adcorp

**ADCORP AUSTRALIA LIMITED**

**Audited Full Year Results – 30 June 2011**

**Friday 26 August 2011**

| | |
|---|---|
| **Sales Turnover** | **$170.9M** |
| **Operating Revenue** | **$29.5M** |
| **Revenue Margin** | **17.3%** |
| **Operating Profit** | **$2.2M** |
| **Net Profit After Tax** | **$1.4M** |

Marketing and Advertising Group, Adcorp Australia Limited, today announced an Operating Profit of $2.205M, an increase of 134% over last year's $943,000.

Operating Profit before tax in the six months to June 2011 of $1.107M was similar to H1's $1.098M (stated before foreign currency translation expense/income).

The profit for the consolidated entity after tax and non-controlling interests has grown to $1.392M from the prior year's loss of $(7.138M).

Trading conditions remained challenging in the industry as a whole compounded by a series of natural disasters in both Australia and New Zealand. Adcorp successfully deployed risk management action plans in response to both the Queensland floods and the Christchurch earthquake to mitigate potential losses to the business from these events.

Despite a 6.4% reduction in billings of $11.622M to $170.952M and a 5.5% or $1.7M reduction in operating revenues, the company has reduced expenses by 9.7% to deliver solid growth in the bottom line.

The reduction in billings is primarily a result of the loss of clients from our subsidiary Andrews Advertising Pty Ltd, however this has been partially offset by new business including the Northern Territory Government's Interstate and International Advertising contract. Also contributing is an increase in higher margin consulting services projects, equating to a resultant revenue margin for the group of 17.3% which is similar to the prior year.

Overall expenditure reduced by $2.9M, of which $1.2M is attributable to the cessation of trading at Andrews Advertising Pty Ltd. The prior year included one-off restructuring and termination costs of $0.5M and we have seen the benefit of ongoing cost-saving initiatives flow through this financial year.

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The current year to June 2011 includes costs and expenses relating to the departure of staff from Andrews Advertising Pty Ltd and in relation to the ongoing case against the former Director and former Senior Executive of that company.

At the end of the financial year we held $10.273M in cash (June 2010 $10.875M) and while we still have access to a $6M working capital facility with ANZ Bank, we had no drawings outstanding on this facility at 30 June 2011 (June 2010 Nil Drawn).

Adcorp have also restructured our client-facing functions to deliver a more local and targeted service to our clients across Australia and New Zealand.

In January 2011 Adcorp's contract with the NSW Government for Non-Campaign advertising was extended another 12 months; the first of two option periods following the original three year contract term.

The contract with the WA Government for Non-Campaign advertising services which was due to expire on 31 July 2011, has also been extended with Adcorp being engaged for a further two year period.

Adcorp starts the new financial year in a good position to seize opportunities and grow; although markets remain challenging and uncertain. We have a committed and engaged management team and skilled, passionate people providing the best possible service and marketing solutions for our clients.

The Directors are confident in the continued success of the business and have declared a final dividend of 1cent per share fully franked, out of the current year profits to add to the interim dividend declared in February 2011 of 1cent per share fully franked.

~ends~

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For further information, please contact:
David Morrison
Chief Executive Officer
Adcorp Australia Limited
+ 61 2 8524 8500

# APPENDIX 4E
# PRELIMINARY FINAL REPORT

**1. Company details**

| | |
|---|---|
| Name of entity: | **Adcorp Australia Limited** |
| ABN: | 72 002 208 915 |
| Reporting period: | **Year ended 30 June 2011** |
| Previous corresponding period: | Year ended 30 June 2010 |

**2. Results for announcement to the market**

| | | | | |
|---|---|---|---|---|
| Revenues from ordinary activities | down | 5.1% | to | $ 29,525,000 |
| Profit from ordinary activities after tax attributable to the owners of Adcorp Australia Limited | up | 119.5% | to | $ 1,392,000 |
| Profit for the period attributable to the owners of Adcorp Australia Limited | up | 119.5% | to | $ 1,392,000 |

*Dividends*

| | Amount per security | Franked amount per security |
|---|---|---|
| Interim dividend for the year ended 30 June 2011 paid on 31 March 2011. | 1.000 cents | 1.000 cents |

*Comments*

The profit for the consolidated entity after providing for income tax and non-controlling interest amounted to $1,392,000 (30 June 2010: loss of $7,138,000).

