# ASIA PACIFIC DIGITAL LIMITED

ABN 30 000 386 685

# Preliminary Final Report
## Appendix 4E
### Year Ended 30 June 2014

# ASIA PACIFIC DIGITAL Limited
ABN 30 000 386 685
Appendix 4E
For the Year Ended 30 June 2014

**Current Period:** **30 June 2014**

**Previous Corresponding Period (PCP):** **30 June 2013**

## 1. Results for announcement to the market

| | 30-Jun-14 $000's | 30-Jun-13 $000's | Change $000's | Change % |
|---|---|---|---|---|
| Revenue from ordinary activities | 35,291 | 29,856 | 5,435 | 18% |
| Net loss from continuing operations after tax attributable to members | (1,257) | (378) | (879) | (233)% |
| Net loss for the period attributable to members | (1,257) | (378) | (879) | (233)% |
| Earnings before interest, tax, depreciation, amortisation and impairment (EBITDA) | 667 | 1,008 | (341) | (34)% |

## 2. Dividends

| Dividends (distributions) | Amount per security | Franked amount per security |
|---|---|---|
| Interim dividend | - | - |
| Previous corresponding period | - | - |

## 3. Net Tangible Assets per Security

| | Current period | Previous corresponding period |
|---|---|---|
| Net Tangible Assets per Ordinary Share | (0.1) cents | (0.3) cents |

This report should be read in conjunction with any public announcements made by the Company during the year ended 30 June 2014.

# Chairman's Review

On behalf of Directors I present the Preliminary Final Report of Asia Pacific Digital Limited (the "Group", "Company" or "APD") for the year ended 30 June 2014.

During FY14 the Company embarked on a significant shift in strategy as it recognised the need to achieve scale and grow. This led to the significant restructuring you've witnessed over the last nine months, and the beginning of the Company's transition into a regional digital marketing and commerce leader.

At the time of the restructuring, when the Company announced that it would acquire three new divisions, we indicated that the merged business would have annualised revenues of over $50m and would use its Australasian operating earnings to grow in Southeast Asia.

The acquisition and consequent reshaping of the Company's business mix and management team occurred during the final quarter of the year and as a consequence its financial performance to 30 June 2014, with group revenues of $35.3m and a net loss of $1.3m, bears only limited resemblance to the business going forward.

Therefore this review focuses on why we are going on the journey, how we are going to get there and how we are going to measure our progress.

**Why we are going on this journey**

Our customers are now telling us that in today's digital marketplace, the fragmented vendor ecosystem makes it difficult to build brands and sell to consumers online with transparency and accountability. With multiple vendors each competing to provide individual service lines like digital strategy, technology, demand generation, CRM and analytics, customers can struggle to derive value from their online spend. This is because few digital marketing and commerce businesses like Asia Pacific Digital can act as *business partners*, providing an integrated package with financial transparency and accountability. In other words, the digital value chain is somewhat broken. We are on a journey to improve it.

Before becoming Asia Pacific Digital, Digital Performance Group owned two customer acquisition businesses in a maturing market: dgm and Empowered Communications. With the addition of Next Digital, Jericho and Asia Pacific Digital eCommerce to the mix, the Company now spans the value chain and has the capability to provide a significantly more seamless and accountable service to its clients.

Meanwhile, our core Australian and New Zealand markets are maturing. This has led us to take the great skills, experience and client relationships we have built in Australia and New Zealand to enable us to focus on new growth regions in Southeast Asia and China.

Three year compound annual growth rates in digital advertising and commerce in Australia are forecast at around 10%, whereas in China and Southeast Asia the same growth rates are running at 30-50%, typically off a lower base.

Finally, Australia and New Zealand are now high cost markets and it is not possible to compete against international peers without placing vital technology and operational resources in lower cost markets. The pending opening of the Group's new 120 seat Regional Operations Centre in Manila evidences the seriousness with which we take the mission to increase productivity and ensure that our cost to serve is internationally competitive.

**How we are going to get there**

Over the past five years the businesses that now make up Asia Pacific Digital have been acquired from different owners. Given the diverse origins of our businesses, it has been necessary to work to overcome the structural and cultural barriers which prevent collaboration.

We currently own 100% of every business in our stable. In addition there are currently no earn-outs or minority shareholdings in our companies, and there are clearly established business rules that govern how we work together to serve clients. Importantly, the management teams within our businesses come to work not because they are working through an earn out, after which they'll probably leave, but because they want to be part of our journey to provide a seamless service to clients. It has taken time to achieve the right balance and personnel.

In our experience, getting the structure right is just the first important step. The next is to build a culture that recognises that serving clients well across the value chain is the end game, and that profits will follow.

With those principles in mind, we're building out our core businesses across the region. We are focused on Australia, New Zealand, China and Southeast Asia. We do not expect to target Japan, South Korea, Taiwan or India in the near term, because we don't currently have the capital, skills or bandwidth to succeed in those markets.

We are using the cash flows we generate from Australia and New Zealand to build new businesses in China, the Philippines, Malaysia and Singapore. We are also looking for opportunities to extend our footprint into Indonesia and Thailand. We intend buying small, high potential businesses in our chosen markets then building them, just as our team in Malaysia has done so successfully since joining the Group three years ago.

The ultimate evidence that we can work together across geographic and service line boundaries is that we can partner with clients to build eCommerce ventures, taking the same risks as our business partners, and reaping the same rewards. This is difficult to execute and few competitors can offer this capability. By way of example, our partnerships with Cellarmasterwines and Advintage are supported by multi-disciplined teams operating in six countries, all with one objective: to grow our partners' businesses and share in the increases in revenue and shareholder value that we generate.

