inabox GROUP

Financial Report 2017

Inabox Group Limited
Appendix 4E
Preliminary final report

1. Company details

Name of entity:	Inabox Group Limited
ABN:	32 161 873 187
Reporting period:	For the year ended 30 June 2017
Previous period:	For the year ended 30 June 2016

2. Results for announcement to the market

				$'000
Revenues from ordinary activities	up	2.4%	to	90,105
Earnings Before Interest, Tax, Depreciation and Amortisation (EBITDA)*	up	11.6%	to	6,098
Profit from ordinary activities after tax attributable to the owners of Inabox Group Limited	down	90.0%	to	86
Profit for the year attributable to the owners of Inabox Group Limited	down	90.0%	to	86

*EBITDA is underlying EBITDA which excludes expenses related to acquisitions and divestments and other non-recurring items.

Dividends

	Amount per security Cents	Franked amount per security Cents
Final dividend for the year ended 30 June 2016 declared on 25 August 2016. The final dividend was paid on 28 October 2016 to the shareholders registered on 30 September 2016.	1.700	1.700

Comments
The profit for the group after providing for income tax amounted to $86,000 (30 June 2016: $859,000).

Refer to 'Review of operations' in the Directors' Report for detailed commentary in relation to the results for the year.

3. Net tangible assets

	Reporting period Cents	Previous period Cents
Net tangible assets per ordinary security	(35.82)	(15.25)

4. Control gained over entities

On 15 February 2017, the group acquired 100% of the shares in Hostworks Group Pty Ltd.

On 10 March 2017, the group acquired 100% of the shares in Logic Communications Pty Ltd and Modular IT Pty Ltd.

Refer to note 33 to the financial report for further details.

5. Audit qualification or review

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

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

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6. Attachments

Details of attachments (if any):

The Financial Report of Inabox Group Limited for the year ended 30 June 2017 is attached.

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7. Signed

Signed ____________________________ Date: 28 August 2017

Damian Kay
Managing Director and Chief Executive Officer
Sydney

Inabox Group Limited

ABN 32 161 873 187

Financial Report - 30 June 2017

Contents

Dear Shareholders,

On behalf of the board of Inabox Group Limited ('Inabox' or 'group'), we are pleased to present the financial report for the financial year ended 30 June 2017 ('FY17').

It has been a significant year of investment for Inabox, focused on the continued build-out of our platform and the development of cloud-based products and capabilities. With an ongoing focus on shifting our revenue mix towards the provision of higher margin, platform-as-a-service offerings, Inabox has made significant strides during the year with an expanded product suite incorporating managed cloud (both public and private), hosted voice (VoIP) on Inabox's own platform, and white labelled telco enablement which allows any major retail brand to expand their customer offer to include telecommunication services. Our Enablement sales funnel continues to grow strongly and we will be on-boarding a number of large retail brands during FY18 and beyond. Our innovative offering will disrupt the traditional avenues used by consumers and SME's to acquire telecommunication services, with their choice now expanded to include trusted brands they already interact with today.

Highlights for the year include:

- Record (underlying) earnings before interest, tax, depreciation and amortisation ('EBITDA') of $6.1 million
- Revenue of $90.1 million
- Significant investment:
    - Development of our own managed voice platform;
    - Acquisition of Hostworks to fast track our cloud capabilities, and the development of a single interface to manage a company's public and private cloud environment(s); and
    - Acquisition of Logic Communications, a Western Australia based managed service provider
- Successful integration of Hostworks, with anticipated annualised synergies realised, the benefit of which will be realised in FY18
- Successful integration of Logic Communications into Inabox Group in Western Australia
- Launched Microsoft Office 365 Fast Lane, a unique ready-to-market product enabling its retail service provider customers to sell Microsoft's fastest growing product on a cloud-hosted platform
- Industry award win for Inabox Group company, Telcoinabox, for its Cloud Sales Assist initiative
- Record retail service provider customer signups, following strong interest in Telcoinabox's Wholesale 4G mobile services and turnkey white labelled NBN services

The following table summarises key reconciling items between statutory profit after tax and EBITDA:

	Consolidated	
	2017 $'000	2016 $'000
Statutory net profit after tax	86	859
Add: Finance costs	1,002	703
Add: Depreciation and amortisation expense	3,695	3,250
Add: Tax expense expense/(benefit)	(234)	538
Add: Assets written off	31	164
Less: Interest revenue	(18)	(49)
EBITDA	**4,562**	**5,465**
Add: Expenses relating to acquisitions	1,472	_
Add: Expenses related to divestments	229	_
Less: Other non-recurring items	(165)	_
Underlying EBITDA	**6,098**	**5,465**

Strategic Direction

Two years ago, the board and management identified the need to shift Inabox's focus away from traditional telecommunications services and towards investing in technology and platforms to position the Company for strong future growth. As the market continued its shift from tin-to-cloud, an opportunity to disrupt the current market was identified. Inabox embarked on a plan to develop or acquire a range of cloud-based products and services that would form part of its next generation platform and strategically position it for the future.

In FY17, Inabox continued to invest in its innovative offering with new cloud-based products developed and launched, and new cloud capabilities added with the acquisition of Hostworks. Hostworks provides Inabox with a platform-agnostic managed cloud environment and its acquisition has provided the foundations from which to develop additional cloud-based products and services. As a result of this investment, Inabox has now developed a national, full service IT, cloud, and telecommunications turnkey proposition.

Inabox is well positioned to capitalise on this investment and management anticipates that strong growth from its Enablement solution will drive revenues in FY18 and beyond. Unique to the market, Inabox's platform provides an end-to-end solution that enables established national brands to add telecommunications to a range of products and services already offered. Increasingly, consumers and SME's are utility supplier agnostic, preferring the convenience of a relationship with a single supplier to provide them with a full suite of products and services. Success of this model has already been demonstrated with consumer brands offering white-labelled credit card and insurance products, disrupting those established markets.

Our Enablement capabilities expand our reach to an estimated ~8 million consumer and SME billing accounts and Inabox is well positioned to rapidly grow Enablement revenue, by converting our strong pipeline of national brands into Enablement customers.

Inabox enables its 440 retail service provider ('RSP') customers to extend the range of services they sell beyond the traditional telco offering, and provide next generation products and services to end users with the provision of managed IT and communication solutions.

FY17 saw strong demand and interest from our RSP customers, with our Telstra Wholesale 4G mobile services and turnkey white-labelled NBN services being big drawcards. Additionally, the recent launch of our Microsoft Office 365 Fast Lane product, part of our award-winning Cloud Sales Assist (CSA) service, generated strong interest and demand from new and existing RSP customers. We were excited to be recognised with a 2017 ACOMM award for Innovation – SME in recognition of CSA, which enables our RSPs to provide their customers with a ready-to-market offering of Microsoft's fastest growing, cloud-hosted platform, without requiring technical expertise.

Looking forward, FY18 is expected to be a significant year of transformation for Inabox, with the shift in revenue generated from our platform-as-a-service and cloud-based offerings expected to overtake traditional telco services revenues, (expected split ~67/33 in FY18). Importantly, we expect the investments made over the last 2 years to develop our innovative full-service offering will drive customer demand, revenue, and EBITDA growth from FY18 onwards and we remain focused on building additional cloud-based products to service the needs of our Direct and Indirect customer base.

A solid result in line with Management expectations

Inabox was pleased to deliver another record result of $6.1 million underlying EBITDA and revenue of $90.1 million for the financial year. The completion of FY17 was marked by strong momentum across all areas of Inabox's business, as it significantly grew its cloud and managed services capabilities, added Indirect and Direct customers and increased the number of services in operation to 145,000 for its Enablement channel, up from 85,000 in FY16.

In FY17, revenue increased marginally and was impacted by the loss of a customer in the indirect channel coupled with our decision to exit two unprofitable customer contracts. In addition, Inabox reduced the revenue from low margin hardware sales within both the Direct and Enablement channels resulting in lower revenue, but higher percentage margins. Underlying EBITDA grew by 12% and includes contributions from the HCS business and part-period contributions from the Hostworks and Logic Communications acquisitions. It excludes over $1.5 million of non recurring transaction and restructuring costs relating to these acquisitions and the sale of HCS.

Integration of FY16 and FY17 acquisitions

The integration of the recent Logic Communications and Hostworks acquisitions continued to progress well. The co-location of Logic's staff with Inabox's Perth office, has seen both teams work together to provide an expanded range of services, including cloud products from the Hostworks acquisition, to our WA customer base.

The development of new products and services is underway, leveraging the cloud-capabilities acquired with the Hostworks acquisition. A planned launch of these innovative new products nationwide through Inabox's Direct and Indirect channels is planned for Q2 FY18 and is expected to be met with strong demand.

The successful integration of the remaining acquisitions made in FY16/17 is now complete, and provides Inabox with a strong presence nationwide with 300 employees and 13 offices, including six offices in key regional locations around Australia. Furthermore, Inabox's expanded product and services capability is expected to directly benefit FY18, as the cross-selling of products and services through the Direct and Indirect channels is expected to result in strong growth.

Proceeds received from sale of HCS Business

Inabox received the $4.5 million of cash consideration for the sale of Inabox’s Tasmanian HCS Business to Telstra, allowing Inabox to pay down $2.5 million of debt, subsequent to year end. Inabox will continue to service and generate revenue from the HCS assets until the transfer of these assets and handover to Telstra is complete, as is currently expected in Q2 FY18.

Dividend

The Board has decided to continue to invest in the future growth of the company and remain in a stronger position to complete acquisitions should any compelling prospects arise. As such, no dividend will be paid for the year ended 30 June 2017. The board will consider the opportunities available to Inabox and review this decision on an annual basis.

Outlook

The Inabox Group has no equal in the market today and has created an Enablement capability that is transforming how consumers and SMEs acquire their telecommunication services. We are pleased with the solid foundations laid during FY17 to position Inabox towards strong future growth in FY18 and beyond. The investment in our platform and capabilities, and focus on providing customers with a unique, platform-as-a-service solution will drive significant growth in our business, as the market supports a shift away from traditional telco services.

Already, we commence FY18 with a strong pipeline of opportunities, including a number of well-known Australian brands that are excited by the potential of Inabox's offering and the ability to sell white-labelled telecommunications services without the need to invest in their own technology and infrastructure.

We are confident that the strength of our unique offering, combined with the release of additional innovative products and services in FY18, will drive continued growth in revenues and record profit results in FY18.

David Rampa
Chairman

Damian Kay
Managing Director and Chief Executive Officer

28 August 2017
Sydney

The directors present their report, together with the financial statements, on the consolidated entity (referred to hereafter as the 'group') consisting of Inabox 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 2017.

Directors

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

David Rampa - Independent Chairman
Damian Kay
Garry Wayling
Tom Stianos

Principal activities

The Inabox Group provides managed IT, cloud and communication services to SME's across Australia either via channel partners or directly to SME customers managed through the national footprint of offices located in Capital cities and major regional centres. In addition, the group enables national retail brands to add telecommunication services to their consumer product offers. The group is uniquely positioned to leverage the roll-out of the NBN and assist SME clients in the migration of their communication and IT platforms from on premise to the cloud.

Dividends

Dividends paid during the financial year were as follows:

	Consolidated	
	2017	2016
	$'000	$'000
Final dividend for the year ended 30 June 2016 of 1.7 cents per ordinary share	341	-

Review of operations

The profit for the group after providing for income tax amounted to $86,000 (30 June 2016: $859,000).

The group purchased Hostworks Pty Ltd on 15 February 2017 and Logic Communications Pty Limited on 10 March 2017. The full year results of the group include the trading results of these entities. The reported profit also includes one-off costs of $1,536,000 primarily related to redundancy costs from the dates of purchase associated with these acquisitions as well as other costs associated with the divestment of the business supplying enterprise managed services to the Tasmanian Government, via the Cisco Hosted Collaboration Suite platform (‘HCS business’).

Revenue for the year has risen to $90,105,000 (30 June 2016: $88,005,000). $7,417,000 was contributed by the inclusion of the recent acquisitions, the remaining revenue changes are outlined within the following overview of business segments.

Overview of Business Segments

The group operates in 3 segments, Direct, Indirect and Enablement.

The Direct segment includes the direct supply of telecommunications products and services, and managed information technology services, under the Anittel and Anittel Communications brands. Following the acquisition of Hostworks Pty Ltd, the services offered under this segment have expanded to include cloud hosting services under the Hostworks brand.

The Indirect segment operates under its brands Telcoinabox, iVox and Neural Networks, to provide telecommunications services for resale, together with unbranded operational support and billing services to its resellers (known as Retail Service providers ('RSP')).

The third business segment is referred to as Enablement, in which the group provides networks, systems, operational support and billing services, and software development (with or without the resale of telecommunications products and services) to established consumer brands seeking to offer telecommunications to their customers.

Direct – Telecommunications and IT Services Supply
The group has grown both revenue and profitability of the Direct segment during the year. Revenue grew to $41,038,000 (30 June 2016: $33,459,000) and net contribution was $8,805,000 (30 June 2016: $6,574,000). The purchase of Hostworks Pty Ltd and Logic Communications has increased the reported revenue for the year ended 30 June 2017 by $7,417,000.

Under the Anittel brand, the group provides managed telecommunications services and information technology products and consulting services throughout Australia. The group continues to re-contract with its largest information technology consulting service customers for extended fixed contract terms and has experienced stable revenue from consulting services.