For detailied commentary on results for the year, refer to the Full Year Results Announcement preceeding this Appendix 4E.

**3. NTA backing**

| | Reporting period | Previous corresponding period |
|---|---|---|
| Net tangible asset backing per ordinary security | 8.62 cents | 7.51 cents |

**4. Control gained over entities**

| | | |
|---|---|---|
| Name of entities (or group of entities) | Not applicable. | |
| Date control gained | | |
| Contribution of such entities to the reporting entity's profit/(loss) from ordinary activities during the period (where material) | | $ - |
| Profit/(loss) from ordinary activities after tax of the controlled entity (or group of entities) for the whole of the previous corresponding period (where material) | | $ - |

## 5. Loss of control over entities

| | | |
|---|---|---|
| Name of entities (or group of entities) | Not applicable. | |
| Date control lost | | |
| Contribution of such entities to the reporting entity's profit/(loss) from ordinary activities during the period (where material) | | $ - |
| Profit/(loss) from ordinary activities after tax of the controlled entity (or group of entities) whilst controlled during the whole of the previous corresponding period (where material) | | $ - |

## 6. Dividends

*Current period*

| | Amount per security | Franked amount per security |
|---|---|---|
| Interim dividend for the year ended 30 June 2011 paid on 31 March 2011. | 1.000 cents | 1.000 cents |

*Previous corresponding period*
There were no dividends paid or declared during the previous financial period.

## 7. Dividend reinvestment plans

*The following dividend or distribution plans are in operation:*

Not applicable.

The last date(s) for receipt of election notices for the dividend or distribution plans: Not applicable.

## 8. Details of associates and joint venture entities

| | Reporting entity's percentage holding | | Contribution to profit/(loss) (where material) | |
|---|---|---|---|---|
| Name of associate / joint venture | Current period | Previous corresponding period | Current period | Previous corresponding period |
| Not applicable. | | | | |
| *Group's aggregate share of associates and joint venture entities' profit/(loss) (where material)* | | | | |
| Profit(loss) from ordinary activities before income tax | | | $ - | $ - |
| Income tax on operating activities | | | $ - | $ - |

## 9. Foreign entities

*Details of origin of accounting standards used in compiling the report:*

Not applicable.

## 10. Audit qualification or review

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

The accounts have been audited and an unqualified opinion has been issued.

## 11. Attachments

*Details of attachments (if any):*

The Detailed Financial Report of Adcorp Australia Limited for the year ended 30 June 2011 is attached.

## 12. Signed

Signed: ______________________________ Date: 26 August 2011

Craig McMenamin
Company Secretary
Sydney

# Adcorp Australia Limited
**ABN 72 002 208 915**

# Detailed Financial Report - 30 June 2011

**Adcorp Australia Limited**
**Corporate directory**
**30 June 2011**

| | | |
|---|---|---|
| Directors | Bob Campbell<br>Ian Rodwell<br>David Morrison | |
| Company secretary | Craig McMenamin | |
| Notice of annual general meeting | The annual general meeting of Adcorp Australia Limited: | |
| | will be held at | the offices of Adcorp Australia Limited<br>Level 1<br>7 Kelly Street<br>Ultimo NSW 2007 |
| | time | 11:00 AM |
| | date | Monday 28 November 2011 |
| Registered office | Level 1<br>7 Kelly Street<br>Ultimo NSW 2007 | |
| Principal place of business | Level 1<br>7 Kelly Street<br>Ultimo NSW 2007 | |
| Share register | Computershare Investor Services Pty Ltd<br>Level 3<br>60 Carrington Street<br>Sydney NSW 2000<br>Phone: 1300 787 272 | |
| Auditor | Ernst & Young<br>680 George Street<br>Sydney NSW 2000 | |
| Stock exchange listing | Adcorp Australia Limited shares are listed on the Australian Securities Exchange (ASX code: AAU) | |
| Website address | www.adcorp.com.au | |

The directors present their report, together with the financial statements, on the consolidated entity (referred to hereafter as the 'consolidated entity') consisting of Adcorp Australia Limited (referred to hereafter as the 'company' or 'parent entity') and the entities it controlled for the year ended 30 June 2011.