The initial pilot, www.cellarmasterwines.com, has been by no means easy. There has been an enormous amount of time and money spent to build our 19% stake but the team is now working well and we have proven that our integrated approach can successfully build eCommerce businesses. Whether the business of Cellarmasterwines is itself a major success or not, we now have a live, proven case study that has enabled us to forge a new partnership with www.advintage.co.nz. We have several more new ventures in the pipeline.

**How we are going to measure our progress**

As at 30 June around 80% of our revenues came from Australia and about 40% of our employees were based in Asia. We've set ourselves some ambitious three year goals that we think will drive value for our shareholders, clients and employees alike:

- 50% of group revenues outside Australia;
- 50% of employees located in Asia;
- a minimum 30% organic growth rate in Asia; and
- delivering a minimum break even operating EBITDA result while we do this.

Achieving 50% of our revenues outside Australia is going to require acquisitions and more capital. We are evaluating a significant number of potential acquisitions however to proceed to execution they need to represent strong business and cultural fits, and have to be available at accretive pricing - by no means an easy task in Asia.

What will success look like in three years? Success will be a thriving business in Australia and New Zealand with effective beachheads throughout Southeast Asia, serving local and international clients, run substantially by local people. It will offer uniformity of service, it will be growing at a fast clip, and it will be building successful eCommerce ventures capable of being monetised.

Finally, the path to success will by no means be linear, and we expect there to be highs and lows along the way. We have now launched new operations in several countries and logic says that despite rigorous planning and recruitment some of these will work, some won't, and some will be slower to build than planned - so there is an element of uncertainty ahead of us. Wherever we get it wrong we plan to "fail fast" and move on quickly. The goal is worthwhile, and we are now underway.

My fellow Directors and I would like to thank Asia Pacific Digital's customers, shareholders and employees for their continuing support.

Roger Sharp
Executive Chairman

## OPERATING AND FINANCIAL REVIEW

### Operating results for the year

Consolidated earnings from continuing operations before interest, tax depreciation, amortisation and impairment losses (EBITDA) were $667,000 (2013: $1,008,000). The consolidated entity net loss after income tax for the financial year ended 30 June 2014 was ($1,257,000) (2013: $378,000).

### Principal Activities

During the year the principal services and technologies provided within the consolidated entity were:

- digital strategy, creative and technology solutions (**Strategies and Solutions Division** - Next Digital);
- online lead and demand generation (**Customer Acquisition Division** - dgm and Empowered);
- customer retention and engagement (**Customer Management Division** - Jericho); and
- end-to-end **eCommerce** services (**eCommerce Division** - Asia Pacific Digital eCommerce).

### Divisional Activities and Performance

The Group formally acquired the Asia Pacific Digital group including Next Digital, Jericho and eCommerce on 31 March 2014 and was subsequently rebranded. In the period between April and financial year end considerable effort was made to integrate people, systems and business processes. That process will continue for some time.

The Company accelerated its Asian expansion plans immediately after the transaction was settled, increasing recruitment and infrastructure spending in several key centres, in particular Shanghai, Manila, Kuala Lumpur and Singapore.

By year end, the Company had begun to establish an operating rhythm, with its four divisions working together to win and service new clients. There have been positive early signs of new client wins and momentum. Considerable effort was put into establishing the group's new Regional Operations Centre in Manila which is expected to be activated in October 2014.

### Strategies and Solutions

Next Digital joined the group in the last eleven weeks of the financial year and did not have a material impact on the full year result, delivering revenues of $4,063,000 and EBITDA ($173,000) for the period (reflecting integration costs and the acceleration of its growth in Asia).

During the final quarter Next Digital established new infrastructure and teams in Shanghai, Manila, Kuala Lumpur and Singapore. Costs and headcount were reduced in Australia to pave the way for an improved financial performance in FY15. The Global Clients division continued its strong ten year growth path. Ford Motor Company is now the group's largest client and Next Digital now has three of the group's top ten clients, with two based outside Australia.

### Customer Acquisition

Empowered and dgm delivered revenues of $29,275,000 for the full year (PCP: $29,856,000) and EBITDA of $2,835,000 (PCP: $2,767,000).

Empowered has begun to show a resurgence in momentum and earnings, driven by improved lead generation and market research activities, and the launch of its long anticipated co-registration platform for clients seeking new customer sign-ups. dgm had a mixed year, with its Affiliate operations material negatively impacted by the loss of Apple and Westpac as major affiliate clients during the first half of FY14, while the Search channel had an outstanding year with very strong year-on-year growth and substantial new client wins including eBay and Harvey Norman.

Both Empowered and dgm are currently in advanced planning to enter South East Asia and intend to adopt a single new brand covering all customer acquisition operations.

### Customer Management

Jericho also joined the group in the last eleven weeks of the financial year and did not have a material impact on the group result, delivering revenues of $1,513,000 and EBITDA ($4,000) for the period (like Next Digital, also reflecting integration costs and the acceleration of its growth initiatives in Asia).

Jericho continued to grow in Australia and Asia during the period. A highlight of the reporting period was the migration of all clients off its predecessor's legacy platform in Australia to SmartMailPro, Jericho's proprietary marketing technology platform.

