Details: The CFO receives \$230,000 plus statutory superannuation. He is eligible to receive a STI of up to 25% of fixed remuneration subject to the achievement of key performance indicators, to be determined at the discretion of the Board. Either party may terminate the contract by giving 12 weeks' notice in writing. If employment is terminated (without cause), the CFO is entitled to pro-rata STI for the year. All STI that remains unvested at the end of the notice period will lapse. In case of termination of employment (with cause), STI is not awarded and all unvested LTI will lapse immediately.

Name: Richard Rogers
Title: Chief Financial Officer ('CFO')
Agreement commenced: Appointed on 11 July 2018
Term of agreement: Ongoing
Details: The CFO receives \$240,000 plus statutory superannuation. He is eligible to receive a STI of up to 25% of fixed remuneration subject to the achievement of key performance indicators, to be determined at the discretion of the Board. Either party may terminate the contract by giving 4 weeks' notice in writing. If employment is terminated (without cause), the CFO is entitled to pro-rata STI for the year. All STI that remains unvested at the end of the notice period will lapse. In case of termination of employment (with cause), STI is not awarded and all unvested LTI will lapse immediately.

KMPs have no entitlement to termination payments in the event of removal for misconduct.

Share-based compensation

Issue of shares

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

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Directors' report
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Options

The terms and conditions of each grant of options over ordinary shares affecting remuneration of Directors and KMP in this financial year and/or future reporting years are as follows:

Grant date	Particulars	Expiry date	Exercise price	Fair value per option at grant date
27/10/2014	1/6 vested on grant date. Remaining 5/6 vest in equal half year instalments.	27/10/2024	\$0.230	\$0.155
24/02/2015	1/4 vested on grant date. Remaining 3/4 vest over 3 years in equal annual instalments.	24/02/2020	\$0.350	\$0.092
23/03/2015	1/4 vested on grant date. Remaining 3/4 vest over 3 years in equal annual instalments.	23/03/2020	\$0.350	\$0.092
13/04/2015	1/3 vested on grant date. Remaining 2/3 vest over 3 years in equal annual instalments.	29/05/2020	\$0.230	\$0.092
13/04/2015	1/3 vested on grant date. Remaining 2/3 vest over 3 years in equal annual instalments.	13/04/2025	\$0.500	\$0.092
13/04/2015	1/3 vested on grant date. Remaining 2/3 vest over 3 years in equal annual instalments.	13/04/2025	\$0.700	\$0.092
14/04/2015	1/3 vest in equal annual instalments.	13/04/2025	\$0.350	\$0.092
17/09/2015	1/3 vest in equal annual instalments.	17/09/2020	\$0.350	\$0.027
13/12/2016	1/3 vest in equal annual instalments.	13/12/2021	\$0.105	\$0.020
03/08/2017	1/2 vest immediately, 1/2 vest in 12 months	03/08/2027	\$0.105	\$0.018
03/08/2017	1/2 vest in 24 months, 1/2 vest in 36 months	03/08/2027	\$0.150	\$0.021
29/11/2017	1/4 vest immediately, 1/4 vest in 12 months, 1/4 vest in 24 months, 1/4 vest in 36 months	29/11/2022	\$0.128	\$0.018

Options granted carry no dividend or voting rights. Vesting is subject to continuity of service and there are no performance conditions.

1st Group Limited
Directors' report
30 June 2018

The number of options over ordinary shares granted to and vested in Directors and other KMP as part of compensation are set out below:

Name	Number of options granted during the year 2018	Number of options granted during the year 2017	Number of options vested during the year 2018	Number of options vested during the year 2017
Trevor Matthews	-	-	250,000	250,000
Amanda Hagan	-	500,000	166,666	-
Richard Arnold	-	-	62,500	137,084
Garry Charny	-	-	-	604,254
Klaus Bartosch	4,000,000	-	1,555,557	924,536
Joel Reynolds	1,200,000	-	383,334	166,666
Graham Mason	2,000,000	-	633,333	133,333

Additional disclosures relating to key management personnel

Shareholding

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

	Balance at the start of the year	Received as part of remuneration	Additions	Disposals/ other	Balance at the end of the year
<i>Ordinary shares</i>					
Trevor Matthews	4,200,000	-	800,000	-	5,000,000
Amanda Hagan	769,230	-	-	-	769,230
Richard Arnold*	877,916	-	-	(877,916)	-
Klaus Bartosch	2,855,226	-	369,000	-	3,224,226
Joel Reynolds	341,177	-	-	-	341,177
	<u>9,043,549</u>	<u>-</u>	<u>1,169,000</u>	<u>(877,916)</u>	<u>9,334,633</u>

* Disposal/other represents shares held at resignation date.

Option holding

The number of options over ordinary shares in the Company held during the financial year by each Director and other members of KMP of the Group, including their personally related parties, is set out below:

	Balance at the start of the year	Granted	Exercised	Expired/ forfeited/ other	Balance at the end of the year
<i>Options over ordinary shares</i>					
Trevor Matthews	1,000,000	-	-	-	1,000,000
Amanda Hagan	500,000	-	-	-	500,000
Richard Arnold*	473,751	-	-	(473,751)	-
Klaus Bartosch	4,906,943	4,000,000	-	(1,855,557)	7,051,386
Joel Reynolds	500,000	1,200,000	-	-	1,700,000
Graham Mason	400,000	2,000,000	-	-	2,400,000
	<u>7,780,694</u>	<u>7,200,000</u>	<u>-</u>	<u>(2,329,308)</u>	<u>12,651,386</u>

* Expired/forfeited/other represents 473,751 options held at resignation date.

1st Group Limited
Directors' report
30 June 2018

	Vested and exercisable	Vested and unexercisable	Balance at the end of the year
<i>Options over ordinary shares</i>			
Trevor Matthews	1,000,000	-	1,000,000
Amanda Hagan	166,666	-	166,666
Klaus Bartosch	4,051,386	-	4,051,386
Joel Reynolds	800,000	-	800,000
Graham Mason	766,666	-	766,666
	<u>6,784,718</u>	<u>-</u>	<u>6,784,718</u>

This concludes the remuneration report, which has been audited.

Shares under option

Unissued ordinary shares of 1st Group Limited under option at the date of this report are as follows:

Grant date	Expiry date	Exercise price	Number under option
01/06/2014	01/01/2024	\$0.230	2,125,904
03/10/2014	02/10/2025	\$0.230	16,666
27/10/2014	27/10/2024	\$0.230	2,000,015
24/02/2015	24/02/2020	\$0.350	1,000,000
03/03/2015	03/03/2020	\$0.230	2,000,000
23/03/2015	23/03/2020	\$0.350	250,000
13/04/2015	29/05/2020	\$0.230	1,944,443
14/04/2015	13/04/2025	\$0.350	360,000
17/09/2015	17/09/2020	\$0.350	555,000
13/12/2016	13/12/2021	\$0.105	500,000
03/08/2017	03/08/2027	\$0.128	3,200,000
29/11/2017	29/11/2022	\$0.128	4,000,000
22/12/2017	22/12/2022	\$0.105	2,275,000
			<u>20,227,028</u>

No person entitled to exercise the options had or has any right by virtue of the option to participate in any share issue of the Company or of any other body corporate.

Shares issued on the exercise of options

There were no ordinary shares of 1st Group Limited issued on the exercise of options during the year ended 30 June 2018 and up to the date of this report.

Indemnity and insurance of officers

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

During the financial year, the Company paid a premium in respect of a contract to insure the Directors and Executives of the Company against a liability to the extent permitted by the Corporations Act 2001. The contract of insurance prohibits disclosure of the nature of the liability and the amount of the premium.

Indemnity and insurance of auditor

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

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

1st Group Limited
Directors' report
30 June 2018

Proceedings on behalf of the Company

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

Non-audit services

Details of the amounts paid or payable to the auditor for non-audit services provided during the financial year by the auditor are outlined in note 23 to the financial statements.

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

The Directors are of the opinion that the services as disclosed in note 23 to the financial statements do not compromise the external auditor's independence requirements of the Corporations Act 2001 for the following reasons:

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

Officers of the Company who are former partners of Bentleys NSW Audit Pty Ltd

There are no officers of the Company who are former partners of Bentleys NSW Audit Pty Ltd.

Auditor's independence declaration

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

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

On behalf of the Directors



Trevor Matthews
Chairman

28 September 2018
Sydney



Klaus Bartosch
Managing Director and Chief Executive Officer

1st Group Limited
ABN: 25 138 897 533

Auditor's Independence Declaration under Section 307C of the Corporations Act 2001 to the Directors of 1st Group Limited

As lead auditor for the audit of 1st Group Limited for the year ended 30 June 2018, I declare that, to the best of my knowledge and belief, there have been:

- (i) no contraventions of the auditor independence requirements as set out in the *Corporations Act 2001* in relation to the audit; and
- (ii) no contraventions of any applicable code of professional conduct in relation to the audit.



