inabox GROUP

Financial Report 2018

Inabox Group Limited

ABN 32 161 873 187

Annual Report - 30 June 2018

Inabox Group Limited
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30 June 2018

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Inabox Group Limited
Directors' report
30 June 2018

The directors present their report, together with the financial statements, on the consolidated entity (referred to hereafter as the 'group') consisting of 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 2018.

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

During the year ending 30 June 2018, the Inabox Group Limited provided managed IT, cloud and communication services to SME's across Australia either via channel partners or directly to SME customers throughout the period to 30 June 2018. Subsequent to year end on 3 August 2018, the group disposed of its managed IT and cloud businesses through the sale of the subsidiaries of Hostworks Pty Ltd, Anittel Pty Ltd and Logic Communications Pty Ltd. The group continues to provide communication services to SMEs and enables national retail brands to add telecommunication services to their consumer product offerings through its Indirect and Enablement segments. These segments have continued to grow during the year and the group is well positioned to maximise the profitable growth from these business lines.

Review of operations

The loss for the group after providing for income tax amounted to $13,666,000 (30 June 2017: profit of $86,000).

The following table summarises key reconciling items between underlying EBITDA (earnings before interest, tax, depreciation and amortisation) and statutory profit after tax:

	Consolidated	
	2018 $'000	2017 $'000
Revenue	101,122	90,105
Other income	68	508
Network expenses and related costs	(40,538)	(32,896)
Equipment cost and freight	(13,305)	(15,129)
Employee benefits expense	(32,568)	(29,458)
Other expenses	(9,643)	(8,486)
Less: interest revenue	(26)	(18)
Underlying EBITDA*	5,110	4,626
Depreciation and amortisation	(4,720)	(3,695)
Share based payments	(15)	(95)
Non recurring impairment expenses	(12,558)	-
Non recurring redundancy cost expenses	(438)	-
Expenses relating to acquisitions and divestment	(474)	-
Other non recurring item	75	-
Finance costs	(736)	(1,002)
Interest revenue	26	18
Loss on disposal of assets	(146)	-
Loss before income tax benefit	(13,876)	(148)
Income tax benefit	210	234
Loss/(profit) after income tax	(13,666)	86

* EBITDA and underlying EBITDA is a financial measure which is not prescribed by Australian Accounting Standards (‘AAS’) and represents the profit under AAS which has been adjusted to eliminate the effects of tax, depreciation and amortisation, restructure and impairment expenses.

In November 2017 the company provided a trading update to the market advising that the FY18 outlook would be impacted by the Hostworks business performing below expectations. Hostworks had been negatively impacted by a small number of enterprise clients rationalising their services. Consequently, the group announced a series of initiatives designed to improve profitability with centralisation of the engineering staff and rationalisation of call centre support functions. These changes reduced ongoing operating costs offset in FY18 by one off redundancy costs.

Following these changes the directors and management commenced a further strategic review of all operations to identify options to improve value for shareholders given the market value of the company was not recovering. The Board with advice from advisors formed a view that one option was to commence a sale process of one or more of the group's business lines to unlock more value for shareholders. Subsequently on 3 August 2018 the group took the decision to dispose of the Direct business consisting of the subsidiaries, Hostworks Pty Ltd, Anittel Pty Ltd and Logic Communications Pty Ltd. The group has used the sale proceeds to reduce its debt. Non-cash goodwill impairment loss of $11,216,000 has been recognised in the 30 June 2018 financial year. The sale of the Direct business will allow the group to fully focus on maximising value from its growing and profitable Indirect telecommunications and Enablement businesses.

During the year, the group purchased Symmetry Networks. The purchase was completed on 3 November 2017 and the results of the group include the trading results from that date.

Revenue for the year ended 30 June 2018 has risen to $101,122,000 (30 June 2017: $90,105,000). The key changes to revenue are outlined within the overview of business segments

Overview of Business Segments
The group operates in 3 segments, being Direct, Indirect and Enablement. The Direct segment includes the direct supply of telecommunications products and services, and managed information technology services and cloud hosting services. The group utilised three brands within this segment, Anittel, Anittel Communications and Hostworks. The Indirect segment operates under its brands Telcoinabox, iVox, Neural Networks and Symmetry 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 the revenue for the Direct segment during the year. Revenue grew to $48,174,000 (30 June 2017: $42,671,000). The increase was primarily driven by the purchase of Hostworks Pty Ltd and Logic Communications Pty Ltd with additional growth through the cross sell of telecommunication services. This has been partially offset by a reduction in the sale of hardware products and a reduction in revenue following the sale in the prior year of the HCS business which was migrated to the new provider.

The net contribution has declined to $8,701,000 (30 June 2017: $8,805,000) due to the sale of the HCS business which contributed $398,000 during the year (30 June 2017: $3,159,000). This was offset by the additional contribution from the 2017 Hostworks and Logic acquisitions.

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. In 2018 the group increased the number of contracted RSPs and the average revenue per RSP. The revenue has increased to $45,049,000 (30 June 2017 :$42,514,000). Growth was driven from migrating established RSPs from existing service providers to the group. Given the migrations occurred part way through the year, the period to June 2018 reflects only a partial year of this growth hence further growth is expected in future periods.

Enablement
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 2018, the group experienced an increase in revenue in this segment to $7,873,000 (30 June 2017: $4,902,000) due to an uplift in software development income and hardware revenue following the announcement that the group will provide white label services for Telstra Wholesale. In addition, revenue also increased in relation to development and services for existing clients. Hardware revenue generates a lower margin than the other revenues in this segment which marginally reduced the overall percentage margin within the segment.

Dividends
Dividends paid during the financial year were as follows:

	Consolidated	
	2018 $'000	2017 $'000
Final dividend for the year ended 30 June 2016 of 1.7 cents per ordinary share	-	341

Significant changes in the state of affairs
On 3 November 2017, the group acquired 100% of the shares in Symmetry Networks Pty Ltd for the total consideration of $600,000.

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
On 3 August 2018, the group disposed of its Direct business operations to 5G Networks Limited for a total consideration of $5,700,000. After adjusting for working capital and debt like items, the net cash consideration receivable from sale is $2,000,000. $1,700,000 has been received to date, the deferred amount of $300,000 is now due and both amounts will be applied to the repayment of the group's debt facilities. 5G Networks will also assume $775,000 of leases relating to the Direct business and $732,000 of bank guarantee facilities as part of the transaction. As a result of the sale, the subsidiaries sold have also been withdrawn from the deed of cross guarantee and have also been removed from the Inabox tax consolidated group from the date of sale. The sale is not expected to result in a gain or loss on sale. The earnings before interest, tax, depreciation and amortisation were marginal for Direct business for the year to 30 June 2018.

The impairment of assets resulted in a technical breach of bank covenants which led to the bank loans of $7,000,000 being classified as a current liability at 30 June 2018. Subsequent to the year end, the bank waived its rights in relation to the breach. In addition, a revised letter of offer was received on 25 September 2018 which confirmed monthly repayments of $150,000 will commence in January 2019, in line with the previous arrangement. No further breaches are forecast.

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

Likely developments and expected results of operations
With the Direct Business now sold, the group is focused on capitalising on its market leadership position in Enablement and continuing to grow its Indirect business. The recent sale means the group is now a much leaner, lower cost and more profitable business, with fewer staff, offices and overheads. The impairment also allows the group to report lower depreciation and amortisation costs in the future.

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 ordinary shares
Interests in options:	76,923 options over ordinary shares

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:	2,764,341 ordinary shares
Interests in options:	None
Interests in rights:	159,025 performance rights over ordinary shares

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) appointed on 7 February 2014
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:	77,770 ordinary shares
Interests in options:	76,923 options over ordinary shares

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. He is currently Independent Chairman of Empired Ltd and Independent Director and Chair of the Remuneration Committee of Gale Pacific Limited.
Other current directorships:	Non-Executive Chairman of Empired Ltd (ASX: EPD) appointed on 1 July 2018; Non-Executive director of Gale Pacific Limited (ASX: GAP) appointed on 17 October 2017.
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:	60,000 ordinary shares
Interests in options:	76,923 options over ordinary shares

'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
Lisa Dadswell was appointed as the company secretary on 10 November 2017. Lisa is an employee of Boardroom Pty Ltd, a corporate secretarial services provider, and is appointed as Company Secretary of a number of ASX-listed and unlisted public companies. She is an Associate of the Institute of Chartered Secretaries and Administrators.