### eCommerce

eCommerce delivered revenues of $440,000 for the period and EBITDA of ($17,000). Immediately prior to year end eCommerce increased its focus on eCommerce ventures that enable the Group to share in the risks and rewards of the eCommerce business model. We have now entered two ventures in which we are entitled to a share of revenues and equity participation (www.cellarmasterwines.com and www.advintage.co.nz).

Revenues for eCommerce ventures will be brought to account in line with the works to be undertaken over a venture's life (currently anticipated to be five years). Revenues to 30 June 2014 included partial recognition of the value of the equity position in the parent company of www.cellarmasterwines.com.

With a promising pipeline of new venture opportunities under consideration, it is now evident that the eCommerce division occupies a unique market position. As a result, the division is transitioning away from its former fee-for-service model and is focusing on establishing a small portfolio of ventures that will deliver growing revenue streams.

**Business Intelligence**

During the period the Group spent considerable time and cost building out a new business intelligence product that will enable clients to review the performance of their marketing channels and to optimise their marketing spend.

Once the product has been rolled out to our eCommerce ventures we intend launching a new business unit through offering a productised version to our client base.

**Corporate costs**

Corporate costs for the period were $1,974,000 (PCP: $1,759,000), reflecting the integration of the corporate operations of the acquired Group and merger transaction costs. The Group now has corporate operations in Sydney and Singapore, with the regional team in Singapore fully engaged in reviewing acquisitions and implementing organic growth strategies around the region. A number of potential acquisition targets were reviewed in Asia during the period.

**Financial position**

The net assets of the Group have increased by $5,793,000 from $6,080,000 at 30 June 2013 to $11,873,000 at 30 June 2014. The net assets of Asia Pacific Digital Australia Pty Ltd as at 30 June 2014 were $1,660,000.

The major balance sheet movements during FY2014 were:

- an increase in paid up capital of $3,887,000 following the placement in May 2014 to regional fund managers and sophisticated investors;
- an increase in total interest bearing loans and borrowings of $4,960,000 as a result of assuming the Asia Pacific Digital Australia Pty Ltd convertible note facility of $5,500,000 and an increase in the loan with Co-Investor Capital Partners Pty Ltd of $203,000 offset by an decrease in the NAB debtors finance facility of $159,000 and a reduction in the vendor finance loan of $584,000 for the acquisition of Viva9 in August 2012;
- a decrease in equity of $12,311,000 for the common control reserve booked following the acquisition of Asia Pacific Digital Australia Pty Ltd;
- an increase in investments of $2,851,000 for shareholdings in aCommerce (the Southeast Asian end-to-end e-commerce logistics service provider) and Macro Wines and Spirits Asia (the Hong Kong based parent of www.cellarmasterwines.com); and
- an increase in goodwill of $3,014,000 relating to pre-existing goodwill in Asia Pacific Digital Australia Pty Ltd.

## Statement of Comprehensive Income
For the Year Ended 30 June 2014

| | Note | 2014 $000's | 2013 $000's |
|---|---|---|---|
| **Continuing operations** | | | |
| Rendering of services | | 35,291 | 29,856 |
| Cost of sales | | (21,643) | (19,061) |
| Employee benefits expense | 3(b) | (9,192) | (6,682) |
| Business acquisition costs | | (225) | (146) |
| Restructuring | | (299) | (371) |
| Other expenses | 3(c) | (3,265) | (2,588) |
| **Earnings before interest, tax, depreciation amortisation and impairment losses (EBITDA)** | | **667** | **1,008** |
| Depreciation and amortisation | 3(a) | (1,466) | (1,148) |
| **Loss from continuing operations before interest and tax** | | **(799)** | **(140)** |
| Finance income | | 19 | 8 |
| Finance costs | | (667) | (483) |
| **Loss from continuing operations before income tax** | | **(1,447)** | **(615)** |
| Income tax benefit | | 190 | 237 |
| **Loss from continuing operations after income tax** | | **(1,257)** | **(378)** |
| **Loss for the period attributable to owners of the parent** | | **(1,257)** | **(378)** |

Earnings per share for the loss from continuing operations attributable to the ordinary equity holders of the parent:

| | | *Cents* | *Cents* |
|---|---|---|---|
| - basic earnings per share | 4 | (0.12) | (0.05) |
| - diluted earnings per share | 4 | (0.12) | (0.05) |

| | | | |
|---|---|---|---|
| **Loss for the period** | | **(1,257)** | **(378)** |
| **Other comprehensive income / (loss)** | | | |
| Exchange difference on translation of foreign operations | | 83 | - |
| Net loss on available – for – sale financial assets | | (284) | - |
| Income tax effect | | 85 | - |
| | | (199) | - |
| **Other comprehensive loss for the year, net of tax** | | **(116)** | **-** |
| **Total comprehensive loss for the period attributable to owners of the parent** | | **(1,373)** | **(378)** |

The statement of comprehensive income is to be read in conjunction with the notes to the report.