BENTLEYS NSW AUDIT PTY LTD



ROBERT EVETT
Director
Sydney

28 September 2018

1st Group Limited
Statement of profit or loss and other comprehensive income
For the year ended 30 June 2018

	Note	Consolidated 2018 \$	2017 \$
Revenue	5	3,432,123	2,306,207
Net gain recognised on reversal of contingent consideration		-	93,738
Expenses			
Advertising and marketing expenses		(627,211)	(594,203)
Professional and consulting fees		(577,671)	(439,177)
Operations and administration expenses		(2,230,265)	(1,360,483)
Employee benefits		(3,635,998)	(4,149,510)
Depreciation and amortisation expenses	6	(1,232,127)	(1,358,182)
Finance costs	6	(56,644)	(17,472)
Loss before income tax benefit		(4,927,793)	(5,519,082)
Income tax benefit		291,717	389,235
Loss after income tax benefit for the year attributable to the owners of 1st Group Limited		(4,636,076)	(5,129,847)
Other comprehensive income for the year, net of tax		-	-
Total comprehensive income for the year attributable to the owners of 1st Group Limited		<u>(4,636,076)</u>	<u>(5,129,847)</u>
		Cents	Cents
Basic earnings per share	31	(2.24)	(2.48)
Diluted earnings per share	31	(2.24)	(2.48)

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

1st Group Limited
Statement of financial position
As at 30 June 2018

	Note	Consolidated 2018 \$	2017 \$
Assets			
Current assets			
Cash and cash equivalents	8	277,160	2,933,127
Trade and other receivables	9	505,850	279,047
Inventories		8,144	-
Income tax claim receivable	7	45,250	137,000
Other	10	191,727	204,992
Total current assets		<u>1,028,131</u>	<u>3,554,166</u>
Non-current assets			
Property, plant and equipment	11	47,604	69,824
Intangibles	12	3,835,848	5,038,299
Total non-current assets		<u>3,883,452</u>	<u>5,108,123</u>
Total assets		<u>4,911,583</u>	<u>8,662,289</u>
Liabilities			
Current liabilities			
Trade and other payables	13	810,316	878,184
Employee benefits	14	190,094	155,270
Total current liabilities		<u>1,000,410</u>	<u>1,033,454</u>
Non-current liabilities			
Borrowings	15	964,902	-
Derivative financial instruments	16	35,098	-
Deferred tax	7	252,443	475,165
Total non-current liabilities		<u>1,252,443</u>	<u>475,165</u>
Total liabilities		<u>2,252,853</u>	<u>1,508,619</u>
Net assets		<u>2,658,730</u>	<u>7,153,670</u>
Equity			
Issued capital	17	23,269,987	23,269,987
Reserves	18	2,482,142	2,341,006
Accumulated losses		(23,093,399)	(18,457,323)
Total equity		<u>2,658,730</u>	<u>7,153,670</u>

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

1st Group Limited
Statement of changes in equity
For the year ended 30 June 2018

Consolidated	Issued capital \$	Reserves \$	Accumulated losses \$	Total equity \$
Balance at 1 July 2016	23,237,986	2,228,906	(13,327,476)	12,139,416
Loss after income tax benefit for the year	-	-	(5,129,847)	(5,129,847)
Other comprehensive income for the year, net of tax	-	-	-	-
Total comprehensive income for the year	-	-	(5,129,847)	(5,129,847)
<i>Transactions with owners in their capacity as owners:</i>				
Contributions of equity, net of transaction costs (note 17)	32,001	(34,501)	-	(2,500)
Share-based payments (note 32)	-	146,601	-	146,601
Balance at 30 June 2017	23,269,987	2,341,006	(18,457,323)	7,153,670
Consolidated	Issued capital \$	Reserves \$	Accumulated losses \$	Total equity \$
Balance at 1 July 2017	23,269,987	2,341,006	(18,457,323)	7,153,670
Loss after income tax benefit for the year	-	-	(4,636,076)	(4,636,076)
Other comprehensive income for the year, net of tax	-	-	-	-
Total comprehensive income for the year	-	-	(4,636,076)	(4,636,076)
<i>Transactions with owners in their capacity as owners:</i>				
Share-based payments (note 32)	-	141,136	-	141,136
Balance at 30 June 2018	23,269,987	2,482,142	(23,093,399)	2,658,730

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

1st Group Limited
Statement of cash flows
For the year ended 30 June 2018

	Note	Consolidated 2018 \$	2017 \$
Cash flows from operating activities			
Receipts from customers (inclusive of GST)		3,508,987	2,596,021
Payments to suppliers and employees (inclusive of GST)		(7,321,766)	(6,420,067)
Interest received		5,478	29,550
Income taxes refunded		160,745	441,415
Net cash used in operating activities	29	<u>(3,646,556)</u>	<u>(3,353,081)</u>
Cash flows from investing activities			
Payment for prior year business combinations		-	(100,000)
Payments for property, plant and equipment		(9,411)	(27,620)
Payments for intangibles	12	<u>-</u>	<u>(150,000)</u>
Net cash used in investing activities		<u>(9,411)</u>	<u>(277,620)</u>
Cash flows from financing activities			
Issue of convertible notes	30	<u>1,000,000</u>	<u>-</u>
Net cash from financing activities		<u>1,000,000</u>	<u>-</u>
Net decrease in cash and cash equivalents		(2,655,967)	(3,630,701)
Cash and cash equivalents at the beginning of the financial year		<u>2,933,127</u>	<u>6,563,828</u>
Cash and cash equivalents at the end of the financial year		<u><u>277,160</u></u>	<u><u>2,933,127</u></u>

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

1st Group Limited
Notes to the financial statements
30 June 2018

Note 1. General information

The financial statements of 1st Group Limited are those of the Group consisting of 1st Group Limited as the parent entity and the entities it controlled at the end of, or during, the year. The financial statements are presented in Australian dollars, which is 1st Group Limited's functional and presentation currency.

1st Group Limited is a listed public company limited by shares, incorporated and domiciled in Australia. Its registered office and principal place of business are:

Registered office

C/o Whittens & McKeough
Level 29, 201 Elizabeth Street
Sydney, NSW 2000

Principal place of business

2C, Level 2, 2-12 Foveaux Street
Surry Hills
Sydney, NSW 2010

A description of the nature of the Group's operations and its principal activities are included in the Directors' report accompanying these financial statements.

The financial statements were authorised for issue, in accordance with a resolution of Directors, on 28 September 2018. The Directors have the power to amend and reissue the financial statements.

Note 2. Significant accounting policies

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

New or amended Accounting Standards and Interpretations adopted

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

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

Going concern

For the financial year, the Group made a loss after tax of \$4,636,076 (2017: \$5,129,847) and had net operating cash outflow of \$3,646,556 (2017: \$3,353,081). These conditions give rise to an uncertainty which may cast doubt over the Group's ability to continue as a going concern.

Cash flow forecasts based on projected activity and business volumes indicate that the Group will be able to pay its creditors as and when due for at least 12 months from the date of approval of the financial statements, and no asset is likely to be realised for an amount less than the amount at which it is recorded in the financial statements as at 30 June 2018. Accordingly, these financial statements have been prepared on a going concern basis.

The following matters have been considered by the Directors in determining the appropriateness of the going concern basis of preparation in the financial statements:

- as a Company listed on Australian Securities Exchange, the Directors are confident the Group will have the ability to raise capital in the future, if required.
- the Group has undrawn credit lines at the reporting date of \$1,000,000. Refer to note 15 for further details;
- as detailed in note 33, the Group has secured additional standby facility for \$1,000,000 subsequent to the year end; and
- The Group is confident of securing additional credit lines as needed to allow the Group to continue as a going concern.

Accordingly, no adjustments have been made to the financial statements relating to the recoverability and classification of the asset carrying amounts or the amounts and classification of liabilities that might be necessary should the Group not continue as a going concern.

1st Group Limited
Notes to the financial statements
30 June 2018

Note 2. Significant accounting policies (continued)

Should the Group be unable to continue as a going concern it may be required to realise its assets and discharge its liabilities other than in the normal course of business and at amounts different to those stated in the financial statements. The financial statements do not include any adjustments relating to the recoverability and classification of asset carrying amounts or the amount of liabilities that might result should the Group be unable to continue as a going concern and meet its debts as and when they fall due.

Basis of preparation

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

Historical cost convention

The financial statements have been prepared under the historical cost convention, except for derivative financial instruments at fair value.

Critical accounting estimates

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

Parent entity information

In accordance with the Corporations Act 2001, these financial statements present the results of the Group only. Supplementary information about the parent entity is disclosed in note 27.

Principles of consolidation

The consolidated financial statements incorporate the assets and liabilities of all subsidiaries of 1st Group Limited ('Company' or 'parent entity') as at 30 June 2018 and the results of all subsidiaries for the year then ended. 1st Group Limited and its subsidiaries together are referred to in these financial statements as the 'Group'.

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

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

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

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

Operating segments

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

Note 2. Significant accounting policies (continued)

Revenue recognition

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

Subscription fees

Subscription fees are recognised as revenue as the services are rendered, in accordance with the terms and conditions of the subscription agreement.

Usage fees (recalls, SMS and booking fees)

Usage revenue for recalls and SMS fees are recognised when the recall or SMS are sent by the customer.

Advertising revenue

Advertising revenue is recognised as the services are rendered, in accordance with the terms of the advertising agreement.

Setup and training

Setup and connection fees are recognised on the completion of the customer setup process and the product is ready for use by the customer. Training fees are recognised as the training sessions are delivered.

Development and customisation

Revenue from customisation and development fees are recognised in the accounting period in which the services are delivered.