The previous company secretary Angus Fotheringham resigned on 10 November 2017.

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

	Full Board		Audit and Risk Committee		Nomination and Remuneration Committee	
	Attended	Held	Attended	Held	Attended	Held
David Rampa	12	12	3	3	1	1
Damian Kay	11	12	-	-	1	1
Garry Wayling	12	12	3	3	1	1
Tom Stianos	11	12	3	3	1	1

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.

Due to the Company pursuing a number of strategic options for the 2019 financial year, the NRC has determined to offer key managers a retention bonus in lieu of any STI. The bonus is payable at the boards discretion but is based on the relevant staff continuing to run the business successfully, deliver on re-forecast targets, retain key staff and work diligently to achieve a sale of all or part of the business.

The group awarded 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.

Performance rights awarded 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 2018, the group did not engage any remuneration consultants.

Voting and comments made at the company's 2017 Annual General Meeting ('AGM')
At the 2017 AGM, shareholders voted to approve the adoption of the remuneration report for the year ended 30 June 2017. The company did not receive any specific feedback at the AGM regarding its remuneration practices.

Details of remuneration
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

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.

	Short-term benefits			Post-employment benefits	Long-term benefits	Share-based payments*	
2018	Cash salary and fees $	Bonus $	Non-monetary $	Super-annuation $	Leave benefits $	Equity-settled options/ rights $	Total $
Non-Executive Directors:							
David Rampa	109,500	-	-	-	-	15,423	124,923
Garry Wayling	70,000	-	-	6,650	-	15,423	92,073
Tom Stianos	70,000	-	-	6,650	-	15,423	92,073
Executive Director:							
Damian Kay	397,700	27,469	-	20,049	-	(8,135)	437,083
Other Key Management Personnel:							
Deb Zimmer	227,800	27,469	-	20,049	-	(4,484)	270,834
	875,000	54,938	-	53,398	-	33,650	1,016,986

* Negative share-based payments expense amounts are due to change in probability of vesting at the end of the term from 100% to 50%.

2017	Short-term benefits Cash salary and fees $	 Bonus $	 Non-monetary $	Post-employment benefits Super-annuation $	Long-term benefits Leave benefits $	Share-based payments Equity-settled options rights $	 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

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

Name	Fixed remuneration 2018	 2017	At risk - STI 2018	 2017	At risk - LTI 2018	 2017
Non-Executive Directors:						
David Rampa	87%	92%	-	-	13%	8%
Garry Wayling	83%	89%	-	-	17%	11%
Tom Stianos	83%	89%	-	-	17%	11%
Executive Directors:						
Damian Kay*	94%	84%	6%	12%	-	4%
Other Key Management Personnel:						
Deb Zimmer*	90%	85%	10%	11%	-	4%

* Information on the proportion of remuneration for 2018 excludes negative share-based payments expense.

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 twelve 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 2018.

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 78,682 performance rights*	N/A	$0.00	$0.775
01/07/2016	Deb Zimmer 45,056 performance rights*	N/A	$0.00	$0.775
01/07/2017	Damian Kay 80,343 performance rights*	N/A	$0.00	$0.781
01/07/2017	Deb Zimmer 46,020 performance rights*	N/A	$0.00	$0.781

* The performance rights are subject to either of two vesting 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 in directors and other key management personnel as part of compensation during the year ended 30 June 2018 are set out below:

Name	Number of rights granted during the year 2018	Number of rights granted during the year 2017	Number of rights vested during the year 2018	Number of rights vested during the year 2017
Damian Kay	80,343	78,682	-	-
Deb Zimmer	46,020	45,056	-	-

Additional information
The earnings of the group for the three years to 30 June 2018 are summarised below:

	2018 $'000	2017 $'000	2016 $'000
Sales revenue	101,122	90,105	88,005
Profit/(Loss) after income tax	(12,962)	86	859

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

	2018	2017	2016
Share price at financial year end ($)	0.60	0.99	0.98
Basic earnings per share (cents per share)	(54.54)	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	70,940	-	-	-	70,940
Damian Kay	2,752,341	-	12,000	-	2,764,341
Garry Wayling	52,453	-	25,317	-	77,770
Tom Stianos	32,000	-	28,000	-	60,000
	2,907,734	-	65,317	-	2,973,051

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
	314,102	-	-	(83,333)	230,769

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	80,343	-	-	159,025
Deb Zimmer	45,056	46,020	-	-	91,076
	123,738	126,363	-	-	250,101

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
24/11/2016	24/11/2021	$1.18	230,769
			1,272,435

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	213,176
01/07/2017	N/A	$0.00	264,181
			477,357

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 2018 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 2018 and up to the date of this report.

Indemnity and insurance of officers

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

During the financial year, the company paid a premium in respect of a contract to insure the directors and executives of the company against a liability to the extent permitted by the Corporations Act 2001. The contract of insurance prohibits disclosure of the nature of 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 2018 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 amounting to $18,251 and are outlined in note 26 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 26 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

27 September 2018
Sydney

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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 2018, I declare to the best of my knowledge and belief, there have been:

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

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

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

Ernst & Young

Julian M. O'Brien
Partner
27 September 2018

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

	Note	Consolidated 2018 $'000	Consolidated 2017 $'000
Revenue	5	101,122	90,105
Other income		68	508
Expenses			
Network expenses and related costs		(40,538)	(32,896)
Equipment cost and freight		(13,305)	(15,129)
Employee benefits expense		(33,021)	(29,553)
Depreciation and amortisation expense	6	(4,720)	(3,695)
Impairment of assets	12	(12,558)	-
Other expenses	6	(10,188)	(8,486)
Finance costs	6	(736)	(1,002)
Loss before income tax benefit		(13,876)	(148)
Income tax benefit	7	210	234
(Loss)/profit after income tax benefit for the year attributable to the owners of Inabox Group Limited		(13,666)	86
Other comprehensive income for the year, net of tax		-	-
Total comprehensive income for the year attributable to the owners of Inabox Group Limited		(13,666)	86
		Cents	**Cents**
Basic earnings per share	34	(57.50)	0.40
Diluted earnings per share	34	(57.50)	0.40

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 2018

	Note	Consolidated 2018 $'000	2017 $'000
Assets			
Current assets			
Cash and cash equivalents	8	1,010	4,998
Trade and other receivables	9	10,654	11,446
Inventories		106	63
Income tax receivable		214	128
Other	10	2,390	1,624
Total current assets		14,374	18,259
Non-current assets			
Property, plant and equipment	11	3,329	3,914
Intangibles	12	10,973	22,909
Deferred tax	13	610	571
Total non-current assets		14,912	27,394
Total assets		29,286	45,653
Liabilities			
Current liabilities			
Trade and other payables	14	10,980	11,281
Employee benefits		2,589	3,307
Provisions	15	105	607
Borrowings	16	11,791	6,577
Deferred revenue		1,774	1,443
Total current liabilities		27,239	23,215
Non-current liabilities			
Borrowings	17	8	6,514
Employee benefits		503	871
Provisions	18	131	112
Other	19	255	240
Total non-current liabilities		897	7,737
Total liabilities		28,136	30,952
Net assets		1,150	14,701
Equity			
Issued capital	20	15,454	15,354
Reserves	21	(2,219)	(2,234)
Retained profits/(accumulated losses)		(12,085)	1,581
Total equity		1,150	14,701

As disclosed in note 16, the impairment of assets resulted in a technical breach of bank covenants arising after the year end which has led to the bank loans of $7,000,000 being reclassified as a current liability at 30 June 2018. Subsequent to the year end, the bank waived its rights relating to the breach and provided a revised letter of offer. As such monthly repayments of $150,000 commence in January 2018 in line with the previous arrangements.

Refer to note 30 for the finalisation of prior period business combinations which has resulted in comparatives being adjusted.