## ASIA PACIFIC DIGITAL LIMITED

ABN 30 000 386 685

PRELIMINARY FINAL REPORT

### Statement of Financial Position
### For the Year Ended 30 June 2014

| | Note | 2014 $000's | 2013 $000's |
|---|---|---|---|
| **ASSETS** | | | |
| **Current assets** | | | |
| Cash and cash equivalents | 5 | 2,425 | 76 |
| Trade and other receivables | | 9,129 | 5,568 |
| Other financial assets | | 83 | - |
| Other | | 655 | 53 |
| **Total current assets** | | **12,292** | **5,697** |
| **Non-current assets** | | | |
| Other financial assets | | 843 | 59 |
| Plant and equipment | | 544 | 126 |
| Deferred tax assets | | 288 | 419 |
| Investments | 6 | 2,851 | - |
| Intangible assets | | 4,119 | 1,418 |
| Goodwill | | 10,607 | 7,593 |
| **Total non-current assets** | | **19,252** | **9,615** |
| **Total assets** | | **31,544** | **15,312** |
| **LIABILITIES** | | | |
| **Current liabilities** | | | |
| Trade and other payables | | 7,587 | 4,534 |
| Provisions | | 1,516 | 724 |
| Interest-bearing loans and borrowings | 7 | 2,321 | 3,038 |
| Provision for Income tax | | 190 | - |
| Deferred income | | 557 | 90 |
| **Total current liabilities** | | **12,171** | **8,386** |
| **Non-current liabilities** | | | |
| Interest-bearing loans and borrowings | 7 | 6,400 | 723 |
| Deferred income | | 625 | - |
| Provisions | | 475 | 123 |
| **Total non-current liabilities** | | **7,500** | **846** |
| **Total liabilities** | | **19,671** | **9,232** |
| **Net assets** | | **11,873** | **6,080** |
| **EQUITY** | | | |
| Contributed equity | | 128,850 | 109,275 |
| Reserves | | (8,797) | 3,728 |
| Accumulated losses | | (108,180) | (106,923) |
| **Total equity attributable to equity holders of the parent** | | **11,873** | **6,080** |

The statement of financial position is to be read in conjunction with the notes to the report, in particular Note 1 relating to going concern.

## Statement of Changes in Equity
For the Year Ended 30 June 2014

| | Note | Ordinary shares $000's | Accumulated losses $000's | Share based payment reserve $000's | Common control reserve $000's | Available-for-sale reserve $000's | Foreign currency translation reserve $000's | Total $000's |
|---|---|---|---|---|---|---|---|---|
| **At 1 July 2013 as reported in the 2013 annual report** | | 109,275 | (106,923) | 3,728 | - | - | - | 6,080 |
| Loss for period | | - | (1,257) | - | - | - | - | (1,257) |
| Other comprehensive (loss) / income for the period | | - | - | - | - | (199) | 83 | (116) |
| Total comprehensive (loss) / income | | - | (1,257) | - | - | (199) | 83 | (1,373) |
| Transactions with owners in their capacity as owners: | | | | | | | | |
| Acquisition of subsidiary | 9(1) | 15,720 | - | 295 | (12,311) | - | (393) | 3,311 |
| Share placement | | 4,114 | - | - | - | - | - | 4,114 |
| Share placement expenses | | (229) | - | - | - | - | - | (229) |
| Deferred tax movements on share issue costs | | (30) | - | - | - | - | - | (30) |
| **At 30 June 2014** | | **128,850** | **(108,180)** | **4,023** | **(12,311)** | **(199)** | **(310)** | **11,873** |

| | Ordinary shares $000's | Accumulated losses $000's | Share based payment reserve $000's | Common control reserve $000's | Available-for-sale reserve $000's | Foreign currency translation reserve $000's | Total $000's |
|---|---|---|---|---|---|---|---|
| **At 1 July 2012 as reported in the 2013 annual report** | 109,275 | (106,545) | 3,976 | - | - | - | 6,706 |
| Total comprehensive loss for the period | - | (378) | - | - | - | - | (378) |
| Transactions with owners in their capacity as owners: | | | | | | | |
| Cost of share based payments | - | - | (248) | - | - | - | (248) |
| **At 30 June 2013** | **109,275** | **(106,923)** | **3,728** | **-** | **-** | **-** | **6,080** |

The statement of changes in equity is to be read in conjunction with the notes to the report.

## Cash Flow Statement
For the Year Ended 30 June 2014

| | Note | 2014 $000's | 2013 $000's |
|---|---|---|---|
| **Cash flows from operating activities** | | | |
| Receipts from customers | | 38,063 | 32,596 |
| Payments to suppliers and employees | | (37,747) | (31,775) |
| Payments for business acquisition costs | | (172) | (146) |
| Payments for restructuring | | (424) | (246) |
| Interest received | | 19 | 23 |
| Borrowing costs paid | | (376) | (301) |
| Income tax paid | | (181) | - |
| **Net cash (used in) / provided by operating activities** | 5 | **(818)** | **151** |
| **Cash flows from investing activities** | | | |
| Payments for plant and equipment | | (82) | (109) |
| Payments for intangible assets | | (584) | (559) |
| Purchase of investments | | (1,078) | - |
| Consideration paid for acquisition of subsidiaries | 9 | (415) | (339) |
| Cash acquired on acquisition of subsidiary | 9 | 2,381 | 424 |
| Payment of term deposit | | (119) | (59) |
| Refund of term deposits | | - | 233 |
| **Net cash provided by / (used in) investing activities** | | **103** | **(409)** |
| **Cash flows from financing activities** | | | |
| Proceeds from issues of shares | | 4,114 | - |
| Proceeds from borrowings | | (159) | 816 |
| Payment of share placement costs | | (228) | - |
| Repayment of borrowings – Related party loan | | - | (282) |
| Repayment of borrowings – Vendor financing | | (601) | (288) |
| Payment of finance fees | | (73) | (111) |
| **Net cash provided by financing activities** | | **3,053** | **135** |
| **Net increase / (decrease) in cash and cash equivalents held** | | 2,338 | (123) |
| Net foreign exchange difference | | 11 | - |
| Cash and cash equivalents at the beginning of the financial year | | 76 | 199 |
| **Cash and cash equivalents at the end of the financial year** | 5 | **2,425** | **76** |

The cash flow statement is to be read in conjunction with the notes to the report.