**Directors**
The following persons were directors of Adcorp Australia Limited during the whole of the financial year and up to the date of this report, unless otherwise stated:

Bob Campbell
Ian Rodwell
David Morrison (appointed on 21 March 2011)
Matthew Mellor (resigned on 18 March 2011)

**Principal activities**
During the financial year the principal continuing activities of the consolidated entity consisted of:
- Advertising agency services specialising in human resources, real estate government, motor vehicle, education and retail;
- Website design, development and database support services; and
- Digital marketing services and consulting, including supply of web-based products, and strategic employment solutions.

**Dividends**
Dividends paid during the financial year were as follows:

| | 2011 $'000 | 2010 $'000 |
|---|---|---|
| Interim dividend for the year ended 30 June 2011 of 1 cent per ordinary share paid on 31 March 2011 fully franked based on a tax rate of 30% | 607 | - |

The dividend payment of $261,000 in the comparative year relates to the non-controlling interest.

**Review of operations**
The profit for the consolidated entity after providing for income tax and non-controlling interest amounted to $1,392,000 (30 June 2010: loss of $7,138,000).

The profit for the consolidated entity after tax and non-controlling interests has grown to $1.392m from the prior year's loss of $7.138m.

Trading conditions remained challenging in the industry as a whole, compounded by the series of natural disasters both in Australia and New Zealand and indeed further afield in regions serviced by some of our clients. We successfully deployed our risk management action plans in response to the Queensland floods and the Christchurch earthquake to mitigate the potential losses to the business from these events.

Operating profit before tax, foreign currency translation, non-controlling interest and impairment, has more than doubled from $0.943m in the prior year, to $2.205m in this financial year. Profit in the six months to June 2011 of $1.107m was similar to H1's $1.098m (stated before foreign currency translation expense/income).

Despite a reduction in billings of $11.622m to $170.952m and a 5.5% ($1.7m) reduction in operating revenues, the company has reduced expenses for the 3rd consecutive year to deliver solid growth in the bottom line.

The reduction in billings is primarily a result of the loss of clients from our subsidiary Andrews Advertising Pty Ltd, however this has been partially offset by new business including the Northern Territory Government and an increase in higher margin consultative services projects, equating to a resultant revenue margin for the group of 17.1% which is similar to prior year.

Overall expenditure reduced by $2.9m, of which $1.2m is attributable to the cessation of trading at Andrews Advertising Pty Ltd. The prior year included one-off restructuring and termination costs of $0.5m and we have seen the benefit of ongoing cost saving initiatives flow through to this financial year.

The current year to June 2011 includes costs and expenses arising from the departure of staff from Andrews Advertising Pty Ltd and in relation to the ongoing case against the former director and former senior executive of Andrews Advertising Pty Ltd.

Client service expenditure reduced by $2.2m to $18.9m as a result of reduced costs in Andrews Advertising Pty Ltd, and a reduction in management labour after restructuring in May 2010.

Administration expenditure also reduced by $0.2m with lower bank charges and insurance costs during the financial year.

Marketing expenses increased by $0.2m to $1.7m and include one-off project and travel costs for the implementation of a new property advertising system, and increased marketing expense as we commenced the process of refreshing the Adcorp Brand. That process will be completed in August 2011 and most affiliated costs have been expensed in the year to June 2011. This category also includes an increase in the provision for client doubtful debts which we consider prudent as at the 30 June 2011.

Occupancy and Communications expense reduced by $0.5m on the back of reduced asset depreciation charges as a result of the impairment of these assets at 30 June 2010. In addition we have reduced telecommunications charges though improved pricing with our service providers.

We have continued to improve the management of our receivables and are currently enhancing the processes and effectiveness of both billings and receivables functions.

At the end of the financial year we held $10.273m in cash (30 June 2010: $10.875m) and while we still have access to a $6m working capital facility with the ANZ bank, we had no drawings outstanding on this facility at 30 June 2011 (30 June 2010: Nil drawings).

We have also restructured our client-facing functions to deliver a more local and specific ‘targeted’ service to our clients across Australia and New Zealand. As a result we have placed agency managers in our offices in New South Wales, Queensland and Victoria, effective July 2011, to focus on local client needs and solutions specific to their markets.

Adcorp starts the new financial year in a good position to seize opportunities to grow although the markets remain challenging and uncertain. We have a committed and engaged management team and skilled, passionate people to provide the best possible service and advertising solutions for our clients.

The directors are confident in the capabilities and continued success of the business and have declared a final dividend of 1cent per share fully franked, out of the current year profits (Interim dividend declared in February 2011: 1cent per share fully franked, out of the current year profits).