In addition, the group has grown its direct retail telecommunications business, both through organic growth and through acquisition. The customer contracts with a significant retail service provider were migrated from the indirect to the direct segment due to the acquisition of the underlying customer contracts. This resulted in a revenue increase of $1,098,000 within the Direct channel. The Group expects a continued opportunity for organic growth as a result of cross-selling direct telecommunications services to customers which obtain managed telecommunications services and information technology consulting services. The group also believes that cross-sell opportunities will minimise the potential for channel conflict with RSP in its indirect segment.

During the year, the revenue relating to the sale of hardware products within this segment declined by $2,038,000 as the industry moves away from on premise equipment to cloud based services. The purchase of Hostworks during the year enables the group to capitalise on the aforementioned industry trend going forward by offering cloud based products and capabilities and replacing the revenue loss from hardware sales.

During the year ended 30 June 2016, the group entered into an agreement for the divestment to Telstra of its business supplying enterprise managed services to the Tasmanian Government, via the Cisco Hosted Collaboration Suite platform ('HCS business'). The group continues to provide services under its existing arrangement with the Tasmanian Government and receive associated revenue, during a transition period, expected to conclude during the first-half of FY18.

Indirect – Wholesale Telecommunication Supply
The channel continues to generate recurring revenue from retail service providers ('RSPs') and holds long term contracts with RSPs to underpin the sustainability of this revenue. The group increased the number of contracted RSPs during the year to 440. However, the full year revenue decreased to $44,147,000 (30 June 2016: $48,826,000) due to customer migrations as outlined below.

During the year to 31 December 2017, the customer contracts with three retail service providers were migrated from the Indirect to the Direct segment due to the acquisition of the underlying customer contracts resulting in a revenue reduction of $1,098,000 within the indirect channel. In addition, the Indirect channel revenue was adversely impacted by the loss of a customer who contributed $1,477,000 to revenue in the year to 30 June 2017 and the exit of two unprofitable customers with annual combined revenues of $1,881,000 which had no impact on margin.

Enablement – Supporting Established Consumer Brands
The group generates revenue from the enablement segment by providing networks, systems, operational support and billing services, and software development to established consumer brands seeking to offer telecommunications to their customers. During the year to 30 June 2017, the group experienced a reduction in overall revenue in this segment due to a reduction in revenue related to the supply of lower margin network equipment. However, with the group's largest enablement customer continuing to grow significantly and an increase in higher margin system support and development, the group was able to increase the margin from this segment despite the reduction in revenue.

The group looks forward to continuing to expand the products supported by its enablement offering and has been successful in recruiting additional enablement customers, the revenue from which will begin in FY18.

Significant changes in the state of affairs
On 15 February 2017, the group acquired 100% of the shares in Hostworks Group Pty Ltd for the total consideration of $7,616,000.

On 2 March 2017, the company issued 3,636,364 ordinary shares each at an issue price of $1.10 per share raising $4,000,000 (before costs) to provide some equity funding for the acquisition of Hostworks.

On 10 March 2017, the group acquired 100% of the shares in Logic Communications Pty Ltd and Modular IT Pty Ltd for the total consideration of $1,193,000.

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

No matter or circumstance has arisen since 30 June 2017 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

Likely developments in the operations of the group and the expected results of those operations are contained in the Chairman and CEO's report.

Environmental regulation

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

Information on directors

Name:	David Rampa
Title:	Independent Non-Executive Chairman
Qualifications:	B.Bus, FAICD
Experience and expertise:	David held senior executive positions at both Telstra and Singtel Optus prior to working in investment banking in New York. Recently David was a Non-Executive Director of the M2 Group Ltd (prior to the merger with Vocus Communications Ltd), where he was also Chairman of the Nominations and Remuneration Committee. David is the current Chairman of the Advisory Board at Aviation Logistics Pty Ltd, a ground and air patient transfer operation. He is also a Senior Consultant at TMT Partners, a Sydney based corporate advisory firm specialising in capital raises, IPOs and mergers and acquisitions in the Technology, Media and Telecommunications sector. Previously David also served as Deputy Chairman of the Telecommunications Service Provider Association, and was President of ANZACC (Australian, New Zealand, and American Chamber of Commerce) Midwest in the United States of America.
Other current directorships:	None
Former directorships (last 3 years):	M2 Group Limited (ASX: MTU)
Special responsibilities:	Member of the Nomination and Remuneration Committee and member of the Audit and Risk Committee
Interests in shares:	70,940
Interests in options:	76,923

Name:	Damian Kay
Title:	Managing Director and Chief Executive Officer
Qualifications:	B.Comm, GAICD
Experience and expertise:	Damian has more than 15 years' experience in the telecommunications industry. Previously he owned telecommunications reseller Universal Telecom, which he sold to Commander in 2006. He also held roles at Optus and has extensive sales experience in the FMCG (fast moving consumer goods) and IT industries. In 2002, Damian co-founded Telcoinabox Pty Ltd.
Other current directorships:	None
Former directorships (last 3 years):	None
Special responsibilities:	None
Interests in shares:	2,752,341
Interests in options:	83,333
Interests in rights:	159,015

Name:	Garry Wayling
Title:	Independent Non-Executive Director
Qualifications:	B.Comm, ACA, GAICD
Experience and expertise:	Garry has more than 40 years' experience in audit, risk and finance. As a senior partner at Ernst & Young, Garry worked with large corporate audit and middle markets growth companies across an extensive range of sectors. Garry has also held various executive roles for listed resources companies and continues to perform various business consulting roles. He is currently an Independent Director and Chair of the Audit and Risk Committee of OneVue Holdings Limited, Independent Director of Diversa Trustees Ltd, Independent Director and member of the Audit and Risk Committee for Odyssey House and ex-officio advisor of the Board Audit Risk Committee for Mission Australia.
Other current directorships:	OneVue Holdings Limited (ASX: OVH)
Former directorships (last 3 years):	None
Special responsibilities:	Chairman of the Audit and Risk Committee and member of the Nomination and Remuneration Committee
Interests in shares:	52,453
Interests in options:	76,923

Name:	Tom Stianos
Title:	Independent Non-Executive Director
Qualifications:	BA(Sc), FAICD
Experience and expertise:	Tom is a specialist in growing IT services businesses and advises on corporate strategy, growth and performance for companies ranging from start-ups to listed companies. Previously, Tom was CEO of IT service provider, SMS Management & Technology for 13 years, and was a Non-Executive Director of the Australian Information Industry Association. He has also held senior positions with the Department of Premier and Cabinet, Department of Justice, and Department of Treasury & Finance. Tom holds a Bachelor of Applied Science from the University of Melbourne and was awarded the Ford Australia prize for Economics.
Other current directorships:	Non-Executive Director of Empired Ltd (ASX: EPD)
Former directorships (last 3 years):	Executive Director and CEO of SMS Management & Technology Limited (ASX: SMX)
Special responsibilities:	Chairman of the Nomination and Remuneration Committee and member of the Audit and Risk Committee
Interests in shares:	32,000
Interests in options:	76,923

'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

Angus Fotheringham (LLB (Hons), BA, GAICD, GIA(Cert)) joined the group in 2010 as General Counsel and Company Secretary. Prior to joining the group, Angus was Legal and Business Affairs Executive for Beyond International Limited and was a solicitor at Norton Rose Fulbright.

Meetings of directors
The number of meetings of the company's Board of Directors ('the Board') and of each Board committee held during the year ended 30 June 2017, and the number of meetings attended by each director were:

	Full Board		Audit and Risk Committee		Nomination and Remuneration Committee	
	Attended	Held	Attended	Held	Attended	Held
David Rampa	13	13	3	3	2	2
Damian Kay	13	13	-	-	-	-
Garry Wayling	13	13	3	3	2	2
Tom Stianos	13	13	3	3	2	2

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

Remuneration report (audited)
The remuneration report, which has been audited, outlines 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 defined as those who have the authority and responsibility for planning, directing and controlling the major activities of the group, 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 information
- Additional disclosures relating to KMP

Principles used to determine the nature and amount of remuneration
The objective of the group's KMP reward framework is to ensure that reward for performance is competitive and appropriate for the results delivered. The framework aligns KMP rewards with the achievement of strategic objectives and the creation of value for shareholders, and conforms to the market best practice for delivery of reward. The Board ensures that KMP rewards satisfies the following key criteria for good reward governance practices:
- competitiveness and reasonableness;
- acceptability to shareholders; and
- transparency.

The Nomination and Remuneration Committee ('NRC') is responsible for determining and reviewing remuneration arrangements for its KMP. The performance of the group depends on the quality of its directors and other KMP. The remuneration philosophy is to attract, motivate and retain high performance and high quality personnel.

The NRC has structured a KMP reward framework that is market competitive and complements the reward strategy of the group.

The reward framework is designed to align executive reward to shareholders' interests. The Board have considered that it should seek to enhance shareholders' interests by:
- having profitable growth 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 executive on key non-financial drivers of value; and
- attracting and retaining high calibre KMP.

Additionally, the reward framework seeks 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 director remuneration
Non-executive director remuneration includes a mix of short and post employment benefits. Fees and payments to non-executive directors reflect the responsibilities and demands placed on directors. The nature and the amount of compensation is reviewed and approved by the NRC.

Because non-executive directors assess individual and group performance, their remuneration does not have a variable performance related component. The non-executive directors may hold shares and options over shares in the company.

As prescribed by the Listing Rules of the ASX, the aggregate remuneration of non-executive directors is determined from time to time by shareholders at general meeting. Non-executive directors' fees (including statutory superannuation) are determined within an aggregate directors' fee pool limit. The pool currently stands at a maximum of $600,000 in total, which was approved by shareholders on 10 May 2013.

Non-executive remuneration currently consists of:
- a base fee for serving as a director, currently $100,000 per annum for the chairman and $60,000 per annum for other non-executive directors;
- an additional fee of $10,000 per annum for serving as chairman of the Audit and Risk Committee;
- an additional fee of $10,000 per annum for serving as chairman of the Nomination and Remuneration Committee; and
- statutory superannuation, equivalent to the Government Superannuation Guarantee amount.

Termination and cash bonus payments do not apply to non-executive directors.

At the 2016 Annual General Meeting, the shareholders approved the issue of 76,923 options to each Non-Executive Director. Vesting of the options is subject to the condition that each director has been in continuous office as a director of the company for a period of 24 months since the date of issue and remains in office at the time of exercise of options. There are no performance conditions.

Executive remuneration
The group aims to reward executives based on their position and responsibility, with a level and mix of remuneration which has both fixed and variable components.

The executive remuneration and reward framework (LTI and STI) has the following 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 executives' total remuneration.

Fixed remuneration, consisting of base salary, superannuation and non-monetary benefits, is reviewed annually by the NRC, 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 where it does not create any additional costs to the group and provides additional value to the executive.

A short term incentive ('STI') plan offers executives the opportunity to earn an annual incentive award, which is delivered in cash after the year end when results have been finalised. The STI performance measures align executive rewards with the financial, company management, people management and merger and acquisition strategies of the group.

The group did award its employees, including senior management and the executive director, with an increase to base salary in line with the Consumer Price Index or an increase to ensure remuneration remained competitive by market standards.

Long-term incentives ('LTI') include long service leave and share-based payments. In addition to the options granted to Non-Executive Directors described above, performance rights were awarded to KMPs and senior executives during the financial year ended 30 June 2017.

On 1 July 2016, performance rights were awarded to certain key management personnel and senior executives of the group. Awards are subject to either of two measures over a 3 year performance period, total shareholder return (TSR) and earnings per share (EPS) which are equally weighted. 100% of TSR rights vest when a TSR at the 75th percentile of the S&P/ASX 300 index is achieved. No rights vest if TSR over the 3 years is below the 50th percentile of the ASX 300 index and pro rata vesting occurs between the 50th and 75th percentile. 100% of the EPS rights vest when a compound EPS growth of 20% per annum is achieved. No rights vest if compound EPS growth is below 10% per annum. Pro rata vesting occurs between EPS growth of 10% and 20% per annum. The performance measures are tested at the end of the 3 year period. Participants are not entitled to dividends on unvested rights.

Group performance and link to remuneration
The financial performance measure driving LTI payment outcomes for KMPs and senior executives for the future years is determined based on the group achieving EPS growth of between 10% and 20% over the 3 year period. The LTI is also subject to TSR achievement of between 50th and 75th percentile of the ASX 300 index.

Use of remuneration consultants
During the financial year ended 30 June 2017, the group did not engage any remuneration consultants, to review its existing remuneration policies and provide recommendations on how to improve its incentive programs.

Voting and comments made at the company's 2016 Annual General Meeting ('AGM')
At the 2016 AGM, shareholders voted to approve the adoption of the remuneration report for the year ended 30 June 2016. The company did not receive any specific feedback at the AGM regarding its remuneration practices.

Details of remuneration
The KMP of the group consisted of the following directors of Inabox Group Limited:
- David Rampa - Non-Executive Chairman
- Damian Kay - Managing Director/Chief Executive Officer
- Garry Wayling - Non-Executive Director
- Tom Stianos - Non-Executive Director

And the following executive:
- Deb Zimmer - Chief Financial Officer

On 1 July 2017, Management reviewed the persons disclosed as KMPs in the previous year and have made a decision to revise the list of KMPs as the executives no longer qualify because they participate in planning activities rather than making the ultimate decisions in current year. Accordingly, Angus Fotheringham, Laura Jacob, Vincent Pesquet and Chris Ford are no longer disclosed as KMPs in the 2017 remuneration table.