Interest

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

Other revenue

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

Income tax

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

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

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

Deferred tax assets are recognised for deductible temporary differences and unused tax losses only if it is probable that future taxable amounts will be available to utilise those temporary differences and losses.

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

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

1st Group Limited
Notes to the financial statements
30 June 2018

Note 2. Significant accounting policies (continued)

1st Group Limited (the 'head entity') and its wholly-owned Australian subsidiaries have formed an income tax consolidated group under the tax consolidation regime with effect from 29 May 2015. The head entity and each subsidiary in the tax consolidated group continue to account for their own current and deferred tax amounts. The tax consolidated group has applied the 'separate taxpayer within group' approach in determining the appropriate amount of taxes to allocate to members of the tax consolidated group.

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

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

Current and non-current classification

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

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

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

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

Cash and cash equivalents

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

Trade and other receivables

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

Collectability of trade receivables is reviewed on an ongoing basis. Debts which are known to be uncollectable are written off by reducing the carrying amount directly. A provision for impairment of trade receivables is raised when there is objective evidence that the Group will not be able to collect all amounts due according to the original terms of the receivables. Significant financial difficulties of the debtor, probability that the debtor will enter bankruptcy or financial reorganisation and default or delinquency in payments (more than 90 days overdue) are considered indicators that the trade receivable may be impaired. The amount of the impairment allowance is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the original effective interest rate. Cash flows relating to short-term receivables are not discounted if the effect of discounting is immaterial.

Derivative financial instruments

Derivatives are initially recognised at fair value on the date a derivative contract is entered into and are subsequently remeasured to their fair value at each reporting date. The accounting for subsequent changes in fair value depends on whether the derivative is designated as a hedging instrument, and if so, the nature of the item being hedged.

Derivatives are classified as current or non-current depending on the expected period of realisation.

Property, plant and equipment

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

1st Group Limited
Notes to the financial statements
30 June 2018

Note 2. Significant accounting policies (continued)

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

Leasehold improvements	5 years
Plant and equipment	5 years
Computer equipment	4 years

The residual values, useful lives and depreciation methods are reviewed, and adjusted if appropriate, at each reporting date.

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

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

Leases

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

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

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

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

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

Intangible assets

Intangible assets acquired as part of a business combination, other than goodwill, are initially measured at their fair value at the date of the acquisition. Intangible assets acquired separately are initially recognised at cost. Indefinite life intangible assets are not amortised and are subsequently measured at cost less any impairment. Finite life intangible assets are subsequently measured at cost less amortisation and any impairment. The gains or losses recognised in profit or loss arising from the derecognition of intangible assets are measured as the difference between net disposal proceeds and the carrying amount of the intangible asset. The method and useful lives of finite life intangible assets are reviewed annually. Changes in the expected pattern of consumption or useful life are accounted for prospectively by changing the amortisation method or period.

Goodwill

Goodwill arises on the acquisition of a business. Goodwill is not amortised. Instead, goodwill is tested annually for impairment, or more frequently if events or changes in circumstances indicate that it might be impaired, and is carried at cost less accumulated impairment losses. Impairment losses on goodwill are taken to profit or loss and are not subsequently reversed.

Patents and trademarks

Significant costs associated with patents and trademarks are deferred and amortised on a straight-line basis over the period of their expected benefit, being their finite useful life of ten years.

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Notes to the financial statements
30 June 2018

Note 2. Significant accounting policies (continued)

Customer contracts

Customer contracts acquired in a business combination are amortised on a straight-line basis over the period of their expected benefit, being their finite life of between three and ten years.

Software

Significant costs associated with software are deferred and amortised on a straight-line basis over the period of their expected benefit, being their finite useful life of five years.

Technology platform

Significant costs associated with the technology platform are deferred and amortised on a straight-line basis over the period of their expected benefit. Internally generated technology platform and the acquired technology platform are amortised over three years.

Impairment of non-financial assets

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

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

Trade and other payables

These amounts represent liabilities for goods and services provided to the Group prior to the end of the financial year and which are unpaid. Due to their short-term nature they are measured at amortised cost and are not discounted. The amounts are unsecured and are usually paid within 30 days of recognition.

Borrowings

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

The component of the convertible notes that exhibits characteristics of a liability is recognised as a liability in the statement of financial position, net of transaction costs.

On the issue of the convertible notes the fair value of the liability component is determined using a market rate for an equivalent non-convertible bond and this amount is carried as a non-current liability on the amortised cost basis until extinguished on conversion or redemption. The increase in the liability due to the passage of time is recognised as a finance cost. The remainder of the proceeds are allocated to the conversion option that is recognised as a financial liability as the quantum of shares to be issued on conversion cannot be determined until conversion. The carrying amount of the conversion option is remeasured in subsequent years. The corresponding interest on convertible notes is expensed to profit or loss.

Provisions

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

Finance costs

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

1st Group Limited
Notes to the financial statements
30 June 2018

Note 2. Significant accounting policies (continued)

Employee benefits

Short-term employee benefits

Liabilities for wages and salaries, including non-monetary benefits, annual leave and long service leave expected to be settled wholly within 12 months of the reporting date are measured at the amounts expected to be paid when the liabilities are settled.

Defined contribution superannuation expense

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

Share-based payments

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

Equity-settled transactions are awards of shares, or options over shares, that are provided to employees in exchange for the rendering of services.

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

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

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

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

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

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

Fair value measurement

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

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

1st Group Limited
Notes to the financial statements
30 June 2018

Note 2. Significant accounting policies (continued)

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

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

Issued capital

Ordinary shares are classified as equity.

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

Earnings per share

Basic earnings per share

Basic earnings per share is calculated by dividing the profit attributable to the owners of 1st Group Limited, excluding any costs of servicing equity other than ordinary shares, by the weighted average number of ordinary shares outstanding during the financial year, adjusted for bonus elements in ordinary shares issued during the financial year.

Diluted earnings per share

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

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

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

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

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

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

New Accounting Standards and Interpretations not yet mandatory or early adopted

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

Note 2. Significant accounting policies (continued)

AASB 9 Financial Instruments

This standard is applicable to annual reporting periods beginning on or after 1 January 2018. The standard replaces all previous versions of AASB 9 and completes the project to replace IAS 39 'Financial Instruments: Recognition and Measurement'. AASB 9 introduces new classification and measurement models for financial assets. A financial asset shall be measured at amortised cost, if it is held within a business model whose objective is to hold assets in order to collect contractual cash flows, which arise on specified dates and solely principal and interest. All other financial instrument assets are to be classified and measured at fair value through profit or loss unless the entity makes an irrevocable election on initial recognition to present gains and losses on equity instruments (that are not held-for-trading) in other comprehensive income ('OCI'). For financial liabilities, the standard requires the portion of the change in fair value that relates to the entity's own credit risk to be presented in OCI (unless it would create an accounting mismatch). New simpler hedge accounting requirements are intended to more closely align the accounting treatment with the risk management activities of the entity. New impairment requirements will use an 'expected credit loss' ('ECL') model to recognise an allowance. Impairment will be measured under a 12-month ECL method unless the credit risk on a financial instrument has increased significantly since initial recognition in which case the lifetime ECL method is adopted. The standard introduces additional new disclosures. The Group expects to adopt this standard from 1 July 2018 and the adoption of this standard is not expected to have a material impact for the Group.

AASB 15 Revenue from Contracts with Customers

This standard is applicable to annual reporting periods beginning on or after 1 January 2018. The standard provides a single standard for revenue recognition. The core principle of the standard is that an entity will recognise revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. The standard will require: contracts (either written, verbal or implied) to be identified, together with the separate performance obligations within the contract; determine the transaction price, adjusted for the time value of money excluding credit risk; allocation of the transaction price to the separate performance obligations on a basis of relative stand-alone selling price of each distinct good or service, or estimation approach if no distinct observable prices exist; and recognition of revenue when each performance obligation is satisfied. Credit risk will be presented separately as an expense rather than adjusted to revenue. For goods, the performance obligation would be satisfied when the customer obtains control of the goods. For services, the performance obligation is satisfied when the service has been provided, typically for promises to transfer services to customers. For performance obligations satisfied over time, an entity would select an appropriate measure of progress to determine how much revenue should be recognised as the performance obligation is satisfied. Contracts with customers will be presented in an entity's statement of financial position as a contract liability, a contract asset, or a receivable, depending on the relationship between the entity's performance and the customer's payment. Sufficient quantitative and qualitative disclosure is required to enable users to understand the contracts with customers; the significant judgments made in applying the guidance to those contracts; and any assets recognised from the costs to obtain or fulfil a contract with a customer.

Management's assessment of the new standard on the various revenue streams are as follows:

- Subscription fees: No significant impact;
- Usage fees (recalls, SMS and booking fees): No significant impact;
- Advertising revenue: No significant impact;
- Setup, development, customisation and training fees: These have previously been recognised as revenue when the services were rendered, and will be required to be recognised over the performance obligation being the expected average life of the customers involved. If the Group had applied the standard for the year ended 30 June 2018, an estimate of approximately \$380,000 of revenue would have been deferred and recognised in subsequent years.