Notes to the Financial Statements
For the Year Ended 30 June 2014

## 1. STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES

**Statement of Compliance**

The preliminary consolidated final report has been prepared in accordance with ASX Rule 4.3.A, the disclosure requirements of ASX Appendix 4E, Australia Accounting Standards and the Corporations Act 2001.

The preliminary consolidated final report does not include all the notes of the type normally included in an Annual Financial Report and should be read in conjunction with the Annual Financial Report for Asia Pacific Digital Limited (previously Digital Performance Group Ltd) for the financial year ended 30 June 2013, the December 2013 half-year report and any public announcement made by the Company during the year ended 30 June 2014 in accordance with the continuous disclosure requirements of the Listing Rules of the Australian Securities Exchange.

**Basis of preparation**

The preliminary consolidated final report has been prepared on a historical cost basis except available-for-sale (AFS) investments which are at fair value.

The financial report is presented in Australian dollars and all values are rounded to the nearest thousand dollars ($000) unless stated otherwise.

**Going Concern**

The Directors believe that the Company will be able to continue as a going concern and, as a consequence, the financial statements have been prepared on a going concern basis which contemplates continuity of normal business activities and the realisation of assets and settlement of liabilities in the normal course of business.

The Directors are aware that as at 30 June 2014 the group had an excess of current assets over current liabilities of $0.1 million (30 June 2013: the group had an excess of current liabilities over current assets of $2.7 million).

The Directors note however that the net cash flow generated in operating activities for FY2014 was $(0.8) million. This amount includes payments for abnormal payments such as restructuring payments ($424,000) and business acquisition payments ($172,000).

The Directors note the financial support that the Company has received in the past from Co-Investor Capital Partners since it became the majority shareholder in 2008. Co-Investor Capital Partners currently holds 72% of the ordinary shares on issue in Asia Pacific Digital and provides a loan facility which the Company has regularly used to fund short term working capital requirements, and has in the past demonstrated a willingness to re-negotiate the term of the facility. If required, the Directors expect to continue to receive financial support from Co-Investor in order to meet all its obligations as and when they fall due.

As the Company's financial performance is primarily measured against EBITDA, the reported EBITDA is reconciled to the net cash flows used in operating activities as follows:

| | **$000's** |
|---|---|
| Net cash generated in operating activities | (818) |
| Adjusted for: | |
| Business acquisition costs | 172 |
| Restructuring | 424 |
| Net interest payments | 376 |
| Income tax paid | 181 |
| Net working capital movements | 332 |
| **Reported EBITDA** | **667** |

## 2. OPERATING SEGMENTS

**Identification of reportable segments**

The group has identified its operating segments based on the internal reports that are reviewed and used by the Board of Directors and executive management team (the chief operating decision makers) in assessing performance and in determining the allocation of resources.

The operating segments are identified by management based on the nature of the services provided. Discrete financial information about each of these operating businesses is reported to the executive management team on at least a monthly basis.

The reportable segments are based on aggregated operating segments determined by the similarity of the products produced and sold and/or the services provided, as these are the sources of the Group's major risks and have the most effect on the rates of return.

Geographically, the majority of customers are located in Australia.

**Types of products and services**

***Strategies and Solutions***

This segment provides digital strategy, creative, technology and digital marketing services.

***Customer Acquisition***

This segment provides performance based digital marketing services that focus on customer acquisition and lead generation such as search engine optimisation, paid search and affiliate marketing services.

***Customer Management***

This segment provides email marketing, messages services and campaign management services.

***eCommerce***

This segment provides end to end eCommerce services.

**Accounting policies and inter-segment transactions**

The accounting policies used by the Group in reporting segments internally is the same as those contained in note 1 to the final, with the exception of unallocated expenses as discussed below.

**Major customers**

The Group has a number of customers to which it provides services. The most significant customer accounts for 11.1% (2013: 14.5%) of external revenue.

Notes to the Financial Statements *(continued)*

## 2. OPERATING SEGMENTS *(continued)*

| **Year ended 30 June 2014**<br>**Revenue** | **Strategies & Solutions $000's** | **Customer Acquisition $000's** | **Customer Management $000's** | **eCommerce $000's** | **Total $000's** |
|---|---|---|---|---|---|
| Sales to external customers | 4,063 | 29,275 | 1,513 | 440 | 35,291 |
| Inter-segment sales | 37 | 1,153 | 36 | - | 1,226 |
| Total segment revenue | 4,100 | 30,428 | 1,549 | 440 | 36,517 |
| Inter-segment elimination | | | | | (1,226) |
| **Total consolidated revenue** | | | | | **35,291** |
| | | | | | |
| **Reconciliation of segment results to net loss after tax** | | | | | |
| Segment results (EBITDA before unallocated expenses) | (173) | 2,835 | (4) | (17) | 2,641 |
| Unallocated expenses | | | | | (1,974) |
| **EBITDA** | | | | | **667** |
| | | | | | |
| Depreciation and amortisation | (209) | (1,098) | (87) | (16) | (1,410) |
| Unallocated depreciation and amortisation | | | | | (56) |
| Loss before tax and net finance costs | | | | | (799) |
| Finance income | | | | | 19 |
| Finance costs | | | | | (667) |
| Loss before income tax | | | | | (1,447) |
| Income tax benefit | | | | | 190 |
| **Loss for the year** | | | | | **(1,257)** |

a) Includes Strategies and Solutions, Customer Management and eCommerce from date of acquisition i.e. 3 months.

b) Unallocated expenses are not considered part of the core operations of any segment and comprise the following:

- Non-executive Directors fees ($193,000);
- Corporate remuneration ($798,000);
- Audit, legal, ASX and other professional expenses ($231,000);
- Business acquisition costs ($225,000);
- Restructuring costs ($299,000); and
- Other corporate overheads ($228,000).