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

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

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 20)	3,832	-	-	3,832
Share-based payments (note 35)	-	95	-	95
Dividends paid (note 22)	-	-	(341)	(341)
Balance at 30 June 2017	15,354	(2,234)	1,581	14,701

Consolidated	Issued capital $'000	Reserves $'000	Retained profits/(accu-mulated losses) $'000	Total equity $'000
Balance at 1 July 2017	15,354	(2,234)	1,581	14,701
Loss after income tax benefit for the year	-	-	(13,666)	(13,666)
Other comprehensive income for the year, net of tax	-	-	-	-
Total comprehensive income for the year	-	-	(13,666)	(13,666)
Transactions with owners in their capacity as owners:				
Contributions of equity, net of transaction costs (note 20)	100	-	-	100
Share-based payments (note 35)	-	15	-	15
Balance at 30 June 2018	15,454	(2,219)	(12,085)	1,150

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

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

	Note	Consolidated 2018 $'000	2017 $'000
Cash flows from operating activities			
Receipts from customers (inclusive of GST)		112,329	101,189
Payments to suppliers and employees (inclusive of GST)		(108,260)	(96,309)
Interest received		26	18
Other income		68	508
Interest and other finance costs paid		(670)	(945)
Income taxes paid		(19)	(305)
Net cash from operating activities	33	3,474	4,156
Cash flows from investing activities			
Payment for purchase of subsidiaries, net of cash acquired	30	(499)	(5,634)
Payments to vendors for prior year business combination		(2,140)	-
Payments for property, plant and equipment		(901)	(387)
Payments for intangibles		(2,780)	(3,200)
Payments for security deposits		(247)	(90)
Proceeds from release of security deposits		15	24
Proceeds from settlement of assets classified as held for sale		-	3,250
Net cash used in investing activities		(6,552)	(6,037)
Cash flows from financing activities			
Proceeds from issue of shares	20	-	4,000
Share issue transaction costs	20	-	(240)
Proceeds from borrowings		1,123	8,401
Repayment of borrowings		(3,417)	(7,790)
Dividends paid	22	-	(341)
Net cash from/(used in) financing activities		(2,294)	4,030
Net increase/(decrease) in cash and cash equivalents		(5,372)	2,149
Cash and cash equivalents at the beginning of the financial year		4,998	2,849
Cash and cash equivalents at the end of the financial year	8	(374)	4,998

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 and the group'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 27 September 2018. The directors have the power to amend and reissue the financial statements.

Note 2. Significant accounting policies

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

New or amended Accounting Standards and Interpretations adopted

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

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

Going concern

For the financial year the group made a loss after tax of $13,666,000 (2017: profit of $86,000) and had net cash inflow from operating activities of $3,474,000 (2017: $4,156,000). As at 30 June 2018, the group had a net current liability of $12,865,000 (2017: $4,956,000).

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

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

- included in current liabilities are bank borrowings of $7,000,000 that has been classified as current in accordance with the accounting standards, as the group did not have an unconditional right to defer the settlement of the liability as the group did not receive the waiver from the bank until after the reporting date for a technical breach of debt covenant. Refer to note 16 for further details;
- the group has bank overdraft at the reporting date of $416,000. Refer to note 17 for further details;
- in August 2018, the group disposed of its Direct business operations to 5G Networks Limited for a total consideration of $5,700,000. The cash consideration (after adjusting for working capital and debt like items) of $2,000,000 is being used to repay the group’s debt as it is received. Refer to note 36 for further details; and
- a cash flow forecast for the next 12 months prepared by management has indicated that the group will have sufficient cash assets to be able to meet its debts as and when they are due.

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

Note 2. Significant accounting policies (continued)

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

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

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

Parent entity information
In accordance with the Corporations Act 2001, these financial statements present the results of the group only. Supplementary information about the parent entity is disclosed in note 29.

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

Subsidiaries are all those entities over which the 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.

Note 2. Significant accounting policies (continued)

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

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.

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.

Note 2. Significant accounting policies (continued)

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.

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.

Note 2. Significant accounting policies (continued)

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

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

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

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

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

Cash and cash equivalents
Cash and cash equivalents includes cash on hand, deposits held at call with financial institutions, other short-term, highly liquid investments with original maturities of three months or less that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value. For the statement of cash flows presentation purposes, cash and cash equivalents also includes bank overdrafts, which are shown within borrowings in current liabilities on the statement of financial position.

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.

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.

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.

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.

Note 2. Significant accounting policies (continued)

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 high quality corporate bonds with terms to maturity and currency that match, as closely as possible, the estimated future cash outflows.

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

Share-based payments
Equity-settled 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 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.

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.

Note 2. Significant accounting policies (continued)

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

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

Issued capital
Ordinary shares are classified as equity.

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

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.

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.

Note 2. Significant accounting policies (continued)

Earnings per share

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

Comparatives
Comparatives have been reclassified, where necessary, to align with current year presentation. The reclassifications had no effect on profit or loss, net assets and equity.

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

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 and the impact of its adoption is currently being assessed.

Note 2. Significant accounting policies (continued)

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. Commonly referred to as the 5-step approach, the standard will require: (i) contracts (either written, verbal or implied) to be identified; (ii) identify the separate performance obligations within the contract; (iii) determine the transaction price, adjusted for the time value of money excluding credit risk; (iv) 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 (v) 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 and the impact of its adoption is currently being assessed.

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 and the actual impact will depend on the operating leases held by the group as at 1 July 2019 and the transitional elections made at that time.

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

Note 3. Critical accounting judgements, estimates and assumptions

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

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.

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.

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

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.

Assets held for sale
On 3 August 2018 the group agreed to sell the Direct cash generating unit (CGU). At 30 June 2018, the sale was not highly probable and hence the assets relating to the Direct CGU are not classified as held for sale.

Note 4. 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 was 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 4. Operating segments (continued)

Operating segment information

Consolidated - 2018	Direct $'000	Indirect $'000	Enablement $'000	Intersegment eliminations/ unallocated $'000	Total $'000
Revenue					
Sales to external customers	48,174	45,049	7,873	-	101,096
Other revenue	-	-	-	26	26
Total revenue	48,174	45,049	7,873	26	101,122
Net contribution	8,701	9,249	4,353	-	22,303
Impairment of assets					(12,558)
Interest revenue					26
Other income					68
Other employee benefits expense					(8,613)
Depreciation and amortisation expense					(4,720)
Other expenses					(9,646)
Finance costs					(736)
Loss before income tax benefit					(13,876)
Income tax benefit					210
Loss after income tax benefit					(13,666)

The above contribution is shown before allocation of certain group costs. On a fully allocated cost basis the Direct segment was loss making before income tax. The relevant unallocated costs will now be borne by the buyer of the Direct business as disclosed in note 36.

Consolidated - 2017	Direct $'000	Indirect $'000	Enablement $'000	Intersegment eliminations/ unallocated $'000	Total $'000
Revenue					
Sales to external customers	42,671	42,514	4,902	-	90,087
Other revenue	-	-	-	18	18
Total revenue	42,671	42,514	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

Note 5. Revenue

	Consolidated	
	2018 $'000	2017 $'000
Sales revenue		
Communications and hosting revenue	61,015	49,075
Enablement revenue	7,873	4,902
Other sales revenue	7	23
IT products and services revenue	32,201	36,087
	101,096	90,087
Other revenue		
Interest	26	18
Revenue	101,122	90,105

Note 6. Expenses

	Consolidated 2018 $'000	Consolidated 2017 $'000
Loss before income tax includes the following specific expenses:		
Depreciation		
Leasehold improvements	133	56
Motor vehicles	53	24
Computer and office equipment	1,902	1,104
Hosted unified communications equipment	23	23
Total depreciation	2,111	1,207
Amortisation		
Customer contracts and relationships	1,370	1,493
Software and capitalised development	1,239	995
Total amortisation	2,609	2,488
Total depreciation and amortisation	4,720	3,695
Other expense consists of the following expenses:		
Rental expense and associated outgoings	3,856	2,682
Audit and tax fees	475	323
IT and network expenses	1,132	1,124
Legal and professional fees	1,142	1,028
Impairment of receivables	550	478
Marketing and incentives	877	711
Other expenses	2,156	2,140
Total other expenses	10,188	8,486
Finance costs		
Interest and finance charges paid/payable	736	1,002
Superannuation expense		
Defined contribution superannuation expense	2,434	2,057
Share-based payments expense		
Share-based payments expense	15	95