Amounts of remuneration
Details of the remuneration of the KMPs of the group are set out in the following tables. Cash salary and fees include annual leave entitlements.

2017	Short-term benefits			Post-employment benefits	Long-term benefits	Share-based payments	
	Cash salary and fees $	Bonus $	Non-monetary $	Super-annuation $	Leave benefits $	Equity-settled options $	Total $
Non-Executive Directors:							
David Rampa	109,500	-	-	-	-	9,212	118,712
Garry Wayling	70,000	-	-	6,650	-	9,212	85,862
Tom Stianos	70,000	-	-	6,650	-	9,212	85,862
Executive Director:							
Damian Kay	404,866	58,485	-	19,616	-	20,561	503,528
Other Key Management Personnel:							
Deb Zimmer	226,971	33,495	-	19,616	-	11,602	291,684
	881,337	91,980	-	52,532	-	59,799	1,085,648

2016	Short-term benefits			Post-employment benefits	Long-term benefits	Share-based payments		
	Cash salary and fees $	Bonus $	Non-monetary $	Super-annuation $	Leave benefits $	Equity-settled options $	Termination benefits $	Total $
Non-Executive Directors:								
David Rampa	79,388	-	-	-	-	-	-	79,388
Garry Wayling	70,000	-	-	6,650	-	-	-	76,650
Tom Stianos*	41,667	-	-	3,958	-	-	-	45,625
Siimon Reynolds**	91,667	-	-	8,708	-	-	-	100,375
Executive Director:								
Damian Kay	352,973	30,510	-	19,308	7,205	-	-	409,996
Other Key Management Personnel:								
Angus Fotheringham	189,821	20,000	-	17,745	6,655	-	-	234,221
Laura Jacob	199,846	18,000	-	18,409	12,394	-	-	248,649
Vincent Pesquet	250,000	21,250	-	19,308	11,093	-	-	301,651
Deb Zimmer*	190,885	17,250	-	16,487	6,142	-	-	230,764
Chris Ford*	116,769	10,687	-	10,293	7,858	-	-	145,607
Michael Clarke**	88,804	-	-	8,436	-	-	61,044	158,284
	1,671,820	117,697	-	129,302	51,347	-	61,044	2,031,210

* Remuneration from date of appointment as KMP for Tom Stianos on 26 November 2015, Deb Zimmer on 17 August 2015 and Chris Ford on 16 December 2015.

** Remuneration is disclosed to date of cessation as KMP for Siimon Reynolds on 20 May 2016 and Michael Clarke on 18 January 2016.

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

Name	Fixed remuneration 2017	Fixed remuneration 2016	At risk - STI 2017	At risk - STI 2016	At risk - LTI 2017	At risk - LTI 2016
Non-Executive Directors:						
David Rampa	92%	100%	-	-	8%	-
Garry Wayling	89%	100%	-	-	11%	-
Tom Stianos	89%	100%	-	-	11%	-
Siimon Reynolds	-	100%	-	-	-	-
Executive Directors:						
Damian Kay	84%	93%	12%	7%	4%	-
Other Key Management Personnel:						
Deb Zimmer	85%	93%	11%	7%	4%	-

The senior executives and KMPs of the group are eligible to earn up to 40% of their fixed remuneration in short and long term incentives. The table above shows the actual percentages provided for.

Service agreements
The group enters into employment agreements with each KMP. The agreements are continuous i.e. not of a fixed duration, and include notice periods ranging from four to eight weeks applicable to both the employee and the group.

The employment agreements contain substantially the same terms which include usual statutory entitlements, typical confidentiality and intellectual property provisions intended to protect the group's intellectual property rights and other proprietary information and non-compete clauses.

Share-based compensation

Issue of shares
There were no shares issued to directors or other KMP as part of compensation during the year ended 30 June 2017.

Options
The terms and conditions of each grant of options over ordinary shares affecting remuneration of directors and other key management personnel in this financial year or future reporting years are as follows:

Grant date	Particulars	Expiry date	Exercise price	Fair value per option at grant date
24/11/2016	David Rampa 76,923 options	24/11/2021	$1.18	$0.401
24/11/2016	Garry Wayling 76,923 options	24/11/2021	$1.18	$0.401
24/11/2016	Tom Stianos 76,923 options	24/11/2021	$1.18	$0.401

Options granted above carry no dividend or voting rights. Vesting is subject to the condition that each director has been in continuous office as a director of the company for a period of 24 months since the date of issue and remains in office at the time of exercise of options. There are no performance conditions.

Performance rights
The terms and conditions of each grant of performance rights over ordinary shares affecting remuneration of directors and other key management personnel in this financial year or future reporting years are as follows:

Grant date	Particulars	Expiry date	Exercise price	Fair value per right at grant date
01/07/2016	Damian Kay 78,672 performance rights*	N/A	$0.00	$0.775
01/07/2016	Deb Zimmer 45,056 performance rights*	N/A	$0.00	$0.775

* The performance rights are subject to either of two measures over a 3 year performance period, total shareholder return (TSR) and earnings per share (EPS) which are equally weighted. 100% of TSR rights vest when a TSR at the 75th percentile of the S&P/ASX 300 index is achieved. No rights vest if TSR over the performance period is below the 50th percentile and pro rata vesting occurs between the 50th and 75th percentile. 100% of the EPS rights vest when a compound EPS growth of 20% per annum is achieved. No rights vest if compound EPS growth is below 10% per annum. Pro rata vesting occurs between EPS growth of 10% and 20% per annum. The performance measures are tested at the end of the 3 year period. Participants are not entitled to dividends on unvested rights.

The number of performance rights over ordinary shares granted to and vested by directors and other key management personnel as part of compensation during the year ended 30 June 2017 are set out below:

Name	Number of rights granted during the year 2017	Number of rights granted during the year 2016	Number of rights vested during the year 2017	Number of rights vested during the year 2016
Damian Kay	78,672	-	-	-
Deb Zimmer	45,056	-	-	-

Additional information

The earnings of the group for the two years to 30 June 2017 are summarised below:

	2017 $'000	2016 $'000
Sales revenue	90,105	88,005
Profit after income tax	86	859

The factors that are considered to affect total shareholders return ('TSR') are summarised below:

	2017	2016
Share price at financial year end ($)	0.99	0.98
Basic earnings per share (cents per share)	0.40	4.28

Additional disclosures relating to KMP

Shareholding

The number of shares in the company held during the financial year by each director and the other 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	Disposal/ Other	Balance at the end of the year
Ordinary shares					
David Rampa	10,000	-	60,940	-	70,940
Damian Kay	2,740,173	-	12,168	-	2,752,341
Garry Wayling	23,453	-	29,000	-	52,453
Tom Stianos	-	-	32,000	-	32,000
	2,773,626	-	134,108	-	2,907,734

Option holding
The number of options over ordinary shares in the company held during the financial year by each director and the other 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
Options over ordinary shares					
David Rampa	-	76,923	-	-	76,923
Damian Kay	83,333	-	-	-	83,333
Garry Wayling	-	76,923	-	-	76,923
Tom Stianos	-	76,923	-	-	76,923
	83,333	230,769	-	-	314,102

	Vested and exercisable	Vested and unexercisable	Balance at the end of the year
Options over ordinary shares			
Damian Kay	83,333	-	83,333
	83,333	-	83,333

Performance rights holding
The number of performance rights over ordinary shares in the company held during the financial year by each director and the other KMP of the group, including their personally related parties, is set out below:

	Balance at the start of the year	Granted	Vested	Expired/ forfeited/ other	Balance at the end of the year
Performance rights over ordinary shares					
Damian Kay	-	78,682	-	-	78,682
Deb Zimmer	-	45,056	-	-	45,056
	-	123,738	-	-	123,738

This concludes the remuneration report, which has been audited.

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

Grant date	Expiry date	Exercise price	Number under option
10/01/2013	30/11/2018	$0.96	1,041,666
24/05/2013	23/05/2018	$1.20	166,666
24/11/2016	24/11/2021	$1.18	230,769
			1,439,101

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

Shares under performance rights
Unissued ordinary shares of Inabox Group Limited under performance rights at the date of this report are as follows:

Grant date	Expiry date	Exercise price	Number under rights
01/07/2016	N/A	$0.00	257,567
01/07/2017	N/A	$0.00	355,979
			613,546

No person entitled to exercise the performance rights had or has any right by virtue of the performance right 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 Inabox Group Limited issued on the exercise of options during the year ended 30 June 2017 and up to the date of this report.

Shares issued on the exercise of performance rights
There were no ordinary shares of Inabox Group Limited issued on the exercise of performance rights during the year ended 30 June 2017 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 liability and the amount of the premium.

Indemnity and insurance of auditor
To the extent permitted by law, the company has agreed to indemnify its auditors, Ernst & Young, as part of its audit engagement agreement against claims by third parties arising from the audit (for an unspecified amount), other than a loss arising from Ernst & Young's negligent, wrongful or wilful acts or omissions. No payment has been made to indemnify Ernst & Young during the financial year ended 30 June 2017 and up to the date of this report.

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

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

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

The directors are of the opinion that the services as disclosed in note 28 to the financial statements do not compromise the external auditor's independence requirements of the Corporations Act 2001 for the following reasons:
- all non-audit services have been reviewed and approved to ensure that they do not impact the integrity and objectivity of the auditor; and
- none of the services undermine the general principles relating to auditor independence as set out in APES 110 Code of Ethics for Professional Accountants issued by the Accounting Professional and Ethical Standards Board, including reviewing or auditing the auditor's own work, acting in a management or decision-making capacity for the company, acting as advocate for the company or jointly sharing economic risks and rewards.

Officers of the company who are former partners of Ernst & Young
There are no officers of the company who have been audit partners of Ernst & Young for the past three years.

Rounding of amounts
The company is of a kind referred to in Corporations Instrument 2016/191, issued by the Australian Securities and Investments Commission, relating to 'rounding-off'. Amounts in this report have been rounded off in accordance with that Corporations Instrument to the nearest thousand dollars, or in certain cases, the nearest dollar.

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

Auditor
Ernst & Young continues in office in accordance with section 327 of the Corporations Act 2001.

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

On behalf of the directors

____
David Rampa
Chairman

____
Damian Kay
Managing Director and Chief Executive Officer

28 August 2017
Sydney

Ernst & Young
200 George Street
Sydney NSW 2000 Australia
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Auditor's Independence Declaration to the Directors of Inabox Group Limited

As lead auditor for the audit of Inabox Group Limited for the financial year ended 30 June 2017, I declare to the best of my knowledge and belief, there have been:

a) no contraventions of the auditor independence requirements of the *Corporations Act 2001* in relation to the audit; and

b) no contraventions of any applicable code of professional conduct in relation to the audit.

This declaration is in respect of Inabox Group Limited and the entities it controlled during the financial year.

Ernst & Young

Ernst & Young

Julian M. O'Brien
Partner
28 August 2017

Inabox Group Limited
Statement of profit or loss and other comprehensive income
For the year ended 30 June 2017

	Note	Consolidated 2017 $'000	Consolidated 2016 $'000
Revenue	6	90,105	88,005
Other income		508	193
Expenses			
Network expenses and related costs		(32,896)	(35,918)
Equipment cost and freight		(15,129)	(16,900)
Employee benefits expense		(29,553)	(23,554)
Depreciation and amortisation expense	7	(3,695)	(3,250)
Other expenses	7	(8,486)	(6,476)
Finance costs	7	(1,002)	(703)
Profit/(loss) before income tax (expense)/benefit		(148)	1,397
Income tax (expense)/benefit	8	234	(538)
Profit after income tax (expense)/benefit for the year attributable to the owners of Inabox Group Limited		86	859
Other comprehensive income for the year, net of tax		-	-
Total comprehensive income for the year attributable to the owners of Inabox Group Limited		86	859
		Cents	**Cents**
Basic earnings per share	37	0.40	4.28
Diluted earnings per share	37	0.40	4.26

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

Inabox Group Limited
Statement of financial position
As at 30 June 2017

	Note	Consolidated 2017 $'000	Consolidated 2016 $'000
Assets			
Current assets			
Cash and cash equivalents		4,998	2,849
Trade and other receivables	9	11,446	10,952
Inventories		63	78
Income tax receivable		128	-
Other	10	1,624	1,607
		18,259	15,486
Assets classified as held for sale	11	-	4,085
Total current assets		18,259	19,571
Non-current assets			
Property, plant and equipment	12	3,914	2,067
Intangibles	13	23,193	14,089
Deferred tax	14	501	552
Other	15	-	40
Total non-current assets		27,608	16,748
Total assets		45,867	36,319
Liabilities			
Current liabilities			
Trade and other payables	16	11,298	9,799
Borrowings	17	7,077	6,897
Income tax		-	277
Employee benefits		3,004	1,889
Provisions	18	607	290
Deferred revenue		1,443	1,406
Total current liabilities		23,429	20,558
Non-current liabilities			
Borrowings	19	6,514	3,642
Employee benefits		871	690
Provisions	20	112	70
Other non-current liabilities	21	240	330
Total non-current liabilities		7,737	4,732
Total liabilities		31,166	25,290
Net assets		14,701	11,029
Equity			
Issued capital	22	15,354	11,522
Reserves	23	(2,234)	(2,329)
Retained profits		1,581	1,836
Total equity		14,701	11,029

Refer to note 4 for detailed information on Restatement of comparatives.