## Notes to the Financial Statements *(continued)*

### 2. OPERATING SEGMENTS *(continued)*

| Year ended 30 June 2013<br>**Revenue** | Strategies & Solutions $000's | Customer Acquisition $000's | Customer Management $000's | eCommerce $000's | Total $000's |
|---|---|---|---|---|---|
| Sales to external customers | N/A | 29,856 | N/A | N/A | 29,856 |
| Inter-segment sales | N/A | 546 | N/A | N/A | 546 |
| Total segment revenue | N/A | 30,402 | N/A | N/A | 30,402 |
| Inter-segment elimination | N/A | (546) | N/A | N/A | (546) |
| **Total consolidated revenue** | **N/A** | **29,856** | **N/A** | **N/A** | **29,856** |
| **Reconciliation of segment results to net loss after tax** | | | | | |
| Segment results (EBITDA before unallocated expenses) | N/A | 2,767 | N/A | N/A | 2,767 |
| Unallocated expenses | N/A | (1,759) | N/A | N/A | (1,759) |
| **EBITDA** | **N/A** | **1,008** | **N/A** | **N/A** | **1,008** |
| Depreciation and amortisation | N/A | (1,141) | N/A | N/A | (1,141) |
| Unallocated depreciation and amortisation | | | | | (7) |
| Loss before tax and net finance costs | | | | | (140) |
| Finance income | | | | | 8 |
| Finance costs | | | | | (483) |
| Loss before income tax | | | | | (615) |
| Income tax benefit | | | | | 237 |
| **Loss for the year** | | | | | **(378)** |

a) Unallocated expenses are not considered part of the core operations of any segment and comprise the following:

- Non-executive Directors fees ($218,000);
- Corporate remuneration ($422,000);
- Audit, legal, ASX and other professional expenses ($218,000);
- Share based payments ($-248,000);
- Business acquisition costs ($146,000);
- Restructuring costs ($371,000); and
- Other corporate overheads ($632,000).

| | 2014 $000's | 2013 $000's |
|---|---|---|
| **(i) Segment revenue reconciliation to the statement of comprehensive income** | | |
| Total segment revenue | 36,517 | 30,402 |
| Inter segment sales elimination | (1,226) | (546) |
| Total revenue | 35,291 | 29,856 |

Segment assets and liabilities not reported as these numbers are not specifically reported to the Board of Directors and executive management team, being the chief operating decision makers.

Notes to the Financial Statements *(continued)*

### 3. EXPENSES

| | 2014 $000's | 2013 $000's |
|---|---|---|
| **(a) Depreciation, amortisation and impairment** | | |
| *Depreciation and amortisation* | | |
| Depreciation of plant and equipment | 134 | 72 |
| Amortisation of intangible assets: | | |
| - Software | 909 | 595 |
| - Customer contracts | 355 | 481 |
| - Brand names | 68 | - |
| | 1,466 | 1,148 |
| **(b) Employee benefits expense** | | |
| Salaries and wages | 7,569 | 5,685 |
| Share-based payments | - | (248) |
| Superannuation | 637 | 513 |
| Annual leave benefits | 149 | 164 |
| Payroll tax | 406 | 316 |
| Training/recruitment/amenities | 332 | 155 |
| Other | 99 | 97 |
| | 9,192 | 6,682 |
| **(c) Other expenses** | | |
| Communication costs | 799 | 642 |
| Directors fees | 241 | 351 |
| Rent and office supplies | 1,400 | 1,005 |
| Professional fees | 248 | 173 |
| Other | 577 | 417 |
| | 3,265 | 2,588 |

Notes to the Financial Statements *(continued)*

## 4. EARNINGS PER SHARE

The following reflects the income used in the calculations of basic earnings per share.

### (a) Earnings used in calculating earnings per share

| | 2014 $000's | 2013 $000's |
|---|---|---|
| *For basic and diluted earnings per share:* | | |
| Net loss from continuing operations attributable to ordinary equity holders of the parent | (1,257) | (378) |
| Net loss attributable to ordinary equity holders of the parent | (1,257) | (378) |

### (b) Weighted average number of shares

| | 2014 000's | 2013 000's |
|---|---|---|
| Weighted average number of ordinary shares for basic earnings per share | 1,014,586 | 838,959 |
| Weighted average number of ordinary shares | 1,014,586 | 838,959 |

The earnings per share in the current and prior period exclude the effect of some options as they are anti-dilutive. These instruments could potentially dilute earnings per share in the future. There have been no transactions involving ordinary shares or potential ordinary shares that would significantly change the number of ordinary shares or potential ordinary shares outstanding between the reporting date and the date of completion of these financial statements.