Note 7. Income tax benefit

	Consolidated 2018 $'000	Consolidated 2017 $'000
Income tax benefit		
Current tax	(56)	59
Deferred tax	(143)	(20)
Adjustment recognised for prior periods	(11)	(273)
Aggregate income tax benefit	(210)	(234)
Deferred tax included in income tax benefit comprises:		
Increase in deferred tax assets (note 13)	(143)	(20)
Numerical reconciliation of income tax benefit and tax at the statutory rate		
Loss before income tax benefit	(13,876)	(148)
Tax at the statutory tax rate of 30%	(4,163)	(44)
Tax effect amounts which are not deductible/(taxable) in calculating taxable income:		
Impairment of goodwill	3,365	-
Non-deductable expenses	96	75
Amortisation of intangibles	459	286
	(243)	317
Adjustment recognised for prior periods	(11)	(273)
Current year tax losses not recognised	44	-
Research and development claims	-	(278)
Income tax benefit	(210)	(234)

	Consolidated 2018 $'000	Consolidated 2017 $'000
Amounts credited directly to equity		
Deferred tax assets (note 13)	-	(72)

Note 8. Current assets - cash and cash equivalents

	Consolidated 2018 $'000	Consolidated 2017 $'000
Cash on hand and at bank	1,010	4,998

Reconciliation to cash and cash equivalents at the end of the financial year
The above figures are reconciled to cash and cash equivalents at the end of the financial year as shown in the statement of cash flows as follows:

	2018	2017
Balances as above	1,010	4,998
Bank overdraft (note 16)	(1,384)	-
Balance as per statement of cash flows	(374)	4,998

Note 9. Current assets - trade and other receivables

	Consolidated 2018 $'000	Consolidated 2017 $'000
Trade receivables	9,356	10,573
Less: Provision for impairment of receivables	(337)	(456)
	9,019	10,117
Other receivables	1,635	1,329
	10,654	11,446

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

	Consolidated 2018 $'000	Consolidated 2017 $'000
0 to 3 months overdue	-	165
Over 3 months overdue	337	291
	337	456

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

	Consolidated 2018 $'000	Consolidated 2017 $'000
Opening balance	456	136
Additional provisions recognised	292	485
Receivables written off during the year as uncollectable	(411)	(165)
Closing balance	337	456

Past due but not impaired
Customers with balances past due but without provision for impairment of receivables amount to $1,531,000 as at 30 June 2018 ($1,724,000 as at 30 June 2017).

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 2018 $'000	Consolidated 2017 $'000
0 to 6 months overdue	1,531	1,724

Note 10. Current assets - other

	Consolidated 2018 $'000	Consolidated 2017 $'000
Prepayments	1,523	914
Security deposits	842	595
Loan to service providers	25	115
	2,390	1,624

Note 11. Non-current assets - property, plant and equipment

	Consolidated 2018 $'000	Consolidated 2017 $'000
Leasehold improvements - at cost	799	359
Less: Accumulated depreciation	(403)	(293)
	396	66
Motor vehicles - at cost	192	192
Less: Accumulated depreciation	(143)	(90)
	49	102
Computer and office equipment - at cost	19,544	18,017
Less: Accumulated depreciation	(16,660)	(14,298)
	2,884	3,719
Hosted unified communications hardware - at cost	116	116
Less: Accumulated depreciation	(116)	(89)
	-	27
	3,329	3,914

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 2016	72	48	1,897	50	2,067
Additions	20	60	666	-	746
Additions through business combinations (note 30)	30	18	2,291	-	2,339
Disposals	-	-	(31)	-	(31)
Depreciation expense	(56)	(24)	(1,104)	(23)	(1,207)
Balance at 30 June 2017	66	102	3,719	27	3,914
Additions	463	-	1,073	-	1,536
Disposals	-	-	(6)	(4)	(10)
Depreciation expense	(133)	(53)	(1,902)	(23)	(2,111)
Balance at 30 June 2018	396	49	2,884	-	3,329

Property, plant and equipment secured under finance leases
Refer to note 27 for further information on property, plant and equipment secured under finance leases.

Note 12. Non-current assets - intangibles

	Consolidated 2018 $'000	Consolidated 2017 $'000
Goodwill - at cost	14,399	14,044
Less: accumulated Impairment	(11,216)	-
	3,183	14,044
Patents, trademarks and brands - at cost	577	577
Less: accumulated Impairment	(235)	-
	342	577
Customer contracts and relationships - at cost	6,335	7,394
Less: Accumulated amortisation	(2,991)	(2,851)
Less: accumulated Impairment	(1,107)	-
	2,237	4,543
Software and capitalised development - at cost	9,354	6,649
Less: Accumulated amortisation	(4,143)	(2,904)
	5,211	3,745
	10,973	22,909

Consolidated	Goodwill* $'000	Patents, trademarks and brands $'000	Customer contracts and relationships* $'000	Software and capitalised development $'000	Total $'000
Balance at 1 July 2016	8,780	377	2,512	2,420	14,089
Additions	-	-	1,602	1,598	3,200
Additions through business combinations (note 30)	5,264	200	1,922	722	8,108
Amortisation expense	-	-	(1,493)	(995)	(2,488)
Balance at 30 June 2017	14,044	577	4,543	3,745	22,909
Additions	-	-	70	2,710	2,780
Additions through business combinations (note 30)	355	-	348	-	703
Disposals	-	-	(247)	(5)	(252)
Impairment of assets	(11,216)	(235)	(1,107)	-	(12,558)
Amortisation expense	-	-	(1,370)	(1,239)	(2,609)
Balance at 30 June 2018	3,183	342	2,237	5,211	10,973

* Refer note 30 for the finalisation of prior period business combinations which has resulted in comparatives being adjusted.

Impairment of goodwill
The directors and management strategically reviewed the operations of the Direct business to unlock more value for shareholders and as a result of this review, the group made a decision after the reporting date to sell its Direct business consisting of the subsidiaries Hostworks Pty Ltd, Anittel Pty Ltd and Logic Communications Pty Ltd. Due to arm's length offers being received, the recoverable amount of the Direct business segment was valued at fair value less cost of disposal. The carrying value was therefore written down to recoverable amount and an impairment charge of $11,216,000 was expensed to profit or loss during the year ended 30 June 2018.

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

Impairment of patents, trademarks and brands
Due to the increase in cross-selling products within the same segment and the desire to cut costs, the group took the decision to rationalise its brands and ceased using the Anittel brand. The carrying value of $235,000 was expensed to profit or loss during the year ended 30 June 2018.

Impairment of customer contracts and relationships
On 9 November 2017, the group issued a trading update indicating that the group's Hostworks business was performing below expectations. This was due to a small number of enterprise clients rationalising their services or declaring their intention to move their services away. As a result, the group's value-in-use calculations indicated that the recoverable amount was above carrying amount. As a result, an impairment charge of $1,107,000 was expensed to profit or loss during the year ended 30 June 2018.

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

	Consolidated	
	2018 $'000	2017 $'000
Direct	1,312	12,173
Indirect	1,871	1,871
	3,183	14,044

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

	Consolidated	
	2018 $'000	2017 $'000
Direct	200	435
Indirect	142	142
	342	577

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

The recoverable amount of the Direct business segment of $1.5 million was determined using fair value less costs of disposal. This followed a reduction in profitability in the Direct segment which led the group, along with its advisors, to hold confidential discussions with a number of suitable potential buyers for the Direct segment. The group has utilised the indicative offers received from third party buyers and advice from advisors to determine the fair value. The group considers the fair value to be based on a number of unobservable inputs and as such the inputs are classified as level 3 within the fair value hierarchy.

The recoverable amounts of the group's indirect segment have been determined by a value-in-use calculation using a discounted cash flow model.