**Significant changes in the state of affairs**
There were no significant changes in the state of affairs of the consolidated entity during the financial year.

**Matters subsequent to the end of the financial year**
No matter or circumstance has arisen since 30 June 2011 that has significantly affected, or may significantly affect the consolidated entity's operations, the results of those operations, or the consolidated entity's state of affairs in future financial years.

### Likely developments and expected results of operations
Information on likely developments in the operations of the consolidated entity and the expected results of operations have not been included in this report because the directors believe it would be likely to result in unreasonable prejudice to the consolidated entity.

### Environmental regulation
The consolidated entity is not subject to any significant environmental regulation under Australian Commonwealth or State law.

### Information on directors

| | |
|---|---|
| Name: | Bob Campbell |
| Title: | Non-Executive Chairman |
| Qualifications: | BEc |
| Experience and expertise: | Bob Campbell has spent his career working in the media. He held senior management positions with Network TEN prior to being appointed Managing Director and Chief Executive Officer of The Seven Network from 1987 to 1995. He is a former Chairman of The Film Finance Corporation, the Sydney Dance Company and a director of The Australian Film Radio and Television School and the Australian Film Commission. He is currently a director of the Sydney Swans. In 1996 he formed, with Des Monaghan, the television production company, Screentime, which has operations in Australia, New Zealand and Ireland. Bob was appointed as Non-Executive Chairman in May 2005. |
| Other current directorships: | None |
| Former directorships (in the last 3 years): | None |
| Special responsibilities: | Chairman of the Audit Committee and the Remuneration and Nomination Committee |
| Interests in shares: | None |
| Interests in options: | None |

| | |
|---|---|
| Name: | Ian Rodwell |
| Title: | Non-Executive Director |
| Qualifications: | BComm |
| Experience and expertise: | Ian Rodwell is the founder of the Adcorp Group and held the position of Managing Director from Adcorp's inception until his retirement in January 2004. He is also a Director of the Diabetes Australia Research Trust ('DART'), an organisation responsible for the raising of funds for diabetes research and awarding of grants to medical researchers in Australia; Chairman of Optalert Pty Ltd, a company developing an innovative technology product to measure both alertness and drowsiness, as an aid to the global transport and mining industries; Director of MND Australia, an organisation responsible for raising and funding medical research to find the cause and cure for motor neurone disease. |
| Other current directorships: | None |
| Former directorships (in the last 3 years): | None |
| Special responsibilities: | Member of the Audit Committee and Chairman of the Remuneration and Nomination Committee. |
| Interests in shares: | 21,716,127 ordinary shares at 30 June 2011 |
| Interests in options: | None |

| | |
|---|---|
| Name: | David Morrison (appointed on 21 March 2011) |
| Title: | Executive Director and Chief Executive Officer |
| Experience and expertise: | David Morrison has a wealth of advertising industry experience, most recently as the Head of Business for Adcorp's WA, SA and NT markets. In just over 7 years, David managed to near triple Adcorp's WA operation (by billings) and has been instrumental in Adcorp's appointment to a number of key accounts. He was appointed by the Board to the role of Chief Executive Officer in March 2011. |
| Other current directorships: | None |
| Former directorships (in the last 3 years): | None |
| Special responsibilities: | None |
| Interests in shares: | None |
| Interests in options: | 150,000 options over ordinary shares |

| | |
|---|---|
| Name: | Matthew Mellor (resigned on 18 March 2011) |
| Title: | Former Executive Director and Former Chief Executive Officer |
| Qualifications: | BA |
| Experience and expertise: | Matthew Mellor joined Adcorp as General Manager, Victoria in 2006 and became General Manager Victoria/Group Head of Solutions in 2009. He was appointed Chief Operating Officer by the Board in January 2010 and Chief Executive Officer in July 2010. Matthew resigned as Chief Executive Officer and director on 18 March 2011. |
| Other current directorships: | None |
| Former directorships (in the last 3 years): | None |
| Special responsibilities: | None |
| Interests in shares: | None |
| Interests in options: | None |

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

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

**Company secretary**

Craig McMenamin commenced in April 2007 as Chief Financial Officer (‘CFO’) and Company Secretary and is an experienced CFO with over 17 years of financial leadership in the Media, Retail, Entertainment and Manufacturing sectors, both locally and abroad. Craig’s track record includes leading the financial strategy of high-growth, transformational businesses, playing a key role in strategic development and growth, while driving improvements of underlying operational systems, processes and investments. Craig is a Chartered Accountant and member of the Australian Institute of Company Directors.