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

Consolidated	Issued capital $'000	Reserves $'000	Retained profits $'000	Total equity $'000
Balance at 1 July 2015	11,522	(2,292)	977	10,207
Profit after income tax expense for the year	-	-	859	859
Other comprehensive income for the year, net of tax	-	-	-	-
Total comprehensive income for the year	-	-	859	859
Transactions with owners in their capacity as owners:				
Share-based payments	-	(37)	-	(37)
Balance at 30 June 2016	11,522	(2,329)	1,836	11,029

Consolidated	Issued capital $'000	Reserves $'000	Retained profits $'000	Total equity $'000
Balance at 1 July 2016	11,522	(2,329)	1,836	11,029
Profit after income tax benefit for the year	-	-	86	86
Other comprehensive income for the year, net of tax	-	-	-	-
Total comprehensive income for the year	-	-	86	86
Transactions with owners in their capacity as owners:				
Contributions of equity, net of transaction costs (note 22)	3,832	-	-	3,832
Share-based payments (note 38)	-	95	-	95
Dividends paid (note 24)	-	-	(341)	(341)
Balance at 30 June 2017	15,354	(2,234)	1,581	14,701

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

	Note	Consolidated 2017 $'000	Consolidated 2016 $'000
Cash flows from operating activities			
Receipts from customers (inclusive of GST)		101,189	93,341
Payments to suppliers and employees (inclusive of GST)		(96,309)	(91,045)
Interest received		18	49
Other income		508	193
Interest and other finance costs paid		(945)	(703)
Income taxes paid		(305)	(1,216)
Net cash from operating activities	36	4,156	619
Cash flows from investing activities			
Payment for purchase of subsidiaries, net of cash acquired	33	(5,634)	-
Payments for property, plant and equipment		(746)	(1,891)
Payments for intangibles		(3,200)	(2,570)
Payments for security deposits		(90)	-
Proceeds from disposal of property, plant and equipment		-	557
Proceeds from disposal of intangibles		-	291
Proceeds from release of security deposits		24	122
Proceeds from settlement of assets classified as held for sale	11	3,250	-
Net cash used in investing activities		(6,396)	(3,491)
Cash flows from financing activities			
Proceeds from issue of shares	22	4,000	-
Share issue transaction costs	22	(240)	-
Proceeds from borrowings		8,760	4,629
Repayment of borrowings		(7,790)	(2,179)
Dividends paid	24	(341)	-
Net cash from financing activities		4,389	2,450
Net increase/(decrease) in cash and cash equivalents		2,149	(422)
Cash and cash equivalents at the beginning of the financial year		2,849	3,271
Cash and cash equivalents at the end of the financial year		4,998	2,849

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

Note 1. General information

The financial statements cover Inabox Group Limited as a group consisting of Inabox Group Limited (the 'company' or 'parent entity') and its subsidiaries (referred to in these financial statements as the 'group'). The financial statements are presented in Australian dollars, which is Inabox Group Limited's functional and presentation currency.

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

Level 10, 9 Hunter Street
Sydney NSW 2000
Tel: 1300 7 TELCO

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

The financial statements were authorised for issue, in accordance with a resolution of directors, on 28 August 2017. 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 profit after tax of $86,000 (2016: $859,000) and had net cash inflow from operating activities of $4,156,000 (2016: $619,000). As at 30 June 2017, the group had a net current liability of $5,170,000 (2016: $987,000).

As disclosed in note 19, the group has undrawn credit lines. 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 2017. Accordingly, these financial statements have been prepared on a going concern basis.

Basis of preparation

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

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

Critical accounting estimates
The preparation of the financial statements requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the 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.

Note 2. Significant accounting policies (continued)

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 32.

Principles of consolidation
The consolidated financial statements incorporate the assets and liabilities of all subsidiaries of Inabox Group Limited as at 30 June 2017 and the results of all subsidiaries for the year then ended.

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 interests 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.

Foreign currency translation
The financial statements are presented in Australian dollars, which is Inabox Group Limited's functional and presentation currency.

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

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.

Communications and hosting revenue
The group principally obtains revenue from providing the following telecommunication services: fixed wire, mobile, data services, cloud hosting services and equipment sales. Products and services may be sold separately or in bundled packages.

Revenue for fixed wire, mobile, cloud services and data services is recognised as services are performed. Revenue from services provided, but unbilled, are accrued at end of each period and unearned revenue (revenue billed in advance) for services to be provided in future periods is deferred as a liability.

Note 2. Significant accounting policies (continued)

Enablement revenue: build
Customers that require significant system and process development and customisation in order to meet their business requirements are charged interim enablement fees during the build/customisation process. These fees are calculated by reference to agreed recovery rates for staff costs and other direct expenses actually spent in the period.

Revenue from the provision of these services is recognised by reference to stage of completion. Stage of completion is measured by reference to labour hours incurred to date as percentage of total estimated labour hours for each contract. When the contract outcome cannot be measured reliably, revenue is recognised only to the extent that the expenses incurred are eligible to be recovered.

Enablement revenue: network-based
Network-based enablement activities include the installation of dedicated hardware interconnect and routing, specific-purpose servers, links for hosted applications and related infrastructure.

Revenue from the provision of these services is recognised by reference to stage of completion. Stage of completion is measured by reference to labour hours incurred to date as percentage of total estimated labour hours for each contract. When the contract outcome cannot be measured reliably, revenue is recognised only to the extent that the expenses incurred are eligible to be recovered.

Enablement Revenue: Service in Operation
The group charges a management fee to its enablement customers based on the number of services the customer has in operation. The revenue is recognised in line with the contractual terms which prescribes a monthly charge based on the number of services in operation during the month.

Commission income
Mobile carriers may pay a commission on signing a new retail customer for a defined period, generally 24 months and it is usually to fund a new handset for the customer. Commission received by the group is brought to account on a monthly basis over the life of the contract. Commission received but yet to be earned is shown as deferred commission income.

The group may be required to refund a proportion of the commission should the service be actually or constructively terminated before the end of the contract period, typically calculated pro rata on the number of months remaining on the contract.

The group also pays commission to its Retail Service Providers ('RSPs') on essentially the same contract period and refund terms. Commissions are expensed over the same period. Commissions paid in advance are shown as deferred commission expense. Commissions paid are refundable by RSPs in the event that the service is actually or constructively terminated before the end of the contract period, typically calculated pro rata on the number of months remaining on the contract.

Information Technology(IT) products and services revenue
IT products revenue
IT products revenue is recognised at the point of sale, which is where the customer has taken delivery of the goods, the risks and rewards are transferred to the customer and there is a valid sales contract. Amounts disclosed as revenue are net of sales returns and trade discounts.

IT services revenue
Revenue for installation, maintenance, hardware and software is recognised by reference to the stage of completion of contract or contracts in progress at the reporting date or at the time of completion of the contract and billing to the customer. Where customers are billed in advance, the amounts are deferred until the service has been rendered.

Revenue from communication services is recognised in monthly cycles. Customers are invoiced on the first day of the month for the previous month's usage, and services and equipment are billed in advance.

Stage of completion is measured by reference to labour hours incurred to date as a percentage of total estimated labour hours for each contract. Where the contract outcome cannot be reliably estimated, revenue is only recognised to the extent of the recoverable costs incurred to date.

Note 2. Significant accounting policies (continued)

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

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.

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

Deferred tax assets and liabilities are recognised for temporary differences at the tax rates expected to be applied when the assets are recovered or liabilities are settled, based on those tax rates that are enacted or substantively enacted, except for:
- When the deferred income tax asset or liability arises from the initial recognition of goodwill or an asset or liability in a transaction that is not a business combination and that, at the time of the transaction, affects neither the accounting nor taxable profits; or
- When the taxable temporary difference is associated with interests in subsidiaries, associates or joint ventures, and the timing of the reversal can be controlled and it is probable that the temporary difference will not reverse in the foreseeable future.

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.

Inabox 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 9 May 2013. 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.

Note 2. Significant accounting policies (continued)

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 14 to 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 are considered indicators that the trade receivable may be impaired. The amount of the impairment allowance is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the original effective interest rate. Cash flows relating to short-term receivables are not discounted if the effect of discounting is immaterial.

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

Inventories
Stock on hand is stated at the lower of cost and net realisable value. Cost comprises of purchase and delivery costs, net of rebates and discounts received or receivable.

Net realisable value is the estimated selling price in the ordinary course of business less the estimated costs of completion and the estimated costs necessary to make the sale.

Non-current assets or disposal groups classified as held for sale
Non-current assets and assets of disposal groups are classified as held for sale if their carrying amount will be recovered principally through a sale transaction rather than through continued use. They are measured at the lower of their carrying amount and fair value less costs of disposal. For non-current assets or assets of disposal groups to be classified as held for sale, they must be available for immediate sale in their present condition and their sale must be highly probable.

An impairment loss is recognised for any initial or subsequent write down of the non-current assets and assets of disposal groups to fair value less costs of disposal. A gain is recognised for any subsequent increases in fair value less costs of disposal of a non-current assets and assets of disposal groups, but not in excess of any cumulative impairment loss previously recognised.

Non-current assets are not depreciated or amortised while they are classified as held for sale. Interest and other expenses attributable to the liabilities of assets held for sale continue to be recognised.

Non-current assets classified as held for sale and the assets of disposal groups classified as held for sale are presented separately on the face of the statement of financial position, in current assets. The liabilities of disposal groups classified as held for sale are presented separately on the face of the statement of financial position, in current liabilities.

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.

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	five years
Motor vehicles	three years
Computer and office equipment	three to five years
Hosted unified communications hardware	five to eight 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, trademarks and brands

Patents, trademarks and brands acquired in a business combination, including associated capitalised costs, are not amortised on the basis that they have indefinite useful lives. Instead, such assets are tested annually for impairment, or more frequently if events or changes in circumstances indicate that they might be impaired, and are carried at cost less accumulated impairment losses.

Note 2. Significant accounting policies (continued)

Customer contracts and relationships
Customer contracts and relationships acquired are carried at their fair value at date of acquisition less accumulated amortisation and impairment losses. They are amortised on a straight-line basis over the period of their expected benefit, being their finite useful lives of between 18 months and ten years.

Software and capitalised development
Research costs are expensed in the period in which they are incurred. Development costs are capitalised when it is probable that the project will be a success considering its commercial and technical feasibility; the group is able to use or sell the asset; the group has sufficient resources; and intent to complete the internal development and their costs can be measured reliably. These capitalised costs and other software costs, purchased from third parties, are deferred and amortised on a straight-line basis over the period of their expected benefit, being their finite useful lives of between two and ten years.

Hosted Unified Communications software
Hosted Unified Communications intangible acquired in a business combination is initially recognised at fair value. Additional development costs are capitalised where the additional costs are expected to contribute to future financial benefits through revenue generation. Costs capitalised relate directly to attributable payroll and payroll related costs of employees' time spent on the project. Amortisation shall begin when the asset is available for use, that is, when it is in the location and condition necessary for it to be capable of operating in the manner intended by management. Amortisation of the asset will be on a straight-line basis over the period of its expected benefit, being its finite life of eight 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 to 60 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.

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

Provisions
Provisions are recognised when the 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.

Note 2. Significant accounting policies (continued)

Employee benefits

Short-term employee benefits
Liabilities for employee benefits expected to be settled within 12 months of the reporting date are measured at the amounts expected to be paid when the liabilities are settled.

Other long-term employee benefits
Employee benefits not expected to be settled within 12 months of the reporting date are measured at the present value of expected future payments to be made in respect of services provided by employees up to the reporting date using the projected unit credit method. Consideration is given to expected future wage and salary levels, experience of employee departures and periods of service. Expected future payments are discounted using market yields at the reporting date on corporate bonds with terms to maturity and currency that match, as closely as possible, the estimated future cash outflows.

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

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

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

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

Note 2. Significant accounting policies (continued)

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

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

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

Issued capital
Ordinary shares are classified as equity.

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

Dividends
Dividends are recognised when declared during the financial year and no longer at the discretion of the company.

Business combinations
The acquisition method of accounting is used to account for business combinations regardless of whether equity instruments or other assets are acquired.

The consideration transferred is the sum of the acquisition-date fair values of the assets transferred, equity instruments issued or liabilities incurred by the acquirer to former owners of the acquiree and the amount of any non-controlling interest in the acquiree. For each business combination, the non-controlling interest in the acquiree is measured at either fair value or at the proportionate share of the acquiree's identifiable net assets. All acquisition costs are expensed as incurred to profit or loss.

On the acquisition of a business, the group assesses the financial assets acquired and liabilities assumed for appropriate classification and designation in accordance with the contractual terms, economic conditions, the group's operating or accounting policies and other pertinent conditions in existence at the acquisition-date.

Where the business combination is achieved in stages, the group remeasures its previously held equity interest in the acquiree at the acquisition-date fair value and the difference between the fair value and the previous carrying amount is recognised in profit or loss.

Contingent consideration to be transferred by the acquirer is recognised at the acquisition-date fair value. Subsequent changes in the fair value of the contingent consideration classified as an asset or liability is recognised in profit or loss. Contingent consideration classified as equity is not remeasured and its subsequent settlement is accounted for within equity.