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 3% (2017: 4%). A 3% 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% (2017: 13%) ;
(c) Overheads were forecast based on current expenditure adjusted for inflationary increases; and
(d) long term growth rate 3% (2017: 2%).

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 the indirect 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.

For the direct CGU, a decrease in the offer price below the indicative offers would cause the CGU carrying amount to exceed its recoverable amount.

Note 13. Non-current assets - deferred tax

	Consolidated 2018 $'000	Consolidated 2017 $'000
Deferred tax asset comprises temporary differences attributable to:		
Amounts recognised in profit or loss:		
Accrued expenses and provisions	1,514	1,535
Prepayments	(40)	-
Tangible and intangible assets	(962)	(1,226)
	512	309
Amounts recognised in equity:		
Cost of capital raising	98	262
Deferred tax asset	610	571

	Consolidated 2018 $'000	Consolidated 2017 $'000
Movements:		
Opening balance	571	552
Credited to profit or loss (note 7)	143	20
Credited to equity (note 7)	-	72
Additions through business combinations (note 30)	(104)	(73)
Closing balance	610	571

Note 13. Non-current assets - deferred tax (continued)

Refer note 30 for the finalisation of prior period business combinations which has resulted in comparatives being adjusted.

Note 14. Current liabilities - trade and other payables

	Consolidated 2018 $'000	Consolidated 2017 $'000
Trade payables	7,725	6,188
Due to service providers	262	159
Accrued expenses	2,564	3,257
Deferred consideration payable	-	1,057
Other payables	429	620
	10,980	11,281

Refer to note 23 for further information on financial instruments.

Note 15. Current liabilities - provisions

	Consolidated 2018 $'000	Consolidated 2017 $'000
Lease make-good	105	500
Onerous lease	-	107
	105	607

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.

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

Consolidated - 2018	Lease make-good $'000	Onerous lease $'000
Carrying amount at the start of the year	500	107
Amounts transferred from non-current	105	-
Amounts used	(139)	(107)
Unused amounts reversed	(361)	-
Carrying amount at the end of the year	105	-

Note 16. Current liabilities - borrowings

	Consolidated 2018 $'000	2017 $'000
Bank overdraft	1,384	-
Bank loans*	7,000	-
Amex facility	1,491	1,351
Credit card facility	42	59
Vendor loan**	417	1,500
Unamortised borrowing costs	(66)	-
Lease liability	1,523	3,667
	11,791	6,577

Refer to note 23 for further information on financial instruments.

* As discussed in note 12, the group impaired its goodwill by $11,216,000. This has resulted in a technical breach of its banking covenants. Therefore in accordance with the accounting standards, as the group did not have an unconditional right to defer the settlement, bank loans of $7,000,000 have now been classified as current. As described in the footnote to the balance sheet, the bank has subsequently waived its rights in relation to the breach and provided a revised letter of offer. As such monthly repayments of $150,000 will commence from January 2019 in accordance with previous arrangements. The net proceeds received from the sale of the Direct business have been applied to reduce the bank loans subsequent to the year-end.

** Refer note 30 for the finalisation of prior period business combinations which has resulted in comparatives being adjusted. Following the revision to the purchase price for Hostworks Pty Ltd, the terms of the vendor loan were also renegotiated with the seller. The loan is being repaid in 12 equal monthly instalments from December 2017.

Note 17. Non-current liabilities - Borrowings

	Consolidated 2018 $'000	2017 $'000
Bank loans	-	6,000
Unamortised borrowing costs	-	(132)
Lease liability	8	646
	8	6,514

Refer to note 23 for further information on financial instruments.

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

	Consolidated 2018 $'000	2017 $'000
Bank overdraft	1,384	-
Bank loans	7,000	6,000
Lease liability	1,531	4,313
	9,915	10,313

Note 17. 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 June 2018:
- Overdraft facility of $1,800,000 (interest charged at 7.79% per annum);
- Market rate loan of $7,000,000 (interest charged between 6.24% to 6.49% per annum).

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

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 $15,000; and
- Equipment leasing facility with CBA for $3,000,000. This has been reduced from the previous limit of $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 a supplier credit facility with Wells Fargo International Finance (Australia) Pty Ltd (previously known as GE Commercial Corporation Australia Pty Ltd) for $2,750,000.

Note 17. Non-current liabilities - Borrowings (continued)

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

	Consolidated 2018 $'000	Consolidated 2017 $'000
Total facilities		
Bank overdraft	1,800	1,500
Bank loans	7,000	6,000
Amex facility	1,500	1,500
Credit card facility	500	500
Lease facility	3,015	9,830
Supplier credit facility	2,750	2,750
Vendor loan	417	1,500
	16,982	23,580
Used at the reporting date		
Bank overdraft	1,384	-
Bank loans	7,000	6,000
Amex facility	1,491	1,351
Credit card facility	42	59
Lease facility	1,530	4,313
Supplier credit facility	324	334
Vendor loan	417	1,500
	12,188	13,557
Unused at the reporting date		
Bank overdraft	416	1,500
Bank loans	-	-
Amex facility	9	149
Credit card facility	458	441
Lease facility	1,485	5,517
Supplier credit facility	2,426	2,416
Vendor loan	-	-
	4,794	10,023

Note 18. Non-current liabilities - provisions

	Consolidated 2018 $'000	Consolidated 2017 $'000
Lease make-good	131	112

Note 18. Non-current liabilities - provisions (continued)

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

Consolidated - 2018	Lease make-good $'000
Carrying amount at the start of the year	112
Additional provisions recognised	164
Amounts transferred to current	(105)
Unused amounts reversed	(40)
Carrying amount at the end of the year	131

Note 19. Non-current liabilities - other

	Consolidated	
	2018 $'000	2017 $'000
Service provider security deposit	255	240

Note 20. Equity - issued capital

	Consolidated			
	2018 Shares	2017 Shares	2018 $'000	2017 $'000
Ordinary shares - fully paid	23,818,129	23,706,894	15,454	15,354

Movements in ordinary share capital

Details	Date	Shares	$'000
Balance	1 July 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
Shares issued on acquisition of Symmetry Networks Pty Ltd (refer note 30)	15 December 2017	111,235	100
Balance	30 June 2018	23,818,129	15,454

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.

Note 20. Equity - issued capital (continued)

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. Refer to note 16 relating to the technical breach of the debt covenant.

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

Note 21. Equity - reserves

	Consolidated	
	2018 $'000	2017 $'000
Capital reserve	(2,366)	(2,366)
Share-based payment reserve	147	132
	(2,219)	(2,234)

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 2016	(2,366)	37	(2,329)
Share-based payments	-	95	95
Balance at 30 June 2017	(2,366)	132	(2,234)
Share-based payments	-	15	15
Balance at 30 June 2018	(2,366)	147	(2,219)

Note 22. Equity - dividends

Dividends
Dividends paid during the financial year were as follows:

	Consolidated	
	2018	2017
	$'000	$'000
Final dividend for the year ended 30 June 2016 of 1.7 cents per ordinary share	-	341

Franking credits

	Consolidated	
	2018	2017
	$'000	$'000
Franking credits available for subsequent financial years based on a tax rate of 30%	3,115	3,084

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 23. 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.

Note 23. Financial instruments (continued)

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

Consolidated	2018 Weighted average interest rate %	2018 Balance $'000	2017 Weighted average interest rate %	2017 Balance $'000
Bank overdraft	7.79%	1,384	-	-
Bank loans	6.36%	7,000	5.96%	6,000
Cash at bank	0.39%	(1,010)	0.42%	(4,998)
Net exposure to cash flow interest rate risk		7,374		1,002

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

An official increase/decrease in interest rates of 50 (2017:50) basis points would have an adverse/favourable effect on profit before tax of $37,000 (2017: adverse/favourable $5,000) 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.

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 2018 $'000	Consolidated 2017 $'000
Bank overdraft	416	1,500
Amex facility	9	149
Credit card facility	458	441
Lease facility	1,485	5,517
Supplier credit facility	2,426	2,416
	4,794	10,023

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.