### Meetings of directors
The number of meetings of the company's Board of Directors and of each board committee held during the year ended 30 June 2011, and the number of meetings attended by each director were:

| | Full Board | | Audit Committee | | Other | |
|---|---|---|---|---|---|---|
| | Attended | Held | Attended | Held | Attended | Held |
| Bob Campbell | 12 | 12 | 3 | 3 | 2 | 2 |
| Ian Rodwell | 12 | 12 | 3 | 3 | 2 | 2 |
| David Morrison | 3 | 3 | - | - | 1 | 1 |
| Matthew Mellor * | 9 | 9 | 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.

* Matthew Mellor attended the Audit Committee meetings by invitation

The Remuneration Committee meetings are incorporated into Board meetings.

### Remuneration report (audited)
The remuneration report, which has been audited, outlines the director and executive remuneration arrangements for the consolidated entity and the company, in accordance with the requirements of the Corporations Act 2001 and its Regulations.

The remuneration report is set out under the following main headings:
A Principles used to determine the nature and amount of remuneration
B Details of remuneration
C Service agreements
D Share-based compensation

#### *A Principles used to determine the nature and amount of remuneration*

The Remuneration and Nomination Committee of the Board of Directors of Adcorp Australia Limited is responsible for determining and reviewing compensation arrangements for the directors, the Chief Executive Officer and the executive team. The Remuneration and Nomination Committee assesses the appropriateness of the nature and amount of emoluments of such officers on a periodic basis by reference to relevant employment market conditions with the overall objective of ensuring maximum stakeholder benefit from the retention of a high quality Board and executive team. Such officers are given the opportunity to receive their base emolument in a variety of forms including cash and fringe benefits such as motor vehicles and expense payment plans. It is intended that the manner of payment chosen will be optimal for the recipient without creating undue cost for the company and consolidated entity.

The performance of the company and consolidated entity is dependent upon the attraction, motivation and retention of highly skilled and experienced directors and executives.

To achieve this, the company and consolidated entity embodies the following principles into its remuneration framework:
- Provide competitive remuneration packages to attract highly skilled and experienced executives
- Significant proportion of executive remuneration ‘at risk’, dependent upon meeting predetermined performance benchmarks
- Performance benchmarks are aligned to the creation of shareholder value
- Participation in Adcorp Employee Option Plan to create long term incentives

Alignment to program participants' interests:
- rewards capability and experience
- reflects competitive reward for contribution to growth in shareholder wealth
- provides a clear structure for earning rewards

In accordance with best practice corporate governance, the structure of non-executive directors and executive remunerations are separate.

*Non-executive directors remuneration*
The constitution and the ASX Listing Rules specify that the aggregate remuneration of non-executive directors shall be determined from time to time by a general meeting. An amount not exceeding the amount determined is then allocated to the directors as agreed. The latest determination was at the Annual General Meeting held in October 2004 when the shareholders approved a maximum aggregate amount of $250,000 per year. Non-executive directors are not entitled to performance-based bonuses.

The remuneration of non-executive directors for the financial year ended 30 June 2011 is detailed later in this report.

*Executive remuneration*
The company and consolidated entity aims to remunerate and reward executives with a level and mix of remuneration that is commensurate with their position, responsibilities and performance within the company and consolidated entity and so as to:
- Reward executives for achievement of company and consolidated entity, business unit and individual objectives against appropriate benchmarks
- Align interest of executives with those of shareholders
- Ensure total remuneration is competitive by market standards

Remuneration consists of the following key elements:
- Fixed remuneration
- Variable short term incentive remuneration
- Variable long term incentive remuneration

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

Fixed remuneration, consisting of base salary, superannuation and non-monetary benefits, are reviewed annually by the Nomination and Remuneration Committee, based on individual and business unit performance, the overall performance of the company and consolidated entity and comparable market remunerations.

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

The variable short-term incentives ('STI') are set covering financial measures of performance. Measures are set to cover business unit and overall company and consolidated entity performances. The total potential STI available is set at a level so as to provide a sufficient incentive for the executive to achieve the operational targets of the company and consolidated entity and so that the cost to the company and consolidated entity is reasonable in the circumstances. Actual STI payments are made subject to the extent that specific targets set at the beginning of the financial year are met. Payments made are usually delivered as a cash bonus.