Note 2. Significant accounting policies (continued)

AASB 16 Leases

This standard is applicable to annual reporting periods beginning on or after 1 January 2019. The standard replaces AASB 117 'Leases' and for lessees will eliminate the classifications of operating leases and finance leases. Subject to exceptions, a 'right-of-use' asset will be capitalised in the statement of financial position, measured at the present value of the unavoidable future lease payments to be made over the lease term. The exceptions relate to short-term leases of 12 months or less and leases of low-value assets (such as personal computers and small office furniture) where an accounting policy choice exists whereby either a 'right-of-use' asset is recognised or lease payments are expensed to profit or loss as incurred. A liability corresponding to the capitalised lease will also be recognised, adjusted for lease prepayments, lease incentives received, initial direct costs incurred and an estimate of any future restoration, removal or dismantling costs. Straight-line operating lease expense recognition will be replaced with a depreciation charge for the leased asset (included in operating costs) and an interest expense on the recognised lease liability (included in finance costs). In the earlier periods of the lease, the expenses associated with the lease under AASB 16 will be higher when compared to lease expenses under AASB 117. However, EBITDA (Earnings Before Interest, Tax, Depreciation and Amortisation) results will be improved as the operating expense is replaced by interest expense and depreciation in profit or loss under AASB 16. For classification within the statement of cash flows, the lease payments will be separated into both a principal (financing activities) and interest (either operating or financing activities) component. For lessor accounting, the standard does not substantially change how a lessor accounts for leases. The Group expects to adopt this standard from 1 July 2019 and the impact of its adoption will be that operating leases, such as those detailed in note 25, will be brought onto the statement of financial position at the present value with a corresponding liability. The actual amount will depend on the operating leases held on the date of adoption and any transitional elections made.

IASB revised Conceptual Framework for Financial Reporting

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

Note 3. Critical accounting judgements, estimates and assumptions

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

Share-based payment transactions

The Group measures the cost of equity-settled transactions with employees by reference to the fair value of the equity instruments at the date at which they are granted. The fair value is determined by using the Black-Scholes model taking into account the terms and conditions upon which the instruments were granted. The accounting estimates and assumptions relating to equity-settled share-based payments would have no impact on the carrying amounts of assets and liabilities within the next annual reporting period but may impact profit or loss and equity.

Goodwill and other indefinite life intangible assets

The Group tests annually, or more frequently if events or changes in circumstances indicate impairment, whether goodwill and other indefinite life intangible assets have suffered any impairment, in accordance with the accounting policy stated in note 2. The recoverable amounts of cash-generating units have been determined based on value-in-use calculations. These calculations require the use of assumptions, including estimated discount rates based on the current cost of capital and growth rates of the estimated future cash flows.

1st Group Limited
Notes to the financial statements
30 June 2018

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

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

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

Income tax

The Group is subject to income taxes in the jurisdictions in which it operates. Significant judgement is required in determining the provision for income tax. There are many transactions and calculations undertaken during the ordinary course of business for which the ultimate tax determination is uncertain. The Group recognises liabilities for anticipated tax audit issues based on the Group's current understanding of the tax law. Where the final tax outcome of these matters is different from the carrying amounts, such differences will impact the current and deferred tax provisions in the period in which such determination is made.

Note 4. Operating segments

The Group's operating segments are based on the internal reports that are reviewed and used by the Board of Directors (who are identified as the Chief Operating Decision Makers ('CODM')) in assessing performance and in determining the allocation of resources.

The Directors have determined that there is one operating segment identified and located in Australia. The information reported to the CODM is the consolidated results of the Group.

The segment result is as shown in the statement of profit or loss and other comprehensive income. Refer to statement of financial position for assets and liabilities.

Note 5. Revenue

	Consolidated	
	2018	2017
	\$	\$
<i>Sales revenue</i>		
Subscription fees	2,456,625	1,791,396
Usage fees (recalls, SMS and booking fees)	266,029	181,153
Advertising revenue	162,390	14,780
Setup and training	382,000	105,546
Development and customisation	159,601	183,775
	<u>3,426,645</u>	<u>2,276,650</u>
<i>Other revenue</i>		
Interest	5,478	29,557
	<u>5,478</u>	<u>29,557</u>
Revenue	<u><u>3,432,123</u></u>	<u><u>2,306,207</u></u>

1st Group Limited
Notes to the financial statements
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Note 6. Expenses

	Consolidated	
	2018	2017
	\$	\$
Loss before income tax includes the following specific expenses:		
<i>Depreciation</i>		
Leasehold improvements	3,798	4,133
Plant and equipment	5,426	6,405
Computer equipment	20,452	15,991
	<hr/>	<hr/>
Total depreciation	29,676	26,529
<i>Amortisation</i>		
Patents and trademarks	758	757
Customer contracts	143,902	156,984
Software	475	475
Technology platform	1,057,316	1,173,437
	<hr/>	<hr/>
Total amortisation	1,202,451	1,331,653
Total depreciation and amortisation	<hr/>	<hr/>
	1,232,127	1,358,182
<i>Finance costs</i>		
Interest and finance charges paid/payable	<hr/>	<hr/>
	56,644	17,472
<i>Rental expense relating to operating leases</i>		
Minimum lease payments	<hr/>	<hr/>
	79,020	88,102
<i>Superannuation expense</i>		
Defined contribution superannuation expense	<hr/>	<hr/>
	261,715	302,197
<i>Share-based payments expense</i>		
Share-based payments expense	<hr/>	<hr/>
	141,136	146,601

1st Group Limited
Notes to the financial statements
30 June 2018

Note 7. Income tax

	Consolidated	Consolidated
	2018	2017
	\$	\$
<i>Income tax benefit</i>		
Current tax	(68,995)	(177,915)
Deferred tax - origination and reversal of temporary differences	(222,722)	(154,113)
Adjustment to deferred tax liabilities due to change in tax rate	-	(57,207)
	<u>(291,717)</u>	<u>(389,235)</u>
Aggregate income tax benefit		
Deferred tax included in income tax benefit comprises:		
Decrease in deferred tax liabilities	<u>(222,722)</u>	<u>(154,113)</u>
<i>Numerical reconciliation of income tax benefit and tax at the statutory rate</i>		
Loss before income tax benefit	<u>(4,927,793)</u>	<u>(5,519,082)</u>
Tax at the statutory tax rate of 27.5%	(1,355,143)	(1,517,748)
Tax effect amounts which are not deductible/(taxable) in calculating taxable income:		
Entertainment expenses	3,788	3,358
Legal expenses	3,827	6,316
Acquisition costs	-	(20,973)
Share-based payments	38,812	40,315
Accounting expenditure subject to research and development tax incentive	66,021	88,961
Amortisation of intangible assets	39,573	43,170
Sundry items	45	255
	<u>(1,203,077)</u>	<u>(1,356,346)</u>
Current year tax losses not recognised	1,203,710	1,311,325
Current year temporary differences not recognised	(633)	45,021
Research and development tax incentives	(45,250)	(137,000)
Over/(under) provision in prior year	(23,745)	(40,915)
Deferred tax reversal of temporary differences	(222,722)	(154,113)
Adjustment to deferred tax liabilities due to change in tax rate	-	(57,207)
	<u>(291,717)</u>	<u>(389,235)</u>
Income tax benefit		
	<u>(291,717)</u>	<u>(389,235)</u>
	2018	2017
	\$	\$
<i>Tax losses not recognised</i>		
Unused tax losses for which no deferred tax asset has been recognised	<u>19,963,597</u>	<u>15,632,479</u>
Potential tax benefit at statutory tax rates	<u>5,489,989</u>	<u>4,298,932</u>

The above potential tax benefit for tax losses has not been recognised in the statement of financial position. These tax losses can only be utilised in the future if the continuity of ownership test is passed, or failing that, the same business test is passed. There is no expiry date on the unutilised tax losses.

1st Group Limited
Notes to the financial statements
30 June 2018

Note 7. Income tax (continued)

	Consolidated	Consolidated
	2018	2017
	\$	\$
<i>Deferred tax liability</i>		
Deferred tax liability comprises temporary differences attributable to:		
Amounts recognised in profit or loss:		
Customer contracts and acquired technology platform	252,443	475,165
Deferred tax liability	<u>252,443</u>	<u>475,165</u>
Movements:		
Opening balance	475,165	686,485
Credited to profit or loss	(222,722)	(154,113)
Opening balance adjusted to tax rate	-	(57,207)
Closing balance	<u>252,443</u>	<u>475,165</u>
	Consolidated	Consolidated
	2018	2017
	\$	\$
<i>Income tax claim receivable</i>		
Income tax claim receivable	<u>45,250</u>	<u>137,000</u>

Note 8. Current assets - cash and cash equivalents

	Consolidated	Consolidated
	2018	2017
	\$	\$
Cash on hand	-	78
Cash at bank	277,160	2,933,049
	<u>277,160</u>	<u>2,933,127</u>

Note 9. Current assets - trade and other receivables

	Consolidated	Consolidated
	2018	2017
	\$	\$
Trade receivables	520,426	286,217
Less: Provision for impairment of receivables	(14,576)	(7,170)
	<u>505,850</u>	<u>279,047</u>

Impairment of receivables

The Group has recognised a loss of \$14,576 (2017: \$7,170) in profit or loss in respect of impairment of receivables for the year ended 30 June 2018.