Note 23. Financial instruments (continued)

Remaining contractual maturities

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

Consolidated - 2018	Weighted average interest rate %	1 year or less $'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	-	7,725	-	-	-	7,725
Due to service providers	-	262	255	-	-	517
Other payables	-	429	-	-	-	429
Amex facility	-	1,491	-	-	-	1,491
Credit card facility	-	42	-	-	-	42
Interest-bearing - variable						
Bank overdraft	7.79%	1,384	-	-	-	1,384
Bank loans	6.13%	7,000	-	-	-	7,000
Interest-bearing - fixed rate						
Lease liability	4.21%	1,625	8	-	-	1,633
Vendor loan	6.00%	571	-	-	-	571
Total non-derivatives		20,529	263	-	-	20,792

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

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

Note 24. Fair value measurement

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

The carrying amount of the bank loans and vendor loan 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 $1,599,000 as at 30 June 2018 (2017: $4,494,000).

Note 25. Key management personnel disclosures

Compensation
The aggregate compensation made to directors and other members of key management personnel of the group is set out below:

	Consolidated	
	2018 $	2017 $
Short-term employee benefits	929,938	973,317
Post-employment benefits	53,398	52,532
Share-based payments	33,650	59,799
	1,016,986	1,085,648

Note 26. 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	
	2018 $	2017 $
Audit services - Ernst & Young		
Audit or review of the financial statements	304,000	284,000
Other services - Ernst & Young		
Tax compliance and advisory	-	22,000
Corporate advisory services	18,251	17,000
	18,251	39,000
	322,251	323,000

Note 27. Commitments

	Consolidated 2018 $'000	2017 $'000
Lease commitments - operating		
Committed at the reporting date but not recognised as liabilities, payable:		
Within one year	2,907	2,746
One to five years	8,830	1,638
	11,737	4,384
Lease commitments - finance		
Committed at the reporting date and recognised as liabilities, payable:		
Within one year	1,625	3,917
One to five years	8	670
Total commitment	1,633	4,587
Less: Future finance charges	(102)	(274)
Net commitment recognised as liabilities	1,531	4,313
Representing:		
Lease liability - current (note 16)	1,523	3,667
Lease liability - non-current (note 17)	8	646
	1,531	4,313

Operating lease commitments includes contracted amounts for commercial leases and plant and equipment under non-cancellable operating leases expiring within one to five 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 $1,463,000 (2017: $3,837,000) 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 28. Related party transactions

Parent entity
Inabox Group Limited is the parent entity.

Subsidiaries
Interests in subsidiaries are set out in note 31.

Key management personnel
Disclosures relating to key management personnel are set out in note 25 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 29. Parent entity information

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

Statement of profit or loss and other comprehensive income

	Parent	
	2018 $'000	2017 $'000
(Loss)/profit after income tax	(13,470)	848
Total comprehensive income	(13,470)	848

Statement of financial position

	Parent	
	2018 $'000	2017 $'000
Total current assets	1,963	4,821
Total assets	9,260	24,529
Total current liabilities	9,111	3,157
Total liabilities	9,111	9,025
Equity		
Issued capital	15,454	15,354
Share-based payment reserve	147	132
Retained profits/(accumulated losses)	(15,452)	18
Total equity	149	15,504

As at 30 June 2018, the parent entity had a net current liability due to the reclassification of bank loans from non-current liability to current liability. Subsequent to the year end the repayment terms of the bank loans have changed as described in note 16.

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 17 and the deed of cross guarantee disclosed in note 32, the parent entity had no guarantees in relation to the debts of its subsidiaries as at 30 June 2018 and 30 June 2017.

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

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

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

- investments in subsidiaries are accounted for at cost, less any impairment, in the parent entity; 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 30. Business combinations

Symmetry Networks Pty Ltd (current year)
On 3 November 2017, the group acquired 100% of the shares in Symmetry Networks Pty Ltd ('Symmetry') for the total consideration transferred of $600,000. Symmetry is a managed services provider specialising in supplying hosted voice products to corporate customers. The acquisition of the Symmetry business is expected to accelerate the group's strategic direction to increase revenue in high margin products. The goodwill of $355,000 represents the value of expected synergies and growth arising from the acquisition.

The acquired business contributed revenues of $557,000 and a profit after tax of $89,000 to the group for the period from 3 November 2017 to 30 June 2018. If the acquisition had occurred on 1 July 2017, the contributions for the period 1 July 2017 to 30 June 2018 would have been revenues of $836,000 and profit after tax of $133,000.

The purchase price allocation of the acquisition is final at 30 June 2018.

Details of the acquisition are as follows:

	Fair value $'000
Cash and cash equivalents	1
Trade and other receivables	2
Customer contracts	348
Deferred tax liability	(104)
Net assets acquired	247
Goodwill	355
Acquisition-date fair value of the total consideration transferred	602
Representing:	
Cash paid or payable to vendor	500
Inabox Group Limited shares issued to vendor	100
	600
Acquisition costs recorded in other expense	5

	Consolidated 2018 $'000
Cash used to acquire business, net of cash acquired:	
Cash paid to vendor	500
Less: cash and cash equivalents	(1)
Net cash used	499

Business combinations in the previous year

The values identified in relation to the acquisition of Hostworks Group Pty Ltd ('Hostworks') and Logic Communications Pty Ltd ('Logic Communications') as at 30 June 2017 were provisional and have now been finalised.

The 30 June 2017 comparative information has been restated to reflect the following adjustments to the provisional amounts.

Note 30. Business combinations (continued)

Hostworks
In November 2017, the basis of certain purchase price adjustments was agreed with the vendor. As a result, the consideration payable to vendors was reduced by $500,000 from $7,616,000 to $7,116,000. The valuation of customer relationships was finalised resulting in a decrease in other intangible assets by $233,000 and the associated increase in deferred tax asset by $70,000. Further information provided by the vendor also resulted in an increase in employee benefits liability of $303,000.

As a result of the above items, goodwill arising on Hostworks acquisition decreased by $113,000 to $4,295,000.

Logic Communications
The basis of working capital adjustments was finalised with the vendor resulting in a total consideration paid of $1,255,000, an increase of $62,000 over the provisional value. As a result, goodwill arising on the Logic Communications acquisition increased by $62,000 to $969,000.

There was no material impact of the above adjustments on the comparative period statement of profit or loss and other comprehensive income or the opening retained earnings. The fair value table below and the comparative year statement of financial position as at 30 June 2017 have been adjusted accordingly.

Note 30. Business combinations (continued)

Details of the acquisitions 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	2,144	700	2,844
Deferred tax asset	70	-	70
Trade payables	(551)	(173)	(724)
Other payables	(249)	(81)	(330)
Provision for income tax	-	(94)	(94)
Deferred tax liability	-	(142)	(142)
Employee benefits	(1,940)	(255)	(2,195)
Lease make good provision	(500)	(40)	(540)
Lease liability	-	(82)	(82)
Other liabilities	(189)	(43)	(232)
Net assets acquired	2,742	286	3,028
Goodwill	4,295	969	5,264
Acquisition-date fair value of the total consideration transferred	7,037	1,255	8,292
Representing:			
Cash paid or payable to vendor	5,000	735	5,735
Deferred consideration	537	520	1,057
Vendor loan payable	1,500	-	1,500
	7,037	1,255	8,292
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

Note 31. Interests in subsidiaries

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

Name	Principal place of business / Country of incorporation	Ownership interest 2018 %	Ownership interest 2017 %
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%	100%
Hostworks Pty Ltd	Australia	100%	100%
Logic Communications Pty Ltd	Australia	100%	100%
Modular IT Pty Ltd	Australia	100%	100%
Symmetry Networks Pty Ltd	Australia	100%	-

Note 32. 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
Neural Networks Technology Services Pty Ltd

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 32. Deed of cross guarantee (continued)

Statement of profit or loss and other comprehensive income	2018 $'000	2017 $'000
Revenue	100,627	88,151
Other income	-	507
Network expenses and related costs	(40,023)	(31,924)
Equipment cost and freight	(13,306)	(15,078)
Employee benefits expense	(33,021)	(29,111)
Depreciation and amortisation expense	(4,474)	(3,486)
Impairment of assets	(12,558)	-
Other expenses	(10,175)	(8,367)
Finance costs	(731)	(998)
Loss before income tax (expense)/benefit	(13,661)	(306)
Income tax (expense)/benefit	200	(5)
Loss after income tax (expense)/benefit	(13,461)	(311)
Other comprehensive income for the year, net of tax	-	-
Total comprehensive income for the year	(13,461)	(311)