## 5. CASH AND CASH EQUIVALENTS

| | 2014 $000's | 2013 $000's |
|---|---|---|
| Cash at bank | 2,425 | 71 |
| Cash on hand | - | 5 |
| Total cash and cash equivalents | 2,425 | 76 |

## Notes to the Financial Statements *(continued)*

### 5. CASH AND CASH EQUIVALENTS *(continued)*

**Reconciliation of the net loss after tax to the net cash flows from operations**

| | 2014 $000's | 2013 $000's |
|---|---|---|
| Loss after income tax | (1,257) | (378) |
| ***Non-cash flows in loss:*** | | |
| Depreciation and amortisation | 1,466 | 1,148 |
| Share-based payments | - | (248) |
| Capitalised interest expense | 16 | 26 |
| Amortisation of borrowing costs | 51 | 46 |
| ***Changes in assets and liabilities:*** | | |
| - Decrease/(increase) in trade and other receivables | (755) | (237) |
| - Decrease/(increase) in other assets | 294 | (142) |
| - Decrease/(increase) in deferred tax assets | (61) | 110 |
| - Decrease in deferred tax liabilities | (295) | (82) |
| - Increase/(decrease) in trade and other payables | (297) | 101 |
| - Increase/(decrease) in provisions | 20 | (193) |
| Net cash flows (used in) / from operating activities | (818) | 151 |

## 6. INVESTMENTS

| | 2014 $000's | 2013 $000's |
|---|---|---|
| **Non Current** | | |
| Unquoted equity shares (i) | 2,851 | - |
| | 2,851 | - |

(i) The Company's unquoted equity shares are available for sale investments carried at fair value with adjustments to the fair value recorded through OCI and consist of shareholdings in:

a. a Hong Kong wine eCommerce client pursuant to Asia Pacific Digital Pte Ltd entering into a 5 year agreement in December 2013 to provide end-to-end eCommerce and digital advertising services. As part compensation for the provision of these services, Asia Pacific Digital Pte Ltd has received a non-controlling shareholding of 16% and separately acquired a further 3% (2013: nil) in the client in March 2013. The carrying value of this investment is $1.8 million and it is denominated in US dollars.

b. a Southeast Asian end-to-end eCommerce logistics service provider in which the Company made a strategic equity investment in June 2014 to assist with its growth in the Asian region. The carrying value of this investment is $1.1 million and it is denominated in US dollars. The Company holds 4% (2013: nil) of the issued capital in this entity.

The Company assessed as at 30 June 2014 the fair value of its two unquoted equity investments. The fair value of the unquoted equity investments was calculated using valuation techniques based upon recent arm's-length market transactions between knowledgeable and willing parties. The fair value measurement hierarchy for these financial assets is using significant observable or level 2 inputs.

The fair value assessment of the Company's shareholding in the Hong Kong wine eCommerce client resulted in an unrealised loss of $284,000 being recognised as other comprehensive income (OCI) and credited in the available for sale reserve.

## 7. INTEREST BEARING LOANS AND BORROWINGS

| | 2014 $000's | 2013 $000's |
|---|---|---|
| **Current** | | |
| Bank receivables financing facility (i) | 1,656 | 1,815 |
| Secured loan (ii) | 384 | 358 |
| Vendor financing (iii) | 281 | 865 |
| | 2,321 | 3,038 |
| **Non-current** | | |
| Secured loan (ii) | 900 | 723 |
| Convertible debt facility (iv) | 5,500 | - |
| | 6,400 | 723 |

*(i) Bank receivables financing facility*
Deal Group Media Pty Ltd and Empowered Communications Pty Ltd have trade receivable finance facilities with the National Australia Bank. These loans are secured by fixed and floating charges over these companies.

*(ii) Secured loan from related party*
A senior secured loan facility with Co-Investor Capital Partners Pty Ltd, a related party. The principle is repayable over the period to 31 July 2016. The loan is secured by a charge over the Company. A variation to the loan agreement was executed on 30 June 2014 extending the loan repayment date to 31 July 2016.

## 7. INTEREST BEARING LOANS AND BORROWING *(continued)*

*(iii) Vendor financing*
An unsecured loan facility was entered into on 31 August 2012 with IMPG Digital Pty Ltd to finance the acquisition of Viva9 Pty Ltd. The initial face value of the loan was $1,154,000. The term of the loan is for 24 months to 30 November 2014 and the interest payable is 10% per annum, accrued daily and payable monthly in arrears.

*(iv) Convertible debt facility*
On 31 March 2014, as a condition under the Share Sale Agreement for acquisition of Asia Pacific Digital Australia Pty Ltd, the Company agreed to assume nine convertible debt facility agreements with a total face value of $5,500,000. Of the nine agreements, three were with related party financiers with a total face value of $2,800,000.

The facility must be repaid in full on 15 October 2016. The Financiers may elect to have part or all of their debt repaid by the Company issuing new shares to the Financiers at conversion windows at 24 months and 36 months into the facility, or in the event of an equity capital raising. The loans are secured by charges over the net assets of Next Digital Holdings Pty Ltd and Jericho Holdings Pty Ltd. In July 2014, $2.0 million of the facility was converted into equity (refer to note 8, Events After Balance Sheet Date).

**Fair values**
The carrying amount of the group's current and non-current interest bearing loans and borrowings approximate their fair value except for the convertible debt facility as follows:

| | Carrying Amount | | Fair Value | |
|---|---|---|---|---|
| | 2014 | 2013 | 2014 | 2013 |
| | $000 | $000 | $000 | $000 |
| **Financial Liabilities** | | | | |
| Interest-bearing loans and borrowings | | | | |
| Convertible debt facility | 5,500 | - | 6,010 | - |
| **Total** | **5,500** | **-** | **6,010** | **-** |

The fair values of these financial liabilities have been calculated by discounting the expected future cash flows at a rate representative of the market cost of each type of debt. The fair value measurement hierarchy for these financial liabilities is using level 3 inputs.