1st Group Limited
Notes to the financial statements
30 June 2018

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

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

	Consolidated	
	2018	2017
	\$	\$
0 to 3 months overdue	-	7,170
Over 6 months overdue	14,576	-
	<u>14,576</u>	<u>7,170</u>
	<u><u>14,576</u></u>	<u><u>7,170</u></u>

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

	Consolidated	
	2018	2017
	\$	\$
Opening balance	7,170	-
Additional provisions recognised	14,576	7,170
Receivables written off during the year as uncollectable	(7,170)	-
Closing balance	<u>14,576</u>	<u>7,170</u>
	<u><u>14,576</u></u>	<u><u>7,170</u></u>

Past due but not impaired

Customers with balances past due but without provision for impairment of receivables amount to \$224,183 as at 30 June 2018 (\$87,581 as at 30 June 2017).

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

	Consolidated	
	2018	2017
	\$	\$
0 to 3 months overdue	179,097	76,659
3 to 6 months overdue	45,086	10,922
	<u>224,183</u>	<u>87,581</u>
	<u><u>224,183</u></u>	<u><u>87,581</u></u>

Note 10. Current assets - other

	Consolidated	
	2018	2017
	\$	\$
Accrued revenue	14,900	-
Prepayments	150,724	183,782
Rental bonds	26,103	21,210
	<u>191,727</u>	<u>204,992</u>
	<u><u>191,727</u></u>	<u><u>204,992</u></u>

1st Group Limited
Notes to the financial statements
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Note 11. Non-current assets - property, plant and equipment

	Consolidated	2017
	2018	2017
	\$	\$
Leasehold improvements - at cost	12,125	12,125
Less: Accumulated depreciation	<u>(12,125)</u>	<u>(8,327)</u>
	<u>-</u>	<u>3,798</u>
Plant and equipment - at cost	27,119	28,961
Less: Accumulated depreciation	<u>(18,807)</u>	<u>(14,251)</u>
	<u>8,312</u>	<u>14,710</u>
Computer equipment - at cost	83,655	76,684
Less: Accumulated depreciation	<u>(44,363)</u>	<u>(25,368)</u>
	<u>39,292</u>	<u>51,316</u>
	<u><u>47,604</u></u>	<u><u>69,824</u></u>

Reconciliations

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

Consolidated	Leasehold	Plant and	Computer	Total
	improvements	equipment	equipment	\$
	\$	\$	\$	\$
Balance at 1 July 2016	7,931	18,561	37,519	64,011
Additions	-	2,554	32,901	35,455
Write off of assets	-	-	(3,113)	(3,113)
Depreciation expense	<u>(4,133)</u>	<u>(6,405)</u>	<u>(15,991)</u>	<u>(26,529)</u>
Balance at 30 June 2017	3,798	14,710	51,316	69,824
Additions	-	533	8,878	9,411
Disposals	-	(1,505)	(450)	(1,955)
Depreciation expense	<u>(3,798)</u>	<u>(5,426)</u>	<u>(20,452)</u>	<u>(29,676)</u>
Balance at 30 June 2018	<u><u>-</u></u>	<u><u>8,312</u></u>	<u><u>39,292</u></u>	<u><u>47,604</u></u>

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Note 12. Non-current assets - intangibles

	Consolidated	2017
	2018	2017
	\$	\$
Goodwill - at cost	3,018,025	3,018,025
Less: Impairment	<u>(517,569)</u>	<u>(517,569)</u>
	<u>2,500,456</u>	<u>2,500,456</u>
Patents and trademarks - at cost	34,782	34,782
Less: Accumulated amortisation	<u>(7,463)</u>	<u>(6,705)</u>
	<u>27,319</u>	<u>28,077</u>
Customer contracts - at cost	1,400,007	1,400,007
Less: Accumulated amortisation	<u>(470,952)</u>	<u>(327,050)</u>
	<u>929,055</u>	<u>1,072,957</u>
Software - at cost	1,901	1,901
Less: Accumulated amortisation	<u>(1,377)</u>	<u>(902)</u>
	<u>524</u>	<u>999</u>
Technology platform - at cost	3,520,294	3,520,294
Less: Accumulated amortisation	<u>(3,291,800)</u>	<u>(2,234,484)</u>
	<u>228,494</u>	<u>1,285,810</u>
Technology under development - at cost	<u>150,000</u>	<u>150,000</u>
	<u><u>3,835,848</u></u>	<u><u>5,038,299</u></u>

Reconciliations

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

Consolidated	Goodwill	Patents and trademarks	Customer contracts	Software	Technology platform	Technology under development	Total
	\$	\$	\$	\$	\$	\$	\$
Balance at 1 July 2016	2,500,456	28,834	1,229,941	1,474	2,459,247	-	6,219,952
Additions	-	-	-	-	-	150,000	150,000
Amortisation expense	<u>-</u>	<u>(757)</u>	<u>(156,984)</u>	<u>(475)</u>	<u>(1,173,437)</u>	<u>-</u>	<u>(1,331,653)</u>
Balance at 30 June 2017	2,500,456	28,077	1,072,957	999	1,285,810	150,000	5,038,299
Amortisation expense	<u>-</u>	<u>(758)</u>	<u>(143,902)</u>	<u>(475)</u>	<u>(1,057,316)</u>	<u>-</u>	<u>(1,202,451)</u>
Balance at 30 June 2018	<u><u>2,500,456</u></u>	<u><u>27,319</u></u>	<u><u>929,055</u></u>	<u><u>524</u></u>	<u><u>228,494</u></u>	<u><u>150,000</u></u>	<u><u>3,835,848</u></u>

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Note 12. Non-current assets - intangibles (continued)

Impairment testing for goodwill

Goodwill acquired through business combinations have been allocated to the following cash-generating units ('CGU'):

	Consolidated	
	2018	2017
	\$	\$
CGU 1: Corporate and Government	2,500,375	2,500,375
CGU 2: Private Practice	81	81
	<u>2,500,456</u>	<u>2,500,456</u>
Total Goodwill	<u>2,500,456</u>	<u>2,500,456</u>

The recoverable amount of each CGU has been determined by a value-in-use calculation using a discounted cash flow model.

Key assumptions used for impairment assessment

The following key assumptions were used in the discounted cash flow model for both CGUs:

- (a) 23.41% pre-tax discount rate (2017: 15.99%);
- (b) Sales and direct cost of sales were forecast for a five year period, plus a terminal value based on current levels; and
- (c) Overheads were forecast based on current levels adjusted for inflationary increases.

Sensitivity analysis

Management have made judgements and estimates in respect of impairment testing for goodwill. Should these judgements and estimates not occur the resulting carrying amounts may decrease.

For both CGUs, any reasonable change in the key assumptions on which the recoverable amount is based would not cause the CGU carrying amounts to exceed their recoverable amounts.

Note 13. Current liabilities - trade and other payables

	Consolidated	
	2018	2017
	\$	\$
Trade payables	298,343	370,663
Accrued expenses	302,788	276,325
BAS payable	117,530	119,415
Other payables	91,655	111,781
	<u>810,316</u>	<u>878,184</u>

Refer to note 20 for further information on financial instruments.

Note 14. Current liabilities - employee benefits

	Consolidated	
	2018	2017
	\$	\$
Annual leave and long service leave	<u>190,094</u>	<u>155,270</u>

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Note 15. Non-current liabilities - borrowings

	Consolidated	
	2018	2017
	\$	\$
Convertible notes payable	<u>964,902</u>	<u>-</u>

Refer to note 20 for further information on financial instruments.

On 2 August 2017, the Company entered into a convertible debt facility ('Standby facility') agreement with its cornerstone shareholder, Mr John Plummer, for a maximum drawdown of \$2,000,000. Interest is payable at the Reserve Bank of Australia ('RBA') cash rate plus 8.5% per annum, payable quarterly in arrears. The maximum term of the facility is 2 years ending 1 August 2019.

In accordance with the Standby facility, the Company issued \$1,000,000 convertible notes during the year. The facility is convertible to equity in the Company at the election of the Company (subject to Shareholder approval and compliance with the Corporations Act) at a 15% discount to the 30 Day Volume weighted average share price ('VWAP') prior to conversion.

Financing arrangements

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

	Consolidated	
	2018	2017
	\$	\$
Total facilities		
Convertible notes	<u>2,000,000</u>	<u>-</u>
Used at the reporting date		
Convertible notes	<u>1,000,000</u>	<u>-</u>
Unused at the reporting date		
Convertible notes	<u>1,000,000</u>	<u>-</u>

Note 16. Non-current liabilities - derivative financial instruments

	Consolidated	
	2018	2017
	\$	\$
Derivative liability on convertible notes - at fair value	<u>35,098</u>	<u>-</u>

Refer to note 20 for further information on financial instruments.

Refer to note 21 for further information on fair value measurement.

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Note 17. Equity - issued capital

	2018 Shares	Consolidated 2017 Shares	2018 \$	2017 \$
Ordinary shares - fully paid	<u>206,884,408</u>	<u>206,884,408</u>	<u>23,269,987</u>	<u>23,269,987</u>

Movements in ordinary share capital

Details	Date	Shares	\$
Balance	1 July 2016	206,785,834	23,237,986
Issue of shares	13 December 2016	98,574	34,501
Share issue transaction costs, net of tax		<u>-</u>	<u>(2,500)</u>
Balance	30 June 2017	<u>206,884,408</u>	<u>23,269,987</u>
Balance	30 June 2018	<u>206,884,408</u>	<u>23,269,987</u>

Ordinary shares

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

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

Share buy-back

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

Capital risk management

The Group's objective when managing capital is to safeguard its ability to continue as a going concern, so that it can provide returns for shareholders and benefits for other stakeholders and to maintain an optimum capital structure to reduce the cost of capital.