The variable long-term incentives ('LTI') are designed to reward executives in a manner which aligns this element of the remuneration with the creation of shareholder value. LTI grants to executives are delivered in the form of options. LTI grants are only made to executives who are able to influence the generation of shareholder wealth and thus have a direct impact on the company and consolidated entity’s performance.

*Consolidated entity performance and link to remuneration*
Executive fixed remuneration is not directly linked to the performance of the company and consolidated entity. Bonus and incentive payments are at the discretion of the Board.

### *B Details of remuneration*

*Amounts of remuneration*
Details of the remuneration of the directors, other key management personnel (defined as those who have the authority and responsibility for planning, directing and controlling the major activities of the consolidated entity) and specified executives of Adcorp Australia Limited are set out in the following tables.

The key management personnel of the consolidated entity consisted of the directors of Adcorp Australia Limited and the following executives:

- Craig McMenamin - Chief Financial Officer and Company Secretary

| **2011** | Short-term benefits | | | Post-employment benefits | Long-term benefits | Share-based payments | |
|---|---|---|---|---|---|---|---|
| Name | Cash salary and fees $ | Bonus $ | Termination payments $ | Super-annuation $ | Long service leave $ | Equity-settled $ | Total $ |
| *Non-Executive Directors:* | | | | | | | |
| B Campbell | 72,000 | - | - | 6,480 | - | - | 78,480 |
| I Rodwell | 40,000 | - | - | 3,600 | - | - | 43,600 |
| *Executive Directors:* | | | | | | | |
| M Mellor * | 232,357 | 27,523 | 121,095 | 13,088 | - | - | 394,063 |
| D Morrison ** | 86,739 | - | - | 3,800 | - | - | 90,539 |
| *Other Key Management Personnel:* | | | | | | | |
| C McMenamin | 207,284 | - | - | 15,199 | - | - | 222,483 |
| | 638,380 | 27,523 | 121,095 | 42,167 | - | - | 829,165 |

* Remuneration paid was for the period to the date no longer a director or key management personnel.
** David Morrison was appointed as director and Chief Executive Officer on 21 March 2011. Remuneration was for the period from the date of appointment.

| **2010** | Short-term benefits | | | Post-employment benefits | Long-term benefits | Share-based payments | |
|---|---|---|---|---|---|---|---|
| Name | Cash salary and fees $ | Bonus $ | Termination payments $ | Super-annuation $ | Long service leave $ | Equity-settled $ | Total $ |
| *Non-Executive Directors:* | | | | | | | |
| B Campbell | 72,000 | - | - | 6,480 | - | - | 78,480 |
| I Rodwell | 40,000 | - | - | 3,600 | - | - | 43,600 |
| *Executive Directors:* | | | | | | | |
| M Mellor ** | 136,308 | - | - | 12,795 | - | - | 149,103 |
| P James * | 166,078 | - | 237,852 | 8,520 | - | - | 412,450 |
| *Other Key Management Personnel:* | | | | | | | |
| C McMenamin | 192,163 | - | - | 20,280 | - | - | 212,443 |
| K Twist * | 162,790 | - | 204,910 | 29,693 | - | - | 397,393 |
| A Burke * | 159,240 | - | 35,801 | 14,007 | - | - | 209,048 |
| | 928,579 | - | 478,563 | 95,375 | - | - | 1,502,517 |

* Remuneration paid was for the period to the date no longer a director or key management personnel.
** Matthew Mellor was appointed as director and Chief Operating Officer on 4 January 2010 and appointed Chief Executive Officer on 1 July 2010. Remuneration was for the period from the date of appointment as Director.