The difference between the acquisition-date fair value of assets acquired, liabilities assumed and any non-controlling interest in the acquiree and the fair value of the consideration transferred and the fair value of any pre-existing investment in the acquiree is recognised as goodwill. If the consideration transferred and the pre-existing fair value is less than the fair value of the identifiable net assets acquired, being a bargain purchase to the acquirer, the difference is recognised as a gain directly in profit or loss by the acquirer on the acquisition-date, but only after a reassessment of the identification and measurement of the net assets acquired, the non-controlling interest in the acquiree, if any, the consideration transferred and the acquirer's previously held equity interest in the acquirer.

Note 2. Significant accounting policies (continued)

Business combinations are initially accounted for on a provisional basis. The acquirer retrospectively adjusts the provisional amounts recognised and also recognises additional assets or liabilities during the measurement period, based on new information obtained about the facts and circumstances that existed at the acquisition-date. The measurement period ends on either the earlier of (i) 12 months from the date of the acquisition or (ii) when the acquirer receives all the information possible to determine fair value.

Earnings per share

Basic earnings per share
Basic earnings per share is calculated by dividing the profit attributable to the owners of Inabox 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.

Rounding of amounts
The company is of a kind referred to in Corporations Instrument 2016/191, issued by the Australian Securities and Investments Commission, relating to 'rounding-off'. Amounts in this report have been rounded off in accordance with that Corporations Instrument to the nearest thousand dollars, or in certain cases, the nearest dollar.

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 2017. 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 will adopt this standard from 1 July 2018. During the year, the group started activities aimed to identify the potential impact. At the current stage of the analysis, the standard is not expected to have a significant impact on 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. The group will adopt this standard from 1 July 2018. During the year, the group started analytical activities aimed to identify potentially critical issues for each operating segment, to assess the potential effects on the financial statements and verify the need to adjust internal control systems over financial reporting. At the current stage of the analysis, the Enablement segment may be affected by the new provisions of the standard: (i) accounting for revenue from new agreements with future enablement customers and ii) accounting for costs associated in providing the services to future enablement customers.

Note 2. Significant accounting policies (continued)

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

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.

Impairment of trade and other receivables
Where there is objective evidence of impairment of receivables, management makes judgements as to whether an impairment loss should be recorded as an expense. In determining this, management uses estimates based on historical loss experience for assets with similar credit risk characteristics. The methodology and assumptions used for estimating both the amount and timing of future cash flows are reviewed regularly to reduce any differences between the estimated loss and actual loss experience.

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

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.

Capitalised development costs
The group capitalises development costs for projects in accordance with the group's capitalisation policy. Capitalisation of costs is based on management’s assessment of future economic benefits controlled and available to the group. The management incorporates various key estimates and assumptions in its assessment of the technological and economic feasibility of the project when determining the eligibility of incurred expenses for capitalisation as development costs.

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.

Recovery of deferred tax assets
Deferred tax assets are recognised for deductible temporary differences only if the group considers it is probable that future taxable amounts will be available to utilise those temporary differences and losses.

Business combinations
As discussed in note 2, business combinations are initially accounted for on a provisional basis. The fair value of assets acquired, liabilities, contingent liabilities assumed and consideration paid are initially estimated by the group taking into consideration all available information at the reporting date. Fair value adjustments on the finalisation of the business combination accounting is retrospective, where applicable, to the period the combination occurred and may have an impact on the assets and liabilities, depreciation and amortisation reported.

Determination of fair values of certain intangibles such as customer contracts and relationships requires significant judgement. After capitalisation, the group monitors whether the recognition requirements continue to be met and whether there are any indicators that intangibles may be impaired.

Contingent consideration
From time to time the group enters into transactions that include contingent considerations. Determining the fair value of these considerations in accordance with the accounting policy stated in note 2 includes a degree of estimation in relation to the contingencies that determine the value of the consideration.

Note 4. Restatement of comparatives

Change in accounting policy
In November 2016, the IFRS Interpretations Committee ('IFRIC') clarified that an intangible asset with an indefinite useful life is not a non-depreciable asset (unlike land) and that non-amortisation did not necessarily mean that an entity will recover the carrying amount of that asset only through sale and not through use. The tax accounting standard requires deferred tax to be recognised based on management’s expected manner of recovery. Management have reconsidered the expected recovery of its indefinite life brands as being recovered through use. Therefore, in accordance with the standards a deferred tax liability as detailed below has been recognised on the brands acquired in previous business combinations with a corresponding increase in goodwill.

Statement of profit or loss and other comprehensive income
When there is a restatement of comparatives, it is mandatory to provide a statement of profit or loss and other comprehensive income indicating adjustments made for the year ended 30 June 2016. However, as there were no adjustments made to profit or loss and other comprehensive income, the group has elected not to show the statement of profit or loss and other comprehensive income.

Statement of financial position at the beginning of the earliest comparative period
When there is a restatement of comparatives, it is mandatory to provide a third statement of financial position at the beginning of the earliest comparative period, being 1 July 2015. However, as the impact at the beginning of the earliest comparative period is the same as at the end of the comparative period, the group has elected not to show the 1 July 2015 statement of financial position.

Note 4. Restatement of comparatives (continued)

Statement of financial position at the end of the earliest comparative period

	Consolidated		
Extract	**2016 $'000 Reported**	**$'000 Adjustment**	**2016 $'000 Restated**
Assets			
Non-current assets			
Intangibles	13,976	113	14,089
Deferred tax	665	(113)	552
Total non-current assets	16,748	-	16,748
Total assets	36,319	-	36,319
Net assets	11,029	-	11,029

Note 5. Operating segments

Identification of reportable operating segments
The group's operating segment is based on the internal reports that are reviewed and used by the Chief Executive Officer and the Board of Directors (being the Chief Operating Decision Makers ('CODM')) in assessing performance and in determining the allocation of resources.

The group is organised into three operating segments as follows:

Direct	Provides IT products and services, telecommunication services and cloud based services to Australian businesses;
Indirect	Provides end to end white labelled telecommunication wholesale solutions to Retail Service Providers who predominantly service small to medium sized businesses; and
Enablement	Provides customers who have a mass market customer base the ability to offer telecommunications products to their consumer customer base.

The CODM is provided with information on a net contribution level. Net contribution reflects revenue less direct costs less allocation of specific segment expenses.

The CODM does not review segment assets and liabilities.

Note 5. Operating segments (continued)

Operating segment information

Consolidated - 2017	Direct $'000	Indirect $'000	Enablement $'000	Intersegment eliminations/ unallocated $'000	Total $'000
Revenue					
Sales to external customers	41,038	44,147	4,902	-	90,087
Other revenue	-	-	-	18	18
Total revenue	41,038	44,147	4,902	18	90,105
Net contribution	8,805	8,498	2,784	-	20,087
Interest revenue					18
Other income					508
Other employee benefits expense					(7,761)
Depreciation and amortisation expense					(3,695)
Other expenses					(8,303)
Finance costs					(1,002)
Loss before income tax benefit					(148)
Income tax benefit					234
Profit after income tax benefit					86

Consolidated - 2016	Direct $'000	Indirect $'000	Enablement $'000	Intersegment eliminations/ unallocated $'000	Total $'000
Revenue					
Sales to external customers	33,459	48,826	5,671	-	87,956
Other revenue	-	-	-	49	49
Total revenue	33,459	48,826	5,671	49	88,005
Net contribution	6,574	9,116	2,348	-	18,038
Interest revenue					49
Other income					193
Other employee benefits expense					(6,729)
Depreciation and amortisation expense					(3,250)
Other expenses					(6,201)
Finance costs					(703)
Profit before income tax expense					1,397
Income tax expense					(538)
Profit after income tax expense					859

Note 6. Revenue

	Consolidated	
	2017	2016
	$'000	$'000
Sales revenue		
Communications and hosting revenue	49,075	48,048
Enablement revenue	4,902	5,671
Commissions	-	64
Other sales revenue	23	111
IT products and services revenue	36,087	34,062
	90,087	87,956
Other revenue		
Interest	18	49
Revenue	90,105	88,005

Note 7. Expenses

	Consolidated 2017 $'000	Consolidated 2016 $'000
Profit/(loss) before income tax includes the following specific expenses:		
Depreciation		
Leasehold improvements	351	55
Motor vehicles	24	15
Computer and office equipment	809	601
Hosted unified communications equipment	23	588
Total depreciation	1,207	1,259
Amortisation		
Customer contracts and relationships	1,493	714
Software and capitalised development	995	1,089
Hosted unified communications intangible	-	188
Total amortisation	2,488	1,991
Total depreciation and amortisation	3,695	3,250
Other expense consists of the following expenses:		
Rental expense relating to operating leases - minimum lease payments	1,989	1,323
Net foreign exchange loss	-	25
Audit and tax fees	323	480
IT and network expenses	1,124	941
Legal and professional fees	1,028	643
Impairment of goodwill	-	36
Impairment of receivables	478	124
Other expenses	3,544	2,904
Total other expenses	8,486	6,476
Finance costs		
Interest and finance charges paid/payable	1,002	703
Superannuation expense		
Defined contribution superannuation expense	2,057	1,648
Share-based payments expense		
Share-based payments expense	95	(37)

Note 8. Income tax expense/(benefit)

	Consolidated 2017 $'000	Consolidated 2016 $'000
Income tax expense/(benefit)		
Current tax	59	553
Deferred tax - origination and reversal of temporary differences	(20)	(15)
Adjustment recognised for prior periods	(273)	-
Aggregate income tax expense/(benefit)	(234)	538
Deferred tax included in income tax expense/(benefit) comprises:		
Increase in deferred tax assets (note 14)	(20)	(15)
Numerical reconciliation of income tax expense/(benefit) and tax at the statutory rate		
Profit/(loss) before income tax (expense)/benefit	(148)	1,397
Tax at the statutory tax rate of 30%	(44)	419
Tax effect amounts which are not deductible/(taxable) in calculating taxable income:		
Non-deductable expenses	75	38
Amortisation of intangibles	286	81
	317	538
Adjustment recognised for prior periods	(273)	-
Research and development claims	(278)	-
Income tax expense/(benefit)	(234)	538

	Consolidated 2017 $'000	Consolidated 2016 $'000
Amounts credited directly to equity		
Deferred tax assets (note 14)	(72)	-

Note 9. Current assets - trade and other receivables

	Consolidated 2017 $'000	Consolidated 2016 $'000
Trade receivables	10,573	10,661
Less: Provision for impairment of receivables	(456)	(136)
	10,117	10,525
Other receivables	1,329	427
	11,446	10,952

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

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

	Consolidated 2017 $'000	Consolidated 2016 $'000
0 to 3 months overdue	165	86
Over 3 months overdue	291	50
	456	136

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

	Consolidated 2017 $'000	Consolidated 2016 $'000
Opening balance	136	12
Additional provisions recognised	485	126
Receivables written off during the year as uncollectable	(165)	34
Unused amounts reversed	-	(36)
Closing balance	456	136

Past due but not impaired
Customers with balances past due but without provision for impairment of receivables amount to $1,724,000 as at 30 June 2017 ($996,000 as at 30 June 2016).

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

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

	Consolidated 2017 $'000	Consolidated 2016 $'000
0 to 6 months overdue	1,724	996

Note 10. Current assets - other

	Consolidated 2017 $'000	Consolidated 2016 $'000
Prepayments	914	762
Deferred commission expenses	-	33
Security deposits	595	619
Loan to service providers	115	193
	1,624	1,607

Note 11. Current assets - assets classified as held for sale

	Consolidated 2017 $'000	Consolidated 2016 $'000
Hosted unified communications hardware	-	2,022
Hosted unified communications - intangible assets	-	2,063
	-	4,085

The sale of HCS business assets to Telstra was completed on 30 June 2017 and as such all title and risks of the assets have been transferred. As at 30 June 2017, the group has received $3,250,000 from Telstra and all 'held for sale' assets derecognised. The remaining $1,250,000 is classified as trade receivables as at 30 June 2017 and this amount was fully received on 6 July 2017.

Note 12. Non-current assets - property, plant and equipment

	Consolidated 2017 $'000	Consolidated 2016 $'000
Leasehold improvements - at cost	13,903	230
Less: Accumulated depreciation	(12,439)	(158)
	1,464	72
Motor vehicles - at cost	192	78
Less: Accumulated depreciation	(90)	(30)
	102	48
Computer and office equipment - at cost	4,177	2,923
Less: Accumulated depreciation	(1,856)	(1,026)
	2,321	1,897
Hosted unified communications hardware - at cost	116	116
Less: Accumulated depreciation	(89)	(66)
	27	50
	3,914	2,067

Note 12. Non-current assets - property, plant and equipment (continued)

Consolidated	Leasehold improve-ments $'000	Motor vehicles $'000	Computer and office equipment $'000	Hosted unified comm-unications hardware $'000	Total $'000
Balance at 1 July 2015	127	11	1,767	2,186	4,091
Additions	-	52	1,417	422	1,891
Classified as held for sale (note 11)	-	-	(57)	(1,965)	(2,022)
Disposals	-	-	(552)	(5)	(557)
Write off of assets	-	-	(77)	-	(77)
Depreciation expense	(55)	(15)	(601)	(588)	(1,259)
Balance at 30 June 2016	72	48	1,897	50	2,067
Additions	20	60	666	-	746
Additions through business combinations (note 33)	1,723	18	598	-	2,339
Disposals	-	-	(31)	-	(31)
Depreciation expense	(351)	(24)	(809)	(23)	(1,207)
Balance at 30 June 2017	1,464	102	2,321	27	3,914

Property, plant and equipment secured under finance leases
Refer to note 30 for further information on property, plant and equipment secured under finance leases.