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

In order to maintain or adjust the capital structure, the Group may adjust the amount of dividends paid to shareholders, return capital to shareholders, issue new shares or sell assets.

The Group would look to raise capital when an opportunity to invest in a business or company was seen as value adding relative to the current Company's share price at the time of the investment.

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

Note 18. Equity - reserves

	Consolidated 2018 \$	2017 \$
Share-based payments reserve	1,507,713	1,366,577
Acquisition reserve	<u>974,429</u>	<u>974,429</u>
	<u>2,482,142</u>	<u>2,341,006</u>

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Note 18. Equity - reserves (continued)

Share-based payments reserve

The reserve is used to recognise the value of equity benefits provided to employees and Directors as part of their remuneration, and other parties as part of their compensation for services.

Acquisition reserve

The reserve is used to recognise equity benefits provided to the vendors on acquisition of subsidiaries. This includes fair value of shares and options which is expected to be converted into issued capital in the future.

Movements in reserves

Movements in each class of reserve during the current and previous financial year are set out below:

Consolidated	Share based payment \$	Acquisition reserve \$	Total \$
Balance at 1 July 2016	1,219,976	1,008,930	2,228,906
Transfer to issued capital	-	(34,501)	(34,501)
Share-based payments expense	146,601	-	146,601
Balance at 30 June 2017	1,366,577	974,429	2,341,006
Share-based payments expense	141,136	-	141,136
Balance at 30 June 2018	<u>1,507,713</u>	<u>974,429</u>	<u>2,482,142</u>

Note 19. Equity - dividends

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

Note 20. Financial instruments

Financial risk management objectives

The Group's activities expose it to a variety of financial risks: market risk (including foreign currency risk, price risk and interest rate risk), credit risk and liquidity risk. The Group's overall risk management program focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the financial performance of the Group. The Group uses different methods to measure different types of risk to which it is exposed. These methods include sensitivity analysis in the case of interest rate and ageing analysis for credit risk.

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

Market risk

Foreign currency risk

The Group is not exposed to any significant foreign currency risk.

Price risk

The Group is not exposed to any significant price risk.

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Note 20. Financial instruments (continued)

Interest rate risk

As at the reporting date, the Group had the following variable rate borrowings:

Consolidated	2018 Balance \$	2017 Balance \$
Convertible notes payable	1,000,000	-
Cash at bank	<u>(277,160)</u>	<u>(2,933,127)</u>
Net exposure to cash flow interest rate risk	<u><u>722,840</u></u>	<u><u>(2,933,127)</u></u>

An analysis by remaining contractual maturities is shown in 'liquidity and interest rate risk management' below.

An official increase/decrease in interest rates of 50 (2017: 50) basis points would have an adverse/favourable effect on profit before tax of \$3,614 (2017: favourable/adverse \$14,666) per annum. The percentage change is based on the expected volatility of interest rates using market data and analysts' forecasts.

Credit risk

Credit risk refers to the risk that a counterparty will default on its contractual obligations resulting in financial loss to the Group. The maximum exposure to credit risk at the reporting 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. The Group does not hold any collateral.

Liquidity risk

Vigilant liquidity risk management requires the Group to maintain sufficient liquid assets (mainly cash and cash equivalents) to be able to pay debts as and when they become due and payable.

The Group manages liquidity risk by maintaining adequate cash reserves by continuously monitoring actual and forecast cash flows and matching the maturity profiles of financial assets and liabilities.

Financing arrangements

Unused borrowing facilities at the reporting date:

	Consolidated 2018 \$	2017 \$
Convertible notes	<u>1,000,000</u>	<u>-</u>

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Note 20. Financial instruments (continued)

Remaining contractual maturities

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

Consolidated - 2018	Weighted average interest rate %	1 year or less \$	Between 1 and 2 years \$	Between 2 and 5 years \$	Over 5 years \$	Remaining contractual maturities \$
Non-derivatives						
<i>Non-interest bearing</i>						
Trade payables	-	298,343	-	-	-	298,343
Other payables	-	91,655	-	-	-	91,655
<i>Interest-bearing - variable</i>						
Convertible notes payable	10.00%	96,664	1,033,333	-	-	1,129,997
Total non-derivatives		486,662	1,033,333	-	-	1,519,995

Consolidated - 2017	Weighted average interest rate %	1 year or less \$	Between 1 and 2 years \$	Between 2 and 5 years \$	Over 5 years \$	Remaining contractual maturities \$
Non-derivatives						
<i>Non-interest bearing</i>						
Trade payables	-	370,663	-	-	-	370,663
Other payables	-	111,781	-	-	-	111,781
Total non-derivatives		482,444	-	-	-	482,444

The cash flows in the maturity analysis above are not expected to occur significantly earlier than contractually disclosed above.

Note 21. Fair value measurement

Fair value hierarchy

The following tables detail the Group's assets and liabilities, measured or disclosed at fair value, using a three level hierarchy, based on the lowest level of input that is significant to the entire fair value measurement, being:

Level 1: Quoted prices (unadjusted) in active markets for identical assets or liabilities that the entity can access at the measurement date

Level 2: Inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly

Level 3: Unobservable inputs for the asset or liability

Consolidated - 2018	Level 1 \$	Level 2 \$	Level 3 \$	Total \$
Liabilities				
Derivative liability on convertible notes - at fair value	-	-	35,098	35,098
Total liabilities	-	-	35,098	35,098

There were no transfers between levels during the financial year.

There were no assets and liabilities measured at fair value as at 30 June 2017.

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

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Note 21. Fair value measurement (continued)

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

Valuation techniques for fair value measurements categorised within level 2 and level 3

Derivative liability on convertible notes - at fair value

The fair value was determined using a discount rate equal to the coupon rate currently 10% per annum plus an estimate of 2% per annum of additional coupon rate that would be required if the conversion option did not exist.

Level 3 assets and liabilities

Consolidated	Derivative liability \$
Balance at 1 July 2016	-
Balance at 30 June 2017	-
Additions	35,098
Balance at 30 June 2018	<u>35,098</u>

Note 22. Key management personnel disclosures

Compensation

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

	Consolidated	
	2018	2017
	\$	\$
Short-term employee benefits	849,533	837,467
Post-employment benefits	77,932	75,398
Share-based payments	101,930	136,741
	<u>1,029,395</u>	<u>1,049,606</u>

Note 23. Remuneration of auditors

During the financial year the following fees were paid or payable for services provided by Bentleys NSW Audit Pty Ltd, the auditor of the Company:

	Consolidated	
	2018	2017
	\$	\$
<i>Audit services - Bentleys NSW Audit Pty Ltd</i>		
Audit or review of the financial statements	68,000	65,500
<i>Other services - Bentleys NSW Pty Ltd</i>		
Tax services	17,600	19,200
Other advisory services	1,675	7,442
	<u>19,275</u>	<u>26,642</u>
	<u>87,275</u>	<u>92,142</u>

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Note 24. Contingent liabilities

There were no contingent liabilities which would have a material effect on the Group's financial statements as at 30 June 2018 and 30 June 2017.

Note 25. Commitments

	Consolidated	
	2018	2017
	\$	\$
<i>Lease commitments - operating</i>		
Committed at the reporting date but not recognised as liabilities, payable:		
Within one year	87,010	71,912
One to five years	-	3,150
	<u>87,010</u>	<u>75,062</u>

Operating lease commitments includes contracted amounts for commercial leases under non-cancellable operating leases expiring within one year with options to extend. The leases have various escalation clauses. On renewal, the terms of the leases are renegotiated.

Note 26. Related party transactions

Parent entity

1st Group Limited is the parent entity.

Subsidiaries

Interests in subsidiaries are set out in note 28.

Key management personnel

Disclosures relating to key management personnel are set out in note 22 and the remuneration report included in the Directors' report.

Transactions with related parties

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

Receivable from and payable to related parties

There were no trade receivables from or trade payables to related parties at the current and previous reporting date.

Loans to/from related parties

There were no loans to or from related parties at the current and previous reporting date.

Note 27. Parent entity information

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

Statement of profit or loss and other comprehensive income

	Parent	
	2018	2017
	\$	\$
Loss after income tax	<u>(6,559,828)</u>	<u>(6,289,867)</u>
Total comprehensive income	<u>(6,559,828)</u>	<u>(6,289,867)</u>

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Note 27. Parent entity information (continued)

Statement of financial position

	Parent	
	2018	2017
	\$	\$
Total current assets	539,453	2,435,336
Total assets	5,818,715	8,283,624
Total current liabilities	6,215,443	3,261,660
Total liabilities	7,215,443	3,261,660
Equity		
Issued capital	23,269,987	23,269,987
Share-based payments reserve	1,507,713	1,366,577
Acquisition reserve	974,429	974,429
Accumulated losses	(27,148,857)	(20,589,029)
Total equity/(deficiency)	<u>(1,396,728)</u>	<u>5,021,964</u>

Guarantees entered into by the parent entity in relation to the debts of its subsidiaries

The parent entity had no guarantees in relation to the debts of its subsidiaries as at 30 June 2018 and 30 June 2017.