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

| | Fixed remuneration | | At risk - STI | | At risk - LTI | |
|---|---|---|---|---|---|---|
| Name | 2011 | 2010 | 2011 | 2010 | 2011 | 2010 |
| *Non-Executive Directors:* | | | | | | |
| B Campbell | 100% | 100% | - % | - % | - % | - % |
| I Rodwell | 100% | 100% | - % | - % | - % | - % |
| *Executive Directors:* | | | | | | |
| M Mellor | 100% | 100% | - % | - % | - % | - % |
| D Morrison | 100% | - % | - % | - % | - % | - % |
| P James | - % | 100% | - % | - % | - % | - % |
| *Other Key Management Personnel:* | | | | | | |
| C McMenamin | 100% | 100% | - % | - % | - % | - % |
| K Twist | - % | 100% | - % | - % | - % | - % |
| A Burke | - % | 100% | - % | - % | - % | - % |

### *C Service agreements*

Remuneration and other terms of employment for key management personnel are formalised in service agreements. Details of these agreements are as follows:

| | |
|---|---|
| Name: | David Morrison |
| Title: | Executive Director and Chief Executive Officer |
| Agreement commenced: | 21 March 2011 |
| Term of agreement: | No fixed period |
| Details: | Remuneration package of $340,000 plus short term incentives based on financial performance of the company for the year. |

Executives' employment contracts require employees to provide three months notice or the company to provide a standard three months notice. Other than the terms outlined, the employment contracts of key management personnel are consistent with normal employment contracts of the company.

In addition, all executives are entitled to annual bonuses payable upon the achievement of annual profitability measures and other KPI's including achievement of new business targets.

Key management personnel have no entitlement to termination payments in the event of removal for misconduct.

***D Share-based compensation***

*Issue of shares*
There were no shares issued to directors and other key management personnel as part of compensation during the year ended 30 June 2011.

*Options*
The terms and conditions of each grant of options affecting remuneration in this financial year or future reporting years are as follows:

| Grant date | Vesting date and exercisable date | Expiry date | Exercise price | Fair value per option at grant date |
|---|---|---|---|---|
| 1 July 2007 | 1 July 2009 | 30 June 2012 | $0.39 | $0.390 |
| 1 July 2008 | Conditional * | 30 June 2013 | $0.40 | $0.400 |

* Options vest no earlier than 1 July 2010 provided the earnings per share ('EPS') has grown by 10% per annum cumulative on the 30 June 2008 financial year EPS.

Options granted carry no dividend or voting rights.

Of the 350,000 options on issue at 30 June 2011, 200,000 remained unvested.

There were no options granted to or exercised by directors and other key management personnel as part of compensation during the year ended 30 June 2011.

Values of options over ordinary shares granted, exercised and lapsed for directors and other key management personnel during the year ended 30 June 2011 are set out below:

| Name | Value of options granted during the year $ | Value of options exercised during the year $ | Value of options lapsed during the year $ | Remuneration consisting of options for the year % |
|---|---|---|---|---|
| Matthew Mellor | - | - | 78,000 | - |

***This concludes the remuneration report, which has been audited.***

**Shares under option**
Unissued ordinary shares of Adcorp Australia Limited under option at the date of this report are as follows:

| Grant date | Expiry date | Exercise price | Number under option |
|---|---|---|---|
| 1 July 2007 | 30 June 2012 | $0.39 | 150,000 |
| 1 July 2008 | 30 June 2013 | $0.40 | 200,000 |
| | | | 350,000 |

**Shares issued on the exercise of options**
There were no shares of Adcorp Australia Limited issued on the exercise of options during the year ended 30 June 2011.

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

Adcorp Australia Limited paid an insurance premium of $15,880 in respect of a contract insuring each of the directors of the company named earlier in this report, and each director and secretary of the consolidated entity, against all liabilities and expenses arising as a result of work performed in their respective capacities, to the extent permitted by law.

**Indemnity and insurance of auditor**
The company has not, during or since the financial year, indemnified or agreed to indemnify the auditor of the company or any related entity against a liability incurred by the auditor.

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

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

**Non-audit services**
Details of the amounts paid or payable to the auditor for non-audit services provided during the financial year by the auditor are outlined in note 27 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 27 to the financial statements do not compromise the external auditor's independence 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 audit partners of Ernst & Young**
There are no officers of the company who are former audit partners of Ernst & Young.

**Rounding of amounts**
The company is of a kind referred to in Class Order 98/100, issued by the Australian Securities and Investments Commission, relating to 'rounding-off'. Amounts in this report have been rounded off in accordance with that Class Order 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 on the following page.

**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 Morrison | Bob Campbell |
| Director and Chief Executive Officer | Chairman |

26 August 2011
Sydney

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

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

## Auditor's Independence Declaration to the Directors of Adcorp Australia Limited

In relation to our audit of the financial report of Adcorp Australia Limited for the financial year ended 30 June 2011 to the best of my knowledge and belief, there have been no contraventions of the auditor independence requirements of the *Corporations Act 2001* or any applicable code of professional conduct.