Note 13. Non-current assets - intangibles

	Consolidated 2017 $'000	Consolidated 2016 $'000
Goodwill - at cost	14,095	8,780
Patents, trademarks and brands - at cost	577	377
Customer contracts and relationships - at cost	7,627	3,871
Less: Accumulated amortisation	(2,851)	(1,359)
	4,776	2,512
Software and capitalised development - at cost	6,943	4,337
Less: Accumulated amortisation	(3,198)	(1,917)
	3,745	2,420
	23,193	14,089

Note 13. Non-current assets - intangibles (continued)

Consolidated	Goodwill $'000	Patents, trademarks and brands $'000	Customer contracts and relation-ships $'000	Software and capitalised develop-ment $'000	Hosted unified comm-unications software $'000	Total $'000
Balance at 1 July 2015	9,063	377	2,575	3,051	921	15,987
Additions	-	-	689	1,881	-	2,570
Classified as held for sale (note 11)	(283)	-	(38)	(1,045)	(733)	(2,099)
Disposals	-	-	-	(291)	-	(291)
Write off of assets	-	-	-	(87)	-	(87)
Amortisation expense	-	-	(714)	(1,089)	(188)	(1,991)
Balance at 30 June 2016	8,780	377	2,512	2,420	-	14,089
Additions	-	-	1,602	1,598	-	3,200
Additions through business combinations (note 33)	5,315	200	2,155	722	-	8,392
Amortisation expense	-	-	(1,493)	(995)	-	(2,488)
Balance at 30 June 2017	14,095	577	4,776	3,745	-	23,193

Refer to note 4 for detailed information on Restatement of comparatives.

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

	Consolidated 2017 $'000	2016 $'000
Direct	12,224	6,909
Indirect	1,871	1,871
	14,095	8,780

Patents, trademarks and brands have been allocated to the following CGUs:

	Consolidated 2017 $'000	2016 $'000
Direct	435	235
Indirect	142	142
	577	377

The recoverable amounts of the group's indefinite life intangible assets have been determined by a value-in-use calculation using a discounted cash flow model that incorporate the following key assumptions:

Note 13. Non-current assets - intangibles (continued)

Key assumptions used for impairment assessment

The following key assumptions were used in the discounted cash flow model for the 'Direct' CGU:
(a) Cash flows were projected based on actual operating results and the 5 year business plan. Cash flow beyond year 2 was projected at a growth rate of 1% (2016: 2%). A 1% growth rate is considered reasonable based on the increase in the IT services revenue and a static product revenue;
(b) Post-tax discount rate of 13%(2016: 13%);
(c) Overheads were forecast based on current expenditure adjusted for inflationary increases; and
(d) Long term growth rate of 2% (2016: 2%).

The following key assumptions were used in the discounted cash flow model for the 'Indirect' CGU:
(a) Cash flows were projected based on actual operating results and the 5 year business plan. Cash flow beyond year 2 was projected at a growth rate of 4% (2016: 4%). A 4% growth rate is considered reasonable based on the increase in enablement services offered and the introduction of new products to the indirect communication portfolio;
(b) Post-tax discount rate 13% (2016: 13%) ;
(c) Overheads were forecast based on current expenditure adjusted for inflationary increases; and
(d) long term growth rate 2% (2016: 4%).

Sensitivity analysis
As disclosed in note 3, management have made judgements and estimates in respect of impairment testing of goodwill and other indefinite life intangibles. Should these judgements and estimates not occur the resulting carrying amount may decrease.

For all CGUs, any reasonable change in the key assumptions on which the recoverable amount is based would not cause the CGU's carrying amount to exceed its recoverable amount.

Note 14. Non-current assets - deferred tax

	Consolidated 2017 $'000	Consolidated 2016 $'000
Deferred tax asset comprises temporary differences attributable to:		
Amounts recognised in profit or loss:		
Accrued expenses and provisions	1,535	994
Tangible and intangible assets	(1,296)	(757)
	239	237
Amounts recognised in equity:		
Cost of capital raising	262	315
Deferred tax asset	501	552
Movements:		
Opening balance	552	537
Credited to profit or loss (note 8)	20	15
Credited to equity (note 8)	72	-
Additions through business combinations (note 33)	(143)	-
Closing balance	501	552

Refer to note 4 for detailed information on Restatement of comparatives.

Note 15. Non-current assets - other

	Consolidated	
	2017 $'000	2016 $'000
Loan to service providers*	-	40

* Interest is charged at market rates and the loans are repaid over two years.

Note 16. Current liabilities - trade and other payables

	Consolidated	
	2017 $'000	2016 $'000
Trade payables	6,188	6,680
Due to service providers	159	591
Accrued expenses	3,257	2,355
Deferred consideration payable (note 33)	1,074	-
Other payables	620	173
	11,298	9,799

Refer to note 25 for further information on financial instruments.

Note 17. Current liabilities - Borrowings

	Consolidated	
	2017 $'000	2016 $'000
Amex facility	1,351	1,491
Credit card facility	59	37
Vendor loan	2,000	-
Lease liability	3,667	5,369
	7,077	6,897

Refer to note 25 for further information on financial instruments.

Vendor Loan
As part of the Hostworks acquisition, a $2,000,000 vendor loan facility was agreed with the seller and repayable 6 months from the acquisition.

Note 18. Current liabilities - provisions

	Consolidated	
	2017 $'000	2016 $'000
Lease make-good	500	-
Onerous lease	107	-
Pricing provision	-	290
	607	290

Note 18. Current liabilities - provisions (continued)

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

Onerous lease
The provision represents the present value of the estimated costs, net of any sub-lease revenue, that will be incurred until the end of the lease terms where the obligation is expected to exceed the economic benefit to be received.

Pricing provision
The provision represents the estimated costs in relation to fixed Lines services payable to our wholesale provider pending a decision by the Australian Competition and Consumer Commission ('ACCC').

Movements in provisions
Movements in each class of provision during the current financial year, other than employee benefits, are set out below:

Consolidated - 2017	Lease make-good $'000	Onerous lease $'000	Pricing provision $'000
Carrying amount at the start of the year	-	-	290
Additions through business combinations (note 33)	500	188	-
Amounts released	-	-	(290)
Amounts used	-	(81)	-
Carrying amount at the end of the year	500	107	-

Note 19. Non-current liabilities - Borrowings

	Consolidated 2017 $'000	Consolidated 2016 $'000
Bank loans	6,000	2,240
Unamortised borrowing costs	(132)	(51)
Lease liability	646	1,453
	6,514	3,642

Refer to note 25 for further information on financial instruments.

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

	Consolidated 2017 $'000	Consolidated 2016 $'000
Bank loans	6,000	2,240
Lease liability	4,313	6,822
	10,313	9,062

Note 19. Non-current liabilities - Borrowings (continued)

The group has the following debt facilities:

Bank overdraft and loans
The group has the following banking facilities with Commonwealth Bank of Australia ('CBA') which was updated on 23 January 2017 which includes an extension of available facilities:
- Overdraft facility of $1,500,000; and
- Loan facility of $3,000,000 to be used for business acquisitions*.
- A new loan facility of $3,000,000 used for the acquisition of Hostworks^.
- Market rate loan of $1,000,000 for new acquisition subject to approval by CBA.

The bank facilities are guaranteed and secured by the group providing a first ranking charge over all present and subsequently acquired property.

* The business acquisition facility of $3,000,000 is repayable within three years from the date of drawdown, with the first drawdown made on 26 May 2015. Any remaining facility that is undrawn will represent available funds with an indefinite term that is subject to annual review.

^ The acquisition facility of $3,000,000 is repayable three years from the date of funding. The loan was drawn down on the 15 February 2017.

Amex facility
The group has a corporate credit card with American Express ('Amex') for $1,500,000.

Credit card facility
The group has a CBA corporate charge card with a limit of $500,000.

Lease facilities
The group has the following leasing arrangements:
- Equipment leasing facility with Cisco Capital (Australia) Pty Ltd for $2,830,000; and
- Equipment leasing facility with CBA for $7,000,000;

The lease liabilities are effectively secured against the leased assets which are recognised in the statement of financial position and which would revert to the lessor in the event of default.

The lease period generally varies between two to five years which is determined based on the estimated useful life of the leased equipment.

Supplier credit
The group has the following supplier credit facility:
- Facility with GE Commercial Corporation Australia Pty Ltd for $2,750,000.

Note 19. Non-current liabilities - Borrowings (continued)

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

	Consolidated 2017 $'000	Consolidated 2016 $'000
Total facilities		
Bank overdraft	1,500	1,000
Bank loans	6,000	3,000
Amex facility	1,500	1,500
Credit card facility	500	500
Lease facility	9,830	9,830
Supplier credit facility	2,750	2,750
Vendor loan	2,000	-
	24,080	18,580
Used at the reporting date		
Bank overdraft	-	-
Bank loans	6,000	2,240
Amex facility	1,351	1,491
Credit card facility	59	37
Lease facility	4,313	6,822
Supplier credit facility	334	1,023
Vendor loan	2,000	-
	14,057	11,613
Unused at the reporting date		
Bank overdraft	1,500	1,000
Bank loans	-	760
Amex facility	149	9
Credit card facility	441	463
Lease facility	5,517	3,008
Supplier credit facility	2,416	1,727
Vendor loan	-	-
	10,023	6,967

Note 20. Non-current liabilities - provisions

	Consolidated 2017 $'000	Consolidated 2016 $'000
Lease make-good	112	70

Movements in provisions
Movements in each class of provision during the current financial year, other than employee benefits, are set out below:

Consolidated - 2017	Lease make-good $'000
Carrying amount at the start of the year	70
Additional provisions recognised	2
Additions through business combinations (note 33)	40
Carrying amount at the end of the year	112

Note 21. Non-current liabilities - other non-current liabilities

	Consolidated 2017 $'000	Consolidated 2016 $'000
Service provider security deposit	240	330

Note 22. Equity - issued capital

	Consolidated 2017 Shares	2016 Shares	2017 $'000	2016 $'000
Ordinary shares - fully paid	23,706,894	20,070,530	15,354	11,522

Movements in ordinary share capital

Details	Date	Shares	$'000
Balance	1 July 2015	20,070,530	11,522
Balance	30 June 2016	20,070,530	11,522
Issue of shares	2 March 2017	3,636,364	4,000
Share issue transaction costs, net of tax		-	(168)
Balance	30 June 2017	23,706,894	15,354

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 was no on-market buy-back of Inabox Group Limited shares.

Capital risk management
The group's objectives 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 to reduce debt.

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 group is subject to certain financing arrangements covenants and meeting these is given priority in all capital risk management decisions. There have been no events of default on the financing arrangements during the financial year.

The capital risk management policy remains unchanged from the 30 June 2016 Annual Report.

Note 23. Equity - reserves

	Consolidated 2017 $'000	Consolidated 2016 $'000
Capital reserve	(2,366)	(2,366)
Share-based payment reserve	132	37
	(2,234)	(2,329)

Capital reserve
The reserve is used to recognise contributions from, or to, Telcoinabox Pty Limited and its controlled subsidiaries by shareholders.

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.

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

Consolidated	Capital reserve $'000	Share-based payment reserve $'000	Total $'000
Balance at 1 July 2015	(2,366)	74	(2,292)
Share-based payments	-	(37)	(37)
Balance at 30 June 2016	(2,366)	37	(2,329)
Share-based payments	-	95	95
Balance at 30 June 2017	(2,366)	132	(2,234)

Note 24. Equity - dividends

Dividends
Dividends paid during the financial year were as follows:

	Consolidated 2017 $'000	Consolidated 2016 $'000
Final dividend for the year ended 30 June 2016 of 1.7 cents per ordinary share	341	-

Franking credits

	Consolidated 2017 $'000	Consolidated 2016 $'000
Franking credits available for subsequent financial years based on a tax rate of 30%	3,084	2,795

The above amounts represent the balance of the franking account as at the end of the financial year, adjusted for:
- franking credits that will arise from the payment of the amount of the provision for income tax at the reporting date
- franking debits that will arise from the payment of dividends recognised as a liability at the reporting date
- franking credits that will arise from the receipt of dividends recognised as receivables at the reporting date

Note 25. Financial instruments

Financial risk management objectives
The group's activities expose it to a variety of financial risks: market 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.

The Board have overall responsibility for the establishment and oversight of the risk management framework. The Audit and Risk Committee, established by the Board, is responsible for managing risk and oversees how management monitors compliance with the group’s risk management policies and procedures and reviews the adequacy of the risk management framework in relation to the risks faced by the group. The Audit and Risk Committee reports directly to the Board on its activities.

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.

Interest rate risk
The group's main interest rate risk arises from its borrowings and cash at bank balances.

As at the reporting date, the group had the following variable rate borrowings and cash balances:

	2017		2016	
Consolidated	Weighted average interest rate %	Balance $'000	Weighted average interest rate %	Balance $'000
Bank loans	5.96%	6,000	6.13%	2,240
Cash at bank	0.42%	(4,998)	1.05%	(2,849)
Net exposure to cash flow interest rate risk		1,002		(609)

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 (2016:50) basis points would have an adverse/favourable effect on profit before tax of $5,000 (2016: adverse/favourable $3,000) per annum based on the net balance.

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.