Contingent liabilities

The parent entity had no contingent liabilities as at 30 June 2018 and 30 June 2017.

Capital commitments - Property, plant and equipment

The parent entity had no capital commitments for property, plant and equipment as at 30 June 2018 and 30 June 2017.

Significant accounting policies

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

- Investments in subsidiaries are accounted for at cost, less any impairment, in the parent entity.
- Dividends received from subsidiaries are recognised as other income by the parent entity and its receipt may be an indicator of an impairment of the investment.

Note 28. Interests in subsidiaries

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

Name	Principal place of business / Country of incorporation	Ownership interest	
		2018	2017
		%	%
Clinic Connect Pty Limited	Australia	100%	100%
DocAppointments.com.au Pty Limited	Australia	100%	100%
GObookings Systems Pty Limited	Australia	100%	100%

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Note 29. Reconciliation of loss after income tax to net cash used in operating activities

	Consolidated	2017
	2018	2017
	\$	\$
Loss after income tax benefit for the year	(4,636,076)	(5,129,847)
Adjustments for:		
Depreciation and amortisation	1,232,127	1,358,182
Share-based payments	141,136	146,601
Other non-cash transactions	1,981	-
Net gain recognised on reversal of contingent consideration	-	(93,738)
Change in operating assets and liabilities:		
Decrease/(increase) in trade and other receivables	(226,803)	35,542
Decrease in income tax refund due	91,750	269,323
Decrease/(increase) in other operating assets	5,121	(118,990)
Increase/(decrease) in trade and other payables	(67,894)	437,193
Decrease in deferred tax liabilities	(222,722)	(211,320)
Increase/(decrease) in employee benefits	34,824	(46,027)
Net cash used in operating activities	<u>(3,646,556)</u>	<u>(3,353,081)</u>

Note 30. Changes in liabilities arising from financing activities

Consolidated	Convertible	Derivative	Total
	note	liability	\$
	\$	\$	\$
Balance at 1 July 2016	-	-	-
Balance at 30 June 2017	-	-	-
Net cash from financing activities	964,902	35,098	1,000,000
Balance at 30 June 2018	<u>964,902</u>	<u>35,098</u>	<u>1,000,000</u>

Note 31. Earnings per share

	Consolidated	2017
	2018	2017
	\$	\$
Loss after income tax attributable to the owners of 1st Group Limited	<u>(4,636,076)</u>	<u>(5,129,847)</u>
	Number	Number
Weighted average number of ordinary shares used in calculating basic earnings per share	<u>206,884,408</u>	<u>206,839,847</u>
Weighted average number of ordinary shares used in calculating diluted earnings per share	<u>206,884,408</u>	<u>206,839,847</u>
	Cents	Cents
Basic earnings per share	(2.24)	(2.48)
Diluted earnings per share	(2.24)	(2.48)

Options have been excluded from the diluted earnings per share calculation as their inclusion would be anti-dilutive.

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Note 32. Share-based payments

The Company established the 1st Group Limited Share Option Plan ('Plan') on 29 November 2013 to align long term incentives for senior management and employees with the delivery of sustainable value to shareholders. Eligible participants include full or part-time employees, Directors and contractors, including any related body corporate. Participants are granted options which vest over time, subject to meeting specific criteria. The options are issued for no consideration and carry no entitlements to voting rights or dividends of the Company. The number of options that may be issued by the Company under the Plan when aggregated with the number of options or shares issued during the previous five years under all other employee equity plans established by the Company (including as a result of exercise of options or shares granted during the previous five years) must not exceed 5% of the total number of shares on issue. Options are forfeited automatically after the participant ceases to be employed by the Company, unless the Board determines otherwise (this is usually only in the case of redundancy, death or disablement).

During the financial year 9,875,000 options were granted (2017: 500,000). The share-based payment expense for the year was \$141,136 (2017: \$146,601).

In addition to the Plan, the Board at its discretion has issued share options to Non-Executive Directors, executive management and advisors. Set out below are summaries of options granted under the plan and those issued at the discretion of the Board.

2018							
Grant date	Expiry date	Exercise price	Balance at the start of the year	Granted	Exercised	Expired/ forfeited/ other	Balance at the end of the year
01/06/2014	01/01/2024	\$0.230	2,175,919	-	-	(50,015)	2,125,904
03/10/2014	02/10/2025	\$0.230	16,666	-	-	-	16,666
27/10/2014	27/10/2024	\$0.230	2,000,015	-	-	-	2,000,015
24/02/2015	24/02/2020	\$0.350	1,000,000	-	-	-	1,000,000
03/03/2015	03/03/2020	\$0.230	2,000,000	-	-	-	2,000,000
23/03/2015	23/03/2020	\$0.350	250,000	-	-	-	250,000
13/04/2015	29/05/2020	\$0.230	2,500,000	-	-	(555,557)	1,944,443
13/04/2015	13/04/2025	\$0.500	650,000	-	-	(650,000)	-
13/04/2015	13/04/2025	\$0.700	650,000	-	-	(650,000)	-
14/04/2015	13/04/2025	\$0.350	431,667	-	-	(71,667)	360,000
17/09/2015	17/09/2020	\$0.350	738,333	-	-	(183,333)	555,000
13/12/2016	13/12/2021	\$0.105	500,000	-	-	-	500,000
03/08/2017	03/08/2027	\$0.128	-	3,200,000	-	-	3,200,000
29/11/2017	29/11/2022	\$0.128	-	4,000,000	-	-	4,000,000
22/12/2017	22/12/2022	\$0.105	-	2,675,000	-	(400,000)	2,275,000
			12,912,600	9,875,000	-	(2,560,572)	20,227,028
Weighted average exercise price			\$0.285	\$0.120	\$0.000	\$0.410	\$0.190

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Note 32. Share-based payments (continued)

2017

Grant date	Expiry date	Exercise price	Balance at the start of the year	Granted	Exercised	Expired/ forfeited/ other	Balance at the end of the year
01/06/2014	01/01/2024	\$0.230	2,175,919	-	-	-	2,175,919
03/10/2014	02/10/2025	\$0.230	16,666	-	-	-	16,666
27/10/2014	27/10/2024	\$0.230	2,000,015	-	-	-	2,000,015
24/02/2015	24/02/2020	\$0.350	1,000,000	-	-	-	1,000,000
03/03/2015	03/03/2020	\$0.230	2,000,000	-	-	-	2,000,000
23/03/2015	23/03/2020	\$0.350	250,000	-	-	-	250,000
13/04/2015	29/05/2020	\$0.230	2,500,000	-	-	-	2,500,000
13/04/2015	13/04/2025	\$0.500	650,000	-	-	-	650,000
13/04/2015	13/04/2025	\$0.700	650,000	-	-	-	650,000
14/04/2015	13/04/2025	\$0.350	455,000	-	-	(23,333)	431,667
17/09/2015	17/09/2020	\$0.350	940,000	-	-	(201,667)	738,333
13/12/2016	13/12/2021	\$0.105	-	500,000	-	-	500,000
			<u>12,637,600</u>	<u>500,000</u>	<u>-</u>	<u>(225,000)</u>	<u>12,912,600</u>
Weighted average exercise price			\$0.290	\$0.105	\$0.000	\$0.350	\$0.285

Set out below are the options exercisable at the end of the financial year:

Grant date	Expiry date	2018 Number	2017 Number
01/06/2014	01/01/2024	2,150,919	2,175,904
03/10/2014	02/10/2025	16,666	16,666
27/10/2014	27/10/2024	2,000,015	2,000,015
24/02/2015	24/02/2020	1,000,000	750,000
03/03/2015	03/03/2020	2,000,000	2,000,000
23/03/2015	23/03/2020	250,000	187,500
13/04/2015	13/04/2020	1,944,443	1,944,443
14/04/2015	13/04/2025	371,667	291,667
17/09/2015	19/09/2020	638,333	301,667
13/12/2016	13/12/2021	166,666	-
03/08/2017	03/08/2027	800,000	-
29/11/2017	29/11/2022	1,000,000	-
		<u>12,338,709</u>	<u>9,667,862</u>

The weighted average share price during the financial year was \$0.046 (2017: \$0.052)

The weighted average remaining contractual life of options outstanding at the end of the financial year was 1.4 years (2017: 5.7 years).

For the options granted during the current financial year, the valuation model inputs used to determine the fair value at the grant date, are as follows:

Grant date	Expiry date	Share price at grant date	Exercise price	Expected volatility	Dividend yield	Risk-free interest rate	Fair value at grant date
03/08/2017	03/08/2027	\$0.040	\$0.128	60.00%	-	2.17%	\$0.021
29/11/2017	29/11/2022	\$0.045	\$0.128	60.00%	-	2.17%	\$0.018
22/12/2017	22/12/2022	\$0.049	\$0.105	60.00%	-	2.17%	\$0.019

The expected price volatility is based on the historic volatility of comparable micro-cap ASX listed companies, adjusted for any changes to future volatility.