Ernst + Young

Ernst & Young

John Robinson
Partner
26 August 2011

**Adcorp Australia Limited**
**Statement of Corporate Governance**

The Board of Directors aim to achieve good practice in the area of corporate governance and business conduct. Consistent with this aim, the Company has followed the good practice recommendations established in the ASX Corporate Governance Council 'Principles of Good Corporate Governance and Good Practice Recommendations'. The following is a summary of the current position of the Company.

**Principle 1: Lay solid foundations for management and oversight**

The primary role of the Board is the protection and enhancement of shareholder value. The Board has established a Board Charter. Responsibility for the operation and administration of the consolidated entity is delegated by the Board to the Managing Director and the executive team. The Board ensures that this team is appropriately qualified and experienced to discharge their responsibilities.

The Board is responsible for ensuring that management objectives and activities are aligned with the expectations and risks identified by the Board. In addition to the Committees referred to below, the Board achieves this by:

- approval of the strategic direction designed to meet stakeholders' needs and manage business risk
- approving and monitoring financial reporting of the Company
- implementation of operating plans and budgets by management and monitoring progress against budget
- monitoring senior management's performance and implementation of strategy, and ensuring the appropriate resources are available
- approving and monitoring the progress of acquisitions and major capital expenditure.

Subject to normal privacy requirements, Directors have access to Company records and information, to the Company Secretary and other relevant senior officers, and receive regular detailed reports on financial and operational aspects of the Company's business. Each Director has the added right to seek independent professional advice at the Company's expense.

**Principle 2: Structure the Board to add value**

*Composition of the Board*
The Directors' Report contains details of the Directors' skills, experience, education and length of service.

The composition of the Board is deemed appropriate and is determined in accordance with the following principles and guidelines:

- the Board should have effective composition, size and commitment to adequately discharge its responsibilities and duties
- the Chairman must be an independent Director
- the Board consists of Directors with an appropriate range of experience, skill and knowledge.

The Board currently comprises three Directors, of whom one is an independent Director. An independent Director is a Non-Executive Director and;

- is not a substantial shareholder of the Company, or an officer of, or otherwise associated directly with, a substantial shareholder of the Company
- within the last three years, has not been employed in an executive capacity by the consolidated entity or has been a Director after ceasing to hold any such employment
- within the last three years, has not been a principal or professional advisor to the consolidated entity
- is not directly or indirectly a material supplier or customer, being 5% or greater, of the Company
- has no material contractual relationship, being of value greater than $100,000, with the consolidated entity other than as Director
- has not served on the Board for a period greater than 10 years
- is free from any interest and any business or other relationship, which could, or could reasonably be perceived to, materially interfere with the Director's ability to act in the best interests of the Company.

The current Board structure is inconsistent with good practice recommendation 2.1 (the majority of the Board should be independent Directors). This structure, however, is considered appropriate to the extent and nature of Company operations. The current structure allows for more proactive communication between Directors and more effective decision making. All Directors have a full understanding and competence to deal with emerging issues of the business. The Non-Executive Directors, in addition, can effectively review and challenge the performance of management and exercise independent judgement.

## Principle 3: Promote ethical and responsible decision making

*Ethical Standards and Performance*
The Board acknowledges the need for continued maintenance of the highest standards of corporate governance practice and ethical conduct by all Directors and employees. Adcorp is committed to meeting its legal and other obligations to stakeholders, including shareholders, employees and customers.

Adcorp has a Code of Conduct, which sets out the behaviour required of Directors and employees. The Code provides a mechanism to enable employees to report breaches of the Code without any fear of retribution.

A fundamental requirement of the Code is that all business affairs are conducted legally, ethically and with the strict observance of the highest standards of integrity and propriety. The Directors and management have the responsibility to carry out their functions with a view of maximising financial performance of the consolidated entity. This concerns the propriety of decision making in conflict of interest situations and quality of decision making for the benefit of shareholders.

Specifically, the position concerning the issue of Board and Employee trading in company securities is as follows:

*Share Ownership and Dealing*
The Company has a Share Trading Policy designed to assist Directors and employees to avoid insider trading and provide guidelines for trading in Adcorp securities.

The policy allows for