## 8. EVENTS AFTER THE BALANCE SHEET DATE

On 17 July 2014, the Company held an extraordinary general meeting of shareholders where it was resolved to approve the conversion of $2.0 million of secured debt into equity. The fully paid ordinary shares issued in relation to the conversion of the secured debt into equity were issued on 25 July 2014.

On 25 July 2014, the Company raised $0.2 million under a share purchase plan to existing shareholders.

On 25 July 2014, the Company issued 15,000,000 options with an exercise price of three cents each to Canaccord Genuity (Australia) Limited in consideration for services provided by Canaccord as lead manager in the Company's capital raising in May 2014. The options will not be quoted and will expire on 24 July 2017.

The financial effect of the above transactions have not been reflected in these financial statements

Notes to the Financial Statements *(continued)*

## 9. COMMON CONTROL ACQUISITION

On 31 March 2014, the Company acquired 100% of the shares in Asia Pacific Digital Australia Pty Ltd (Asia Pacific Digital Australia), an unlisted company operating in Australia, New Zealand, Singapore, China and Malaysia. The Company acquired Asia Pacific Digital because it enables it to become a regional digital commerce service provider. The information in this preliminary final report for the year to 30 June 2014 includes the results for Asia Pacific Digital Australia for the period from 1 April 2014 to 30 June 2014.

The acquisition of Asia Pacific Digital Australia was accounted for as a common control transaction as at the time of this transaction both the Company and Asia Pacific Digital Australia were controlled by the same shareholder, Co-Investor Capital Partners. The pooling of interest or predecessor accounting method was used. As a common control transaction, the acquisition does not reflect the fair value of assets and liabilities acquired or any recording of additional goodwill at the time of the acquisition of Asia Pacific Digital Australia.

The acquisition balance sheet of Asia Pacific Digital Australia reflects the values for assets and liabilities acquired from Asia Pacific Digital Australia accounting records. The difference between the fair value of the consideration given and the carrying value of the assets and liabilities acquired is recognised as a common control reserve in the consolidated financial statements.

The carrying values of the identifiable assets and liabilities of Asia Pacific Digital Australia as at the date of acquisition were:

| | Carrying value<br>$000 |
|---|---|
| Cash and cash equivalents | 2,381 |
| Trade receivables | 2,484 |
| Other current assets | 1,224 |
| Plant and equipment | 471 |
| Investment | 2,079 |
| Intangible assets | 3,450 |
| Goodwill | 3,014 |
| Other non-current assets | 742 |
| Deferred tax asset | 463 |
| Total assets | 16,308 |
| | |
| Trade and other payables | 3,727 |
| Deferred income | 1,450 |
| Interest bearing loans and borrowings | 5,500 |
| Provisions | 1,316 |
| Deferred tax liability | 1,004 |
| Total liabilities | 12,997 |
| | |
| Carrying value of identifiable net assets | 3,311 |
| Common control reserve arising on acquisition | 12,311 |
| Foreign currency translation reserve on acquisition | 393 |
| Share based payment reserve on acquisition | (295) |
| Cost of acquisition at 31 March 2014 | 15,720 |
| | |
| Cost of acquisition comprises: | |
| Shares issued (1) | 15,720 |
| | 15,720 |

(1) The issue of shares was approved by shareholders on 17 March 2014 and was issued in two tranches. The first tranche of $15,547,000 was issued on 22 April 2014. The second tranche of $173,000 (representing balance sheet adjustment items) was only able to be issued on 12 June 2014 (which was outside the approval timeframe advised in the Notice of Meeting) and therefore will be held in escrow until such time as their issue is further approved by shareholders at the 2014 annual general meeting.

Transaction costs associated with the acquisition amounted to $224,000.

Notes to the Financial Statements *(continued)*

## 9. COMMON CONTROL ACQUISITION *(continued)*

From the date of acquisition (31 March 2014), Asia Pacific Digital Australia Pty Ltd contributed $6,016,000 in revenue and a $1,243,000 net loss before tax (including restructuring costs) to the consolidated group.

Had the acquisition of Asia Pacific Digital Australia occurred at the beginning of the financial year, the Asia Pacific Digital Australia result would have been revenues of $21,760,000 and a loss before tax of $5,524,000. This loss before tax includes the impact of a loss on disposal of entities not acquired by the Company and associated transaction and restructuring costs.

### Information on acquisition made by Asia Pacific Digital Australia Pty Ltd

Asia Pacific Digital Australia Pty Ltd acquired Future Idea Group Sdn Bhd, a Malaysian digital advertising company in January 2012, prior to the acquisition of Asia Pacific Digital Australia Pty Ltd by the Company. In May 2014, Asia Pacific Digital Australia Pty Ltd paid the final purchase price instalment of $415,000 to the sellers of Future Idea Group Sdn Bhd as a performance based earn out.

## Additional Information

**AUDIT**

This report is based on accounts which are in the process of being audited. The accounts are likely to contain an independent audit report that is subject to an emphasis of matter where attention will be drawn to the matters outlined in Note 1 of this report regarding going concern as in previous corresponding periods.

Signed in accordance with a resolution of the Directors.

**PETER HYND**
Executive Director
Sydney, 29 August 2014