1st Group Limited
Notes to the financial statements
30 June 2018

Note 33. Events after the reporting period

On 13 July 2018, the Group provided a notice to Mr. Plummer to draw down a further \$500,000 of the \$2,000,000 Standby facility.

On 24 September 2018, the Group provided a notice to Mr. Plummer to draw down a further \$250,000 of the Standby facility. Accordingly, after these drawdowns are completed, the Group will have \$250,000 remaining in the Standby facility.

On 27 September 2018, the Group announced it had entered into an additional convertible debt facility agreement with its cornerstone shareholder, Mr. Plummer, for a maximum draw-down of \$1,000,000 on the same terms as the existing \$2,000,000 Standby facility

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

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1st Group Limited
Directors' declaration
30 June 2018

In the Directors' opinion:

- the attached financial statements and notes comply with the Corporations Act 2001, the Accounting Standards, the Corporations Regulations 2001 and other mandatory professional reporting requirements;
- the attached financial statements and notes comply with International Financial Reporting Standards as issued by the International Accounting Standards Board as described in note 2 to the financial statements;
- the attached financial statements and notes give a true and fair view of the Group's financial position as at 30 June 2018 and of its performance for the financial year ended on that date; and
- there are reasonable grounds to believe that the Company will be able to pay its debts as and when they become due and payable.

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

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

On behalf of the Directors



Trevor Matthews
Chairman

28 September 2018
Sydney



Klaus Bartosch
Managing Director and Chief Executive Officer

1st Group Limited
ABN: 25 138 897 533

Independent Auditor's Report to the Members of 1st Group Limited and Controlled Entities

Report on the Audit of the Financial Report

We have audited the financial report of 1st Group Limited (the Company) and its Controlled Entities ("the Group"), which comprises the statement of financial position as at 30 June 2018, and the statement of profit or loss and other comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, notes to the financial statements, including a summary of significant accounting policies, and the Directors' Declaration of the Group comprising of the Company and the entities it controlled at the year's end or from time to time during the year.

In our opinion:

- a) the financial report of the Group is in accordance with the *Corporations Act 2001* including:
 - i. giving a true and fair view of the Group's financial position as at 30 June 2018 and of its performance for the year ended on that date; and
 - ii. complying with Australian Accounting Standards and the *Corporations Regulations 2001*.
- b) the financial report also complies with International Financial Reporting Standards as disclosed in Note 2.

Basis of Opinion

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

We confirm that the independence declaration required by the *Corporations Act 2001*, which has been given to the directors of the Company, would be in the same terms if given to the directors as at the time of this auditor's report.

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

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Emphasis of matter

We draw attention to Note 2 of the financial report, which describes that the Group made a loss for the financial year ended 30 June 2018 of \$4,636,076. The Group has also reported a net operating cash outflow of \$3,646,556. As stated in Note 2, these events or conditions indicate that a material uncertainty exists that may cast significant doubt on the Group's ability to continue as a going concern. Our opinion is not modified in respect of this matter.

Key Audit Matters

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

Key audit matter	How our audit addressed the key audit matter
<p>Going Concern The Group has incurred a loss of \$4.63m for the year ended 30 June 2018 and is expected to continue to be loss making for the year ended 30 June 2019. The Group also had net operating cash outflows of \$3.64m for the year ended 30 June 2018.</p>	<p>Our procedures included, amongst others:</p> <ul style="list-style-type: none"> We have obtained the current cash flow forecasts and budgets and discussed the assumptions with management. We have carried out sensitivity analysis on these. We have reviewed the convertible note facility documentation including the extension of this facility.
<p>Impairment of Assets including Goodwill Due to the current reduced share price and ongoing losses there is a risk that the assets are impaired. Revenue forecasts have been slower to ramp up than as expected. Due to these impairment indicators a review of intangible assets has been carried out.</p>	<p>Our procedures included, amongst others;</p> <ul style="list-style-type: none"> We have reviewed the impairment models prepared by management and discussed with them their assumptions and methodology. We have carried out sensitivity analysis on the impairment models.

Other Information

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

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

In connection with our audit of the financial report, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

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 control as directors determine is necessary to enable the preparation of the financial report that are free from material misstatement, whether due to fraud or error.

In Note 2, the directors also state, in accordance with Australian Accounting Standards AASB 101 Presentation of Financial Statements, that the financial report complies with International Financial Reporting Standards.

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

Auditor's Responsibilities for the Audit of the Financial Statements

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

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

- Identify and assess the risks of material misstatement of the financial report, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.
- Conclude on the appropriateness of the directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial report or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial report, including the disclosures, and whether the financial report represents the underlying transactions and events in a manner that achieves fair presentation.

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

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

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

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Report on the Remuneration Report

Opinion on the Remuneration Report

We have audited the Remuneration Report included in pages 7 to 15 of the Directors' Report for the year ended 30 June 2018.

In our opinion the Remuneration Report of 1st Group Limited for the year ended 30 June 2018 complies with s300A of the *Corporations Act 2001*.

Responsibilities

The directors of the Company are responsible for the preparation and presentation of the Remuneration Report in accordance with s300A 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.



BENTLEYS NSW AUDIT PTY LTD



ROBERT EVETT
Director

Sydney, 28 September 2018

1st Group Limited
Shareholder information
30 June 2018

The shareholder information set out below was applicable as at 14 September 2018.

Distribution of equitable securities

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

	Number of holders of ordinary shares	Number of holders of options over ordinary shares
1 to 1,000	14	-
1,001 to 5,000	11	-
5,001 to 10,000	48	-
10,001 to 100,000	242	14
100,001 and over	158	31
	<u>473</u>	<u>45</u>
Holding less than a marketable parcel	<u>110</u>	<u>-</u>

Equity security holders

Twenty largest quoted equity security holders

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

	Number held	Ordinary shares % of total shares issued
John Plummer	63,208,807	30.55
Mr Tony Gandel & Mrs Helen Gandel	24,742,728	11.96
Rjm Luu Pty Ltd (Rick & Jeanine Luu Family Trust)	8,209,959	3.97
Moore Family Nominee Pty Ltd (Moore Family Super Fund A/C)	7,200,000	3.48
Mr Victor John Plummer	7,000,000	3.38
Ilwella Pty Ltd	5,301,916	2.56
T & M Matthews Pty Limited & Matthews Securities Pty Ltd	5,000,000	2.42
Miller Holdings (International) Pty Ltd (The Miller A/C)	4,601,204	2.22
Outlook Drive Investments Pty Ltd	4,464,285	2.16
Mr Klaus Bartosch & Mrs Edith Bartosch & Ngigto Pty Ltd	3,224,226	1.56
Towns Corporation Pty Ltd (PAE Family A/C)	2,684,936	1.30
High Pass Holdings Pty Ltd (High Pass Hldgs P/L Sup A/C)	2,000,000	0.97
Newton Holdings Pty Ltd (Newton Provident Fund)	1,921,828	0.93
Barbary Coast Investments Pty Ltd	1,716,528	0.83
Mr Alireza Tasbihi	1,500,000	0.73
PBC Investments Pty Limited (PBC Super Fund A/C)	1,500,000	0.73
HSBC Custody Nominees (Australia) Limited	1,435,747	0.69
Mr David Frederick Oakley	1,279,400	0.62
Mr Matthew Regos (Regos Family A/C)	1,206,441	0.58
Cholmondeley Darvall	1,200,000	0.58
	<u>149,398,005</u>	<u>72.22</u>

1st Group Limited
Shareholder information
30 June 2018

Unquoted equity securities

	Number on issue	Number of holders
Options over ordinary shares issued	20,227,028	45

The following person holds 20% or more of unquoted equity securities:

Name	Class	Number held
NGIGTO Pty Ltd	Options over ordinary shares issued	7,051,386

Substantial holders

Substantial holders in the Company are set out below:

	Number held	Ordinary shares % of total shares issued
Mr John Charles Plummer	63,208,807	30.55
Mr Tony Gandel & Mrs Helen Gandel	24,742,728	11.96

Voting rights

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

Ordinary shares

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

There are no other classes of equity securities.

1st Group Limited
Corporate directory
30 June 2018

Directors	Trevor Matthews - Non-Executive Chairman Klaus Bartosch - Managing Director and Chief Executive Officer Amanda Hagan - Non-Executive Director Paul Welch - Non-Executive Director
Company secretary	Andrew Whitten
Registered office	C/o Whittens & McKeough Level 29, 201 Elizabeth Street Sydney, NSW 2000 Tel: 1300 266 517
Principal place of business	2C, Level 2, 2-12 Foveaux Street Surry Hills Sydney, NSW 2010 Tel: 1300 266 517
Share register	Automatic Registry Services Suite 310 Level 3, 50 Holt Street Surry Hills, Sydney, NSW 2010 Tel: 02 9698 5414
Auditor	Bentleys NSW Audit Pty Ltd Level 14, 60 Margaret Street Sydney, NSW 2000
Solicitors	Whittens & McKeough Level 29, 201 Elizabeth Street Sydney, NSW 2000
Stock exchange listing	1st Group Limited shares are listed on the Australian Securities Exchange (ASX code: 1ST)
Website	http://www.1stgrp.com
Corporate Governance Statement	The Corporate governance statement which will be approved at the same time as the Annual Report can be found at https://www.1stgrp.com/investor-info