Equity - retained profits/(accumulated losses)	2018 $'000	2017 $'000
Retained profits/(accumulated losses) at the beginning of the financial year	948	(1,769)
Loss after income tax (expense)/benefit	(13,461)	(311)
Dividends paid	-	(341)
Transfer from entities added to the closed group	766	3,369
Retained profits/(accumulated losses) at the end of the financial year	(11,747)	948

Note 32. Deed of cross guarantee (continued)

Statement of financial position	2018 $'000	2017 $'000
Current assets		
Cash and cash equivalents	929	5,016
Trade and other receivables	10,926	11,246
Inventories	94	49
Income tax receivable	214	76
Other	2,390	1,594
	14,553	17,981
Non-current assets		
Other financial assets	1,855	1,543
Property, plant and equipment	3,252	3,699
Intangibles	8,767	21,496
Deferred tax	874	707
	14,748	27,445
Total assets	29,301	45,426
Current liabilities		
Trade and other payables	10,679	11,709
Employee benefits	2,590	2,986
Provisions	105	607
Borrowings	11,776	7,008
Deferred revenue	1,774	1,392
	26,924	23,702
Non-current liabilities		
Borrowings	-	6,473
Employee benefits	503	871
Provisions	131	72
Other	255	240
	889	7,656
Total liabilities	27,813	31,358
Net assets	1,488	14,068
Equity		
Issued capital	15,454	15,354
Reserves	(2,219)	(2,234)
Retained profits/(accumulated losses)	(11,747)	948
Total equity	1,488	14,068

Note 33. Cash flow information

Reconciliation of (loss)/profit after income tax to net cash from operating activities

	Consolidated 2018 $'000	Consolidated 2017 $'000
(Loss)/profit after income tax benefit for the year	(13,666)	86
Adjustments for:		
Depreciation and amortisation	4,720	3,695
Impairment of intangibles	12,558	31
Write off of property, plant and equipment	10	-
Net loss on disposal of intangibles	252	-
Share-based payments	15	95
Finance cost - non-cash	66	57
Change in operating assets and liabilities:		
Decrease in trade and other receivables	792	2,056
Decrease/(increase) in inventories	(43)	15
Increase in income tax refund due	(86)	(128)
Increase in deferred tax assets	(39)	(20)
Decrease/(increase) in prepayments	(609)	58
Decrease in other operating assets	90	239
Increase/(decrease) in trade and other payables	(301)	442
Decrease in provision for income tax	-	(391)
Decrease in deferred tax liabilities	(104)	-
Decrease in employee benefits	(1,086)	(592)
Decrease in other provisions	(483)	(181)
Increase/(decrease) in other operating liabilities	1,388	(1,306)
Net cash from operating activities	3,474	4,156

Non-cash investing and financing activities

	Consolidated 2018 $'000	Consolidated 2017 $'000
Acquisition of plant and equipment by means of finance leases	635	359
Shares issued in relation to business combinations	100	-
	735	359

Note 33. Cash flow information (continued)

Changes in liabilities arising from financing activities

Consolidated	Bank loans $'000	Lease liability $'000	Other borrowings $'000	Total $'000
Balance at 1 July 2016	2,240	6,822	1,528	10,590
Net cash from/(used in) financing activities	3,760	(3,031)	(118)	611
Acquisition of plant and equipment by means of finance leases	-	359	-	359
Changes through business combinations (note 30)	-	82	-	82
Other changes	-	81	-	81
Balance at 30 June 2017	6,000	4,313	1,410	11,723
Net cash from/(used in) financing activities	1,000	(3,417)	123	(2,294)
Acquisition of plant and equipment by means of finance leases	-	635	-	635
Balance at 30 June 2018	7,000	1,531	1,533	10,064

Note 34. Earnings per share

	Consolidated 2018 $'000	2017 $'000
(Loss)/profit after income tax attributable to the owners of Inabox Group Limited	(13,666)	86
	Number	**Number**
Weighted average number of ordinary shares used in calculating basic earnings per share	23,767,235	21,276,010
Adjustments for calculation of diluted earnings per share:		
Dilutive options over ordinary shares	-	166,915
Weighted average number of ordinary shares used in calculating diluted earnings per share	23,767,235	21,442,925
	Cents	**Cents**
Basic earnings per share	(57.50)	0.40
Diluted earnings per share	(57.50)	0.40

Note 35. 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.

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

2018

Grant date	Expiry date	Exercise price	Balance at the start of the year	Granted	Exercised	Expired/ forfeited/ other	Balance at the end of the year
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
			1,439,101	-	-	(166,666)	1,272,435

Note 35. Share-based payments (continued)

Weighted average exercise price			$1.02	$0.00	$0.00	$1.20	$1.00

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

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

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

The weighted average share price during the financial year was $0.63 (2017: $1.14).

The weighted average remaining contractual life of options outstanding at the end of the financial year was 1.2 years (2017: 1.8 years).

Performance rights

Performance rights awarded to certain key management personnel and senior executives of the group on 1 July 2017 are subject to the same measures as the rights that were granted on 1 July 2016. 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.

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

2018

Grant date	Expiry date	Exercise price	Balance at the start of the year	Granted	Exercised	Expired/ forfeited other	Balance at the end of the year
01/07/2016	N/A	$0.00	257,567	-	-	(44,391)	213,176
01/07/2017	N/A	$0.00	-	355,979	-	(91,798)	264,181
			257,567	355,979	-	(136,189)	477,357

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

Note 35. Share-based payments (continued)

The weighted average remaining contractual life of performance rights outstanding at the end of the financial year was 1.55 years (2017: 2 years).

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
01/07/2017	N/A	$0.99	$0.00	41.00%	2.00%	1.94%	$0.63

Options issued under EPS tranche: Key assumptions are the same as the TSR Tranche disclosed above, fair value at grant date amounted to $0.932.

Note 36. Events after the reporting period

On 3 August 2018, the group disposed of its Direct business operations to 5G Networks Limited for a total consideration of $5,700,000. After adjusting for working capital and debt like items, the net cash consideration receivable from sale is $2,000,000. $1,700,000 has been received to date, the deferred amount of $300,000 is now due and both amounts will be applied to the repayment of the group’s debt facilities. 5G Networks will also assume $775,000 of leases relating to the Direct business and $732,000 of bank guarantee facilities as part of the transaction. As a result of the sale, the subsidiaries sold have also been withdrawn from the deed of cross guarantee and have also been removed from the Inabox tax consolidated group from the date of sale. The sale is not expected to result in a gain or loss on sale. The earnings before interest, tax, depreciation and amortisation were marginal for Direct business for the year to 30 June 2018.

The impairment of assets resulted in a technical breach of bank covenants which led to the bank loans of $7,000,000 being classified as a current liability at 30 June 2018. Subsequent to the year end, the bank waived its rights in relation to the breach. In addition, a revised letter of offer was received on 25 September 2018 which confirmed monthly repayments of $150,000 will commence in January 2019, in line with the previous arrangement. No further breaches are forecast.

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

In the directors' opinion:

- the attached financial statements and notes comply with the Corporations Act 2001, the Accounting Standards, the Corporations Regulations 2001 and other mandatory professional reporting requirements;

- the attached financial statements and notes comply with International Financial Reporting Standards as issued by the International Accounting Standards Board as described in note 2 to the financial statements;

- the attached financial statements and notes give a true and fair view of the group's financial position as at 30 June 2018 and of its performance for the financial year ended on that date;

- 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 32 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
Chairman

Damian Kay
Managing Director and Chief Executive Officer

27 September 2018
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 2018, the consolidated statement of profit or loss and other comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, notes to the financial statements, including a summary of significant accounting policies, and the directors' declaration.