The group trades only with recognised, creditworthy third parties, and as such collateral is not requested nor is it the group's policy to securitise its trade and other receivables.

It is the group's policy that all customers who wish to trade on credit terms are subject to credit verification procedures including an assessment of their independent credit rating, financial position, past experience and industry reputation.

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

Note 25. Financial instruments (continued)

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

The group manages liquidity risk by maintaining adequate cash reserves and available borrowing facilities 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 2017 $'000	Consolidated 2016 $'000
Bank overdraft	1,500	1,000
Bank loans	-	760
Amex facility	149	9
Credit card facility	441	463
Lease facility	5,517	3,008
Supplier credit facility	2,416	1,727
	10,023	6,967

The bank overdraft facilities may be drawn at any time and may be terminated by the bank without notice. Subject to the continuance of satisfactory credit ratings, the bank loan facilities may be drawn at any time and have a fixed maturity of three years from the draw down date.

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 - 2017	Weighted average interest rate %	1 year or less $'000	Between 1 and 2 years $'000	Between 2 and 5 years $'000	Over 5 years $'000	Remaining contractual maturities $'000
Non-derivatives						
Non-interest bearing						
Trade payables	-	6,188	-	-	-	6,188
Due to service providers	-	159	240	-	-	399
Deferred consideration payable	-	1,074	-	-	-	1,074
Other payables	-	620	-	-	-	620
Amex facility	-	1,351	-	-	-	1,351
Credit card facility	-	59	-	-	-	59
Interest-bearing - variable						
Bank loans	5.96%	358	3,341	3,114	-	6,813
Interest-bearing - fixed rate						
Lease liability	7.36%	3,917	398	272	-	4,587
Vendor loan	6.00%	2,060	-	-	-	2,060
Total non-derivatives		15,786	3,979	3,386	-	23,151

Note 25. Financial instruments (continued)

Consolidated - 2016	Weighted average interest rate %	1 year or less $'000	Between 1 and 2 years $'000	Between 2 and 5 years $'000	Over 5 years $'000	Remaining contractual maturities $'000
Non-derivatives						
Non-interest bearing						
Trade payables	-	6,680	-	-	-	6,680
Due to service providers	-	591	330	-	-	921
Other payables	-	173	-	-	-	173
Amex facility	-	1,491	-	-	-	1,491
Credit card facility	-	37	-	-	-	37
Interest-bearing - variable						
Bank loans	6.13%	137	2,364	-	-	2,501
Interest-bearing - fixed rate						
Lease liability	7.59%	6,028	1,024	446	-	7,498
Total non-derivatives		15,137	3,718	446	-	19,301

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

Note 26. Fair value measurement

The carrying amounts of trade and other receivables, assets held for sale and other payables approximate their fair value due to their short-term nature.

The carrying amount of the bank loans approximates their fair value.

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. The fair value of the lease liability is calculated to be $4,494,000 as at 30 June 2017 (2016: $7,344,000).

Note 27. 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 2017 $	Consolidated 2016 $
Short-term employee benefits	973,317	1,789,517
Post-employment benefits	52,532	129,302
Long-term benefits	-	51,347
Termination benefits	-	61,044
Share-based payments	59,799	-
	1,085,648	2,031,210

Note 28. Remuneration of auditors

During the financial year the following fees were paid or payable for services provided by Ernst & Young, the auditor of the company:

	Consolidated	
	2017 $	2016 $
Audit services - Ernst & Young		
Audit or review of the financial statements	284,000	269,000
Other services - Ernst & Young		
Tax compliance and advisory	22,000	15,000
Corporate advisory services	17,000	-
Other assurance services	-	10,000
	39,000	25,000
	323,000	294,000

Note 29. Contingent assets

The group has contingent assets in respect of past acquisitions which have yet to be concluded with former owners which may result in amounts receivable to the group. It is not possible at this stage to predict the outcome of these discussions or the basis for determining the amounts receivable, if any. The group recognises assets when it is more likely than not that an inflow of economic benefits will occur and the value can be reliably measured.

Note 30. Commitments

	Consolidated	
	2017 $'000	2016 $'000
Lease commitments - operating		
Committed at the reporting date but not recognised as liabilities, payable:		
Within one year	2,746	1,319
One to five years	1,638	2,604
More than five years	-	179
	4,384	4,102
Lease commitments - finance		
Committed at the reporting date and recognised as liabilities, payable:		
Within one year	3,917	6,028
One to five years	670	1,470
Total commitment	4,587	7,498
Less: Future finance charges	(274)	(676)
Net commitment recognised as liabilities	4,313	6,822
Representing:		
Lease liability - current (note 17)	3,667	5,369
Lease liability - non-current (note 19)	646	1,453
	4,313	6,822

Note 30. Commitments (continued)

Operating lease commitments includes contracted amounts for commercial leases and plant and equipment under non-cancellable operating leases expiring within one to six years with, in some cases, options to extend. The leases have various escalation clauses. On renewal, the terms of the leases are renegotiated.

Finance lease commitments includes contracted amounts for various computer equipment, office equipment and motor vehicles with a written down value of $3,837,000 (2016: $3,800,000 secured under finance leases expiring within one to five years. Under the terms of the leases, the group has the option to acquire the leased assets for predetermined residual values on the expiry of the leases.

Note 31. Related party transactions

Parent entity
Inabox Group Limited is the parent entity.

Subsidiaries
Interests in subsidiaries are set out in note 34.

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

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

Receivable from and payable to related parties
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 32. Parent entity information

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

Statement of profit or loss and other comprehensive income

	Parent	
	2017 $'000	2016 $'000
Profit/(loss) after income tax	848	(215)
Total comprehensive income	848	(215)

Note 32. Parent entity information (continued)

Statement of financial position

	Parent 2017 $'000	Parent 2016 $'000
Total current assets	4,821	2,374
Total assets	24,529	13,306
Total current liabilities	3,157	47
Total liabilities	9,025	2,236
Equity		
Issued capital	15,354	11,522
Share-based payment reserve	132	37
Retained profits/(accumulated losses)	18	(489)
Total equity	15,504	11,070

Guarantees entered into by the parent entity in relation to the debts of its subsidiaries
Except for security provided for borrowing facilities as disclosed in note 19 and the deed of cross guarantee disclosed in note 35, the parent entity had no guarantees in relation to the debts of its subsidiaries as at 30 June 2017 and 30 June 2016.

Contingent liabilities
The parent entity had no contingent liabilities as at 30 June 2017 and 30 June 2016.

Capital commitments - Property, plant and equipment
The parent entity had no capital commitments for property, plant and equipment at as 30 June 2017 and 30 June 2016.

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; and
- 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 33. Business combinations

Hostworks Group Pty Ltd ('Hostworks')
On 15 February 2017, the group acquired 100% of the shares in Hostworks Group Pty Ltd for the total consideration of $7,616,000. The goodwill of $4,408,000 represents the value of expected synergies and growth arising from the acquisition.

Hostworks provides managed cloud hosting of high-availability digital platforms, co-location and digital media solutions for a range of blue-chip clients.

The acquired business contributed revenues of $6,344,000 and a loss after tax of $925,000 to the group for the period from 15 February 2017 to 30 June 2017. If the acquisition had occurred on 1 July 2016, the contributions for the period 1 July 2016 to 30 June 2017 would have been revenues of $18,258,000 and profit after tax of $3,166,000.

Note 33. Business combinations (continued)

Logic Communications Pty Ltd ('Logic Communications')
On 10 March 2017, the group acquired 100% of the shares in Logic Communications Pty Ltd and Modular IT Pty Ltd for the total consideration of $1,193,000. The goodwill of $907,000 represents the value of expected synergies and growth arising from the acquisition.

Logic Communications is a Perth-based managed IT solutions provider that provides its 50+ small and medium business clients with individualised IT and technology solutions. The acquisition is expected to leverage the group's track record of realising value from the effective integration of acquired businesses and the implementation of successful growth strategies.

The acquired business contributed revenues of $1,073,000 and a profit after tax of $108,000 to the group for the period from 10 March 2017 to 30 June 2017. If the acquisition had occurred on 1 July 2016, the contributions for the period 1 July 2016 to 30 June 2017 would have been revenues of $4,246,000 and profit after tax of $266,000.

The values identified in relation to the acquisition of Hostworks and Logic Communications are provisional while the group seeks to obtain information necessary to value customer relationships and brands pertaining to both entities purchased. The group is also in discussions with the former owners of both entities to agree the basis for purchase price adjustments in relation to working capital adjustments and other valuation adjustments provided under the respective sale agreements which may impact the final considerations paid.

Note 33. Business combinations (continued)

Details of the acquisition are as follows:

	Hostworks* Fair value $'000	Logic Communi-cations Fair value $'000	Total Fair value $'000
Cash and cash equivalents	1	100	101
Trade receivables	1,600	115	1,715
Prepayments	196	14	210
Other current assets	-	88	88
Property, plant and equipment	2,160	179	2,339
Other Intangible assets	2,377	700	3,077
Trade payables	(554)	(173)	(727)
Other payables	(249)	(81)	(330)
Provision for income tax	-	(94)	(94)
Deferred tax liability	(1)	(142)	(143)
Employee benefits	(1,633)	(255)	(1,888)
Lease make good provision	(500)	(40)	(540)
Lease liability	-	(82)	(82)
Other liabilities	(189)	(43)	(232)
Net assets acquired	3,208	286	3,494
Goodwill	4,408	907	5,315
Acquisition-date fair value of the total consideration transferred	7,616	1,193	8,809
Representing:			
Cash paid or payable to vendor	5,000	735	5,735
Deferred consideration	616	458	1,074
Vendor loan payable	2,000	-	2,000
	7,616	1,193	8,809
Acquisition costs expensed to profit or loss	190	10	200
Cash used to acquire business, net of cash acquired:			
Cash paid to vendor	5,000	735	5,735
Less: cash and cash equivalents	(1)	(100)	(101)
Net cash used	4,999	635	5,634

*In addition to the consideration transferred, the group entered into an agreement with the former owners to reimburse them for certain redundancy costs to the value of $313,000. The related liability is included in trade and other payables as at 30 June 2017 and has been expensed through the statement of profit or loss and other comprehensive income

Note 34. 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 2017 %	Ownership interest 2016 %
Telcoinabox Operations Pty Limited	Australia	100%	100%
Inabox Investments Pty Limited	Australia	100%	100%
iVox Pty Ltd	Australia	100%	100%
Anittel Pty Ltd	Australia	100%	100%
IGL Mobile Pty Ltd	Australia	100%	100%
Mobile Services Solutions Pty Ltd	Australia	100%	100%
Neural Networks Technology Services Pty Ltd	Australia	100%	100%
Anittel Communications Pty Ltd	Australia	100%	100%
Hostworks Group Pty Ltd	Australia	100%	-
Hostworks Pty Ltd	Australia	100%	-
Logic Communications Pty Ltd	Australia	100%	-
Modular IT Pty Ltd	Australia	100%	-

Note 35. Deed of cross guarantee

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

Inabox Group Limited
Telcoinabox Operations Pty Limited
Inabox Investments Pty Limited
Anittel Pty Ltd
iVox Pty Ltd*
Mobile Services Solutions Pty Ltd*
Hostworks Group Pty Ltd*
Hostworks Pty Ltd*

*denotes entities added on 12 April 2017

By entering into the deed, the above entities have been relieved from the requirement to prepare financial statements and directors' report under Corporations Instrument CI 2016/785 issued by the Australian Securities and Investments Commission ('ASIC').