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

a) giving a true and fair view of the consolidated financial position of the Group as at 30 June 2018 and of its consolidated financial performance for the year ended on that date; and

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

Basis for Opinion

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

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

Key Audit Matters

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

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

Impairment of Intangibles

Why significant	How our audit addressed the matter
At 30 June 2018 the Group's consolidated statement of financial position included goodwill and other intangible assets amounting to $10,973,000, representing 37% of total assets. In the six months ended 31 December 2017, the directors recorded an impairment charge of $1,343,000 against brands, customer contracts and relationships in the Direct cash generating unit. This impairment arose as a result of an assessment by the directors following indicators of impairment of those assets that existed at that time. The directors also assessed goodwill and other intangible assets for impairment at 30 June 2018. An additional impairment charge of $11,216,000 was recorded against the Direct cash generating unit (CGU) applying a fair value less costs to sell methodology. The Direct CGU was sold subsequent to 30 June 2018, as outlined in Note 36 of the financial report. No impairment has been recorded in the Indirect cash generating unit as the recoverable amount determined using a value in use methodology exceeded the carrying amount. The assessment of impairment for these assets involves judgments in relation to assumptions concerning fair value and forecast cash flows, discount rates and terminal growth rates. Accordingly, we considered this to be a key audit matter.	Our audit procedures included the following: · Assessed the Group's determination of the cash generating units (CGUs) used in the impairment models. · Considered the appropriateness of the assets and liabilities included in the carrying amount of each CGU. · Tested the mathematical accuracy of the impairment models. · Evaluated the assumptions and estimates used by the Group, as outlined in Note 12 of the financial report, by comparing the fair value of the Direct CGU with offers known to the Group as at 30 June 2018 and with consideration of the sales price achieved subsequent to year-end as disclosed in Note 36 of the financial report. · Evaluated the cash flow forecasts with respect to the Indirect CGU by considering their consistency with Board approved forecasts, the reliability of the Group's historical cash flow forecasts, our knowledge of the business and corroborating data with external information where possible. · Evaluated the appropriateness of discount and terminal growth rates applied to the Indirect CGU with involvement from our valuation specialists. · Cross checked the recoverable amount of the Indirect CGU by reference to comparable industry earnings multiples. · Performed sensitivity analysis on key assumptions including cash flow forecasts, discount rates and terminal growth rates for the Indirect CGU. · Considered the adequacy of the related disclosures contained in the financial report in Note 12.

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 12 of the financial report, the Group capitalises development costs upon meeting the criteria set out in Australian Accounting Standards. 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 recoverability 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 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 Standards. · Assessed whether development projects were still expected to deliver sufficient positive economic benefits to the business to support their carrying amount. · Assessed whether the useful life of development costs remain appropriate. · Considered the adequacy of the related disclosures contained in the financial report in Notes 2 and 12.

Going concern

Why significant	How our audit addressed the matter
As disclosed in Notes 2 and 16 of the financial report, following an impairment charge of $11,216,000 with respect to management's assessment of goodwill impairment, the Group was in breach of the financial covenants associated with its borrowings at 30 June 2018. This triggered a review event with the financier as at 30 June 2018. As a result $7,712,000 of bank loans and lease finance have been reclassified as current liabilities in the statement of financial position. As disclosed in Note 2 of the financial report, the Directors concluded that in their opinion there are reasonable grounds to believe that the Group has the ability to pay its debts as and when they fall due. The financial report has been prepared on a going concern basis. The going concern assumption is fundamental to the basis of preparation of the financial report. Accordingly, we considered this to be a key audit matter.	Our audit procedures included the following: · Evaluated the assumptions made in the cash flow forecasts used to support the directors going concern assessment. · Considered the impact of a range of sensitivities to the cash flow model, focusing on whether any reasonably possible change would impact upon the Directors' conclusions. · Assessed the consistency of the assumptions included in the going concern cash flow model with those used in the Group's impairment testing referred to above and statements related to future plans and commitments contained in the other information set out in the annual report and directors' report. · Obtained the financier's approval letter to change the business finance facilities due to the Group's breach of certain financial covenants related to its borrowings as at 30 June 2018, and considered the revised terms to which the Group is subject prospectively, as disclosed in Notes 2 and 16 of the financial report.

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 Company's 2018 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 we do not and will not express any form of assurance conclusion thereon, with the exception of the Remuneration Report and our related assurance opinion.

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

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

Responsibilities of the Directors for the Financial Report

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

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

Auditor's Responsibilities for the Audit of the Financial Report

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

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

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

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

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

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

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

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

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

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

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

Report on the Audit of the Remuneration Report

Opinion on the Remuneration Report

We have audited the Remuneration Report included in pages 6 to 12 of the directors' report for the year ended 30 June 2018.

In our opinion, the Remuneration Report of Inabox Group Limited for the year ended 30 June 2018, complies with section 300A of the *Corporations Act 2001.*

Responsibilities

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

Ernst & Young

Ernst & Young

Julian M. O'Brien
Partner
Sydney
27 September 2018

The shareholder information set out below was applicable as at 31 August 2018.

Distribution of equitable securities

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

	Number of holders of ordinary shares	Number of holders of options/ rights over ordinary shares
1 to 1,000	155	-
1,001 to 5,000	195	-
5,001 to 10,000	59	-
10,001 to 100,000	83	7
100,001 and over	26	1
	518	8
Holding less than a marketable parcel	131	-

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	4,202,437	17.64
DIUT NOMINEES PTY LTD < DUNCAN INVESTMENTS UNIT A/C >	2,651,260	11.13
KIUT NOMINEES PTY LTD < KAY INVESTMENTS UNIT A/C >	2,651,260	11.13
GIUT NOMINEES PTY LTD < GOULD INVESTMENTS UNIT A/C >	2,441,253	10.25
MR PETER KAZACOS & MS VICKI KAZACOS	2,117,641	8.89
M2 GROUP LTD	1,666,667	7.00
MRS AMANDA ORPHANIDES	628,827	2.64
ORPHANIDES INVESTMENTS PTY LTD < ORPHANIDES FAMILY SUPER A/C >	619,665	2.60
MR MATTHEW JAMES COOK & MS KYLIE LYNETTE NUSKE < VISION SPLENDID SUPER A/C >	335,000	1.41
J P MORGAN NOMINEES AUSTRALIA LIMITED	256,413	1.08
MCCLARKE SMSF PTY LTD < MCCLARKE SUPER FUND A/C >	227,400	0.95
MR JAYDEN ZERNICH	214,167	0.90
MR NICHOLAS WILLIAM MARLIN	172,830	0.73
CORFE ASSOCIATES PTY LTD < CORFE ASSOCS SUPER FUND A/C >	164,637	0.69
MR NICHOLAS DERMOTT MCDONALD	151,419	0.64
MR NORMAN COLBURN MAYNE < N C MAYNE FAMILY FUND A/C >	150,000	0.63
MR KANE MIOS < MIOS FAMILY A/C >	132,871	0.56
BNP PARIBAS NOMINEES PTY LTD < IB AU NOMS RETAILCLIENT DRP >	131,901	0.55
MR ROWAN MARCUS CARDILLO	130,000	0.55
MR KIM BEE TAN & MRS VERNA SUAT WAH TAN < PERFECT PAIR SUPER FUND A/C >	119,599	0.50
	19,165,247	80.47

Unquoted equity securities

	Number on issue	Number of holders
Options over ordinary shares	1,272,435	4
Performance rights over ordinary shares	477,357	5

Substantial holders

Substantial holders in the company are set out below:

	Ordinary shares	
	Number held	% of total shares issued
NATIONAL NOMINEES LIMITED ACF AUSTRALIAN ETHICAL INVESTMENT LIMITED	4,202,437	17.64
DIUT NOMINEES PTY LTD (DUNCAN INVESTMENTS UNIT A/C)	2,651,260	11.13
KIUT NOMINEES PTY LTD (KAY INVESTMENTS UNIT A/C)	2,651,260	11.13
GIUT NOMINEES PTY LTD (GOULD INVESTMENTS UNIT A/C)	2,441,253	10.25
MR PETER KAZACOS & MS VICKI KAZACOS	2,117,641	8.89
M2 GROUP LTD	1,666,667	7.00

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	Lisa Dadswell
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/