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

Note 35. Deed of cross guarantee (continued)

Statement of profit or loss and other comprehensive income	2017 $'000	2016 $'000
Revenue	88,151	83,432
Other income	507	174
Network expenses and related costs	(31,924)	(33,874)
Equipment cost and freight	(15,078)	(16,900)
Employee benefits expense	(29,111)	(23,554)
Depreciation and amortisation expense	(3,486)	(2,909)
Other expenses	(8,367)	(6,173)
Finance costs	(998)	(664)
Loss before income tax (expense)/benefit	(306)	(468)
Income tax (expense)/benefit	(5)	175
Loss after income tax (expense)/benefit	(311)	(293)
Other comprehensive income for the year, net of tax	-	-
Total comprehensive income for the year	(311)	(293)

Equity - retained profits	2017 $'000	2016 $'000
Accumulated losses at the beginning of the financial year	(1,769)	(1,476)
Loss after income tax (expense)/benefit	(311)	(293)
Dividends paid	(341)	-
Transfer from entities added to the closed group	3,369	-
Retained profits/(accumulated losses) at the end of the financial year	948	(1,769)

Note 35. Deed of cross guarantee (continued)

Statement of financial position	2017 $'000	2016 $'000
Current assets		
Cash and cash equivalents	5,016	2,281
Trade and other receivables	11,246	11,749
Inventories	49	76
Income tax receivable	76	-
Other	1,594	1,468
Assets classified as held for sale	-	4,085
	17,981	19,659
Non-current assets		
Other financial assets	1,543	3,458
Property, plant and equipment	3,699	1,405
Intangibles	21,496	11,001
Deferred tax	707	972
Other	-	40
	27,445	16,876
Total assets	45,426	36,535
Current liabilities		
Trade and other payables	11,709	14,080
Borrowings	7,008	7,308
Income tax	-	277
Employee benefits	2,986	2,115
Provisions	607	290
Deferred revenue	1,392	1,406
	23,702	25,476
Non-current liabilities		
Borrowings	6,473	2,832
Employee benefits	871	464
Provisions	72	70
Other non-current liabilities	240	269
	7,656	3,635
Total liabilities	31,358	29,111
Net assets	14,068	7,424
Equity		
Issued capital	15,354	11,522
Reserves	(2,234)	(2,329)
Retained profits/(accumulated losses)	948	(1,769)
Total equity	14,068	7,424

Note 36. Reconciliation of profit after income tax to net cash from operating activities

	Consolidated 2017 $'000	Consolidated 2016 $'000
Profit after income tax (expense)/benefit for the year	86	859
Adjustments for:		
Depreciation and amortisation	3,695	3,250
Impairment of goodwill	-	36
Write off of non-current assets	31	164
Share-based payments	95	(37)
Finance cost - non-cash	57	-
Change in operating assets and liabilities:		
Decrease/(increase) in trade and other receivables	2,056	(2,321)
Decrease in inventories	15	2
Increase in income tax refund due	(128)	-
Increase in deferred tax assets	(20)	(15)
Decrease/(increase) in prepayments	58	(414)
Decrease in other operating assets	239	1,129
Increase/(decrease) in trade and other payables	442	(350)
Decrease in provision for income tax	(391)	(663)
Increase/(decrease) in employee benefits	(592)	99
Increase/(decrease) in other provisions	(181)	85
Decrease in other operating liabilities	(1,306)	(1,205)
Net cash from operating activities	4,156	619

Note 37. Earnings per share

	Consolidated 2017 $'000	Consolidated 2016 $'000
Profit after income tax attributable to the owners of Inabox Group Limited	86	859
	Number	**Number**
Weighted average number of ordinary shares used in calculating basic earnings per share	21,276,010	20,070,530
Adjustments for calculation of diluted earnings per share:		
Options over ordinary shares	166,915	116,807
Weighted average number of ordinary shares used in calculating diluted earnings per share	21,442,925	20,187,337
	Cents	**Cents**
Basic earnings per share	0.40	4.28
Diluted earnings per share	0.40	4.26

Note 38. Share-based payments

A share option plan was established by the group and approved by shareholders at a general meeting, whereby the group may, at the discretion of the Nomination and Remuneration Committee, grant options over ordinary shares in the company to certain key management personnel of the group. The options are issued for nil consideration and are granted in accordance with performance guidelines established by the Nomination and Remuneration Committee.

Note 38. Share-based payments (continued)

Set out below are summaries of options granted under the plan:

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
10/01/2013	30/11/2018	$0.96	1,041,666	-	-	-	1,041,666
24/05/2013	23/05/2018	$1.20	166,666	-	-	-	166,666
24/11/2016	24/11/2021	$1.18	-	230,769	-	-	230,769
			1,208,332	230,769	-	-	1,439,101
Weighted average exercise price			$0.99	$1.18	$0.00	$0.00	$1.02

2016

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
10/01/2013	30/11/2018	$0.96	1,041,666	-	-	-	1,041,666
24/05/2013	23/05/2018	$1.20	333,332	-	-	(166,666)	166,666
			1,374,998	-	-	(166,666)	1,208,332
Weighted average exercise price			$1.02	$0.00	$0.00	$1.20	$0.99

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

Grant date	Expiry date	2017 Number	2016 Number
10/01/2013	30/11/2018	347,222	347,222
24/05/2013	23/05/2018	166,666	166,666
		513,888	513,888

The weighted average share price during the financial year was $1.14 (2016: $1.08).

The weighted average remaining contractual life of options outstanding at the end of the financial year was 1.8 years (2016: 2.3 years).

Performance rights
On 1 July 2016, performance rights were awarded to certain key management personnel and senior executives of the group. Awards are subject to either of two measures over a 3 year performance period, total shareholder return (TSR) and earnings per share (EPS) which are equally weighted. 100% of TSR rights vest when a TSR at the 75th percentile of the S&P/ASX 300 index is achieved. No rights vest if TSR over the performance period is below the 50th percentile and pro rata vesting occurs between the 50th and 75th percentile. 100% of the EPS rights vest when a compound EPS growth of 20% per annum is achieved. No rights vest if compound EPS growth is below 10% per annum. Pro rata vesting occurs between EPS growth of 10% and 20% per annum. The performance measures are tested at the end of the 3 year period. Participants are not entitled to dividends on unvested rights.

Note 38. Share-based payments (continued)

Set out below are summaries of performance rights granted under the plan:

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
01/07/2016	N/A	$0.00	-	257,567	-	-	257,567
			-	257,567	-	-	257,567

The weighted average remaining contractual life of performance rights outstanding at the end of the financial year was 2 years.

For the options granted during the current financial year, the Binomial 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
24/11/2016	24/11/2021	$1.20	$1.18	42.00%	2.00%	1.99%	$0.401

For the performance rights granted during the current financial year, the Monte-Carlo valuation model inputs used to determine the fair value of TSR tranche 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
01/07/2016	N/A	$0.99	$0.00	43.00%	2.00%	1.52%	$0.626

Options issued under EPS tranche: Key assumptions are the same as the TSR Tranche disclosed above, fair value at grant date amounted to $0.923.

Note 39. Events after the reporting period

No matter or circumstance has arisen since 30 June 2017 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.

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 2017 and of its performance for the financial year ended on that date;

- there are reasonable grounds to believe that the company will be able to pay its debts as and when they become due and payable; and

- at the date of this declaration, there are reasonable grounds to believe that the members of the Extended Closed Group will be able to meet any obligations or liabilities to which they are, or may become, subject by virtue of the deed of cross guarantee described in note 35 to the financial statements.

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

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

On behalf of the directors

David Rampa	Damian Kay
Chairman	Managing Director and Chief Executive Officer

28 August 2017
Sydney

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

Report on the Audit of the Financial Report

Opinion

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

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

a) giving a true and fair view of the consolidated financial position of the Group as at 30 June 2017 and of its consolidated financial performance for the year ended on that date; and

b) complying with Australian Accounting Standards and the *Corporations Regulations 2001*.

Basis for Opinion

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

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

Key Audit Matters

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

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

Building a better working world

Capitalisation and valuation of development costs

Why significant	How our audit addressed the matter
As disclosed in notes 2 and 13 to the financial report, the Group capitalises development costs upon meeting the criteria set out in Australian Accounting Standard AASB 138 *Intangible Assets*. Due to the judgements involved in determining which costs may be capitalised both at inception and throughout the life of the project, and subsequent judgments in relation to the valuation of these capitalised costs, this was considered to be a key audit matter.	Our audit procedures included the following: • Assessed whether the model used to track and capitalise development costs was mathematically accurate • For a sample of capitalised costs, we obtained underlying evidence including employment contracts, payroll reports and invoices from external suppliers to assess the nature and eligibility of development costs for capitalisation as an intangible asset under Australian Accounting Standard AASB 138 *Intangible Assets* • Assessed whether development projects were still expected to deliver sufficient positive economic benefits to the business to support their carrying value • Assessed whether the useful life of development costs remain appropriate • Considered the adequacy of the disclosures contained in the financial report in notes 2 and 13.

Business combinations

Why significant	How our audit addressed the matter
During the year the Group acquired the Hostworks business and the Logic Communications business. Both acquisitions have been disclosed in note 33 to the financial report and were significant to the Group. AASB 3 *Business Combinations* requires the Group to determine the fair value of considerations transferred and the identifiable assets and liabilities acquired as part of the acquisition. The valuation of certain of these assets involves the use of estimates regarding future cash flows. As disclosed in note 33, a provisional purchase price allocation exercise has been performed by the Group, in accordance with AASB3, assisted by an external valuation expert. Due to the judgements involved in determining the provisional purchase price allocation, this was considered to be a key audit matter.	Our audit procedures included the following: • Read the purchase agreements related to each transaction • Applied our knowledge of the mobile and wider telecommunications industry to assess the completeness of the provisional identification of the assets and liabilities acquired and assess the appropriateness of the assets' useful economic lives • Obtained and read the external valuation reports underlying the Group's provisional valuation of intangible assets identified • Considered the adequacy of the financial report disclosures contained in note 33.

Information Other than the Financial Report and Auditor's Report Thereon

The directors are responsible for the other information. The other information comprises the information included in the Group's 2017 Annual Report other than the financial report and our auditor's report thereon. We obtained the Directors' Report that is to be included in the Annual Report, prior to the date of this auditor's report, and we expect to obtain the remaining sections of the Annual Report after the date of this auditor's report.

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

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

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

Responsibilities of the Directors for the Financial Report

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

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

Auditor's Responsibilities for the Audit of the Financial Report

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

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

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

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.

- Conclude on the appropriateness of the directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial report or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the financial report, including the disclosures, and whether the financial report represents the underlying transactions and events in a manner that achieves fair presentation.

- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the financial report. We are responsible for the direction, supervision and performance of the Group audit. We remain solely responsible for our audit opinion.

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

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

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

Report on the Audit of the Remuneration Report

Opinion on the Remuneration Report

We have audited the Remuneration Report included in pages 9 to 15 of the directors' report for the year ended 30 June 2017.

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

Responsibilities

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

Ernst & Young

Ernst & Young

Julian M. O'Brien
Partner
Sydney
28 August 2017

The shareholder information set out below was applicable as at 1 August 2017.

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/ rights over ordinary shares
1 to 1,000	160	-
1,001 to 5,000	194	-
5,001 to 10,000	41	-
10,001 to 100,000	88	10
100,001 and over	20	1
	503	11
Holding less than a marketable parcel	-	-

Equity security holders

Twenty largest quoted equity security holders

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

	Ordinary shares	
	Number held	% of total shares issued
NATIONAL NOMINEES LIMITED	4,132,437	17.43
DIUT NOMINEES PTY LTD (DUNCAN INVESTMENTS UNIT A/C)	2,651,260	11.18
KIUT NOMINEES PTY LTD (KAY INVESTMENTS UNIT A/C)	2,651,260	11.18
GIUT NOMINEES PTY LTD (GOULD INVESTMENTS UNIT A/C)	2,441,253	10.30
MR PETER KAZACOS & MS VICKI KAZACOS	2,117,641	8.93
M2 GROUP LTD	1,666,667	7.03
CITICORP NOMINEES PTY LIMITED	684,716	2.89
ORPHANIDES INVESTMENTS PTY LTD (ORPHANIDES FAMILY SUPER A/C)	619,665	2.61
MRS AMANDA ORPHANIDES	499,211	2.11
MR MICHAEL JOHN CLARKE	265,233	1.12
MAST FINANCIAL PTY LTD (A TO Z INVESTMENT A/C)	256,750	1.08
MR KIM BEE TAN & MRS VERNA SUAT WAH TAN (PERFECT PAIR SUPER FUND A/C)	218,857	0.92
BYDAND CAPITAL PTY LTD	200,000	0.84
ROUND ETERNAL INVESTMENTS PTY LTD (VISION SPLENDID A/C)	200,000	0.84
HSBC CUSTODY NOMINEES (AUSTRALIA) LIMITED	194,600	0.82
BNP PARIBAS NOMINEES PTY LTD (IB AU NOMS RETAILCLIENT DRP)	188,407	0.79
CORFE ASSOCIATES PTY LTD (CORFE ASSOCS SUPER FUND A/C)	164,637	0.69
THE IRISH BUFFETT PTY LTD	159,359	0.67
COLESROW PTY LTD (COLESROW A/C)	108,700	0.46
MR NICHOLAS DERMOTT MC DONALD	102,000	0.43
	19,522,653	82.32

Unquoted equity securities

	Number on issue	Number of holders
Options over ordinary shares	1,439,101	6
Performance rights over ordinary shares	613,546	7

Substantial holders

Substantial holders in the company are set out below:

	Ordinary shares	
	Number held	% of total shares issued
NATIONAL NOMINEES LIMITED	4,132,437	17.43
DIUT NOMINEES PTY LTD (DUNCAN INVESTMENTS UNIT A/C)	2,651,260	11.18
KIUT NOMINEES PTY LTD (KAY INVESTMENTS UNIT A/C)	2,651,260	11.18
GIUT NOMINEES PTY LTD (GOULD INVESTMENTS UNIT A/C)	2,441,253	10.30
MR PETER KAZACOS & MS VICKI KAZACOS	2,117,641	8.93
M2 GROUP LTD	1,666,667	7.03

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.

Directors	David Rampa - Independent Chairman and Non-Executive Director Damian Kay - Managing Director and Chief Executive Officer Garry Wayling - Independent Non-Executive Director Tom Stianos - Independent Non-Executive Director
Company secretary	Angus Fotheringham
Registered office	Level 10, 9 Hunter Street Sydney NSW 2000 Tel: 1300 7 TELCO
Principal place of business	Level 10, 9 Hunter Street Sydney NSW 2000 Tel: 1300 7 TELCO
Share register	Boardroom Pty Limited Level 12, 225 George Street Sydney NSW 2000 Tel: (02) 9290 9600 enquiries@boardroomlimited.com.au
Auditor	Ernst & Young 200 George Street Sydney NSW 2000
Solicitors	Addisons Level 12, 60 Carrington Street Sydney NSW 2000
Stock exchange listing	Inabox Group Limited shares are listed on the Australian Securities Exchange (ASX code: IAB)
Website	www.inaboxgroup.com.au
Corporate Governance Statement	The corporate governance statement which is approved at the same time as the Annual Report can be found at http://inaboxgroup.com.au/investor-centre/corporate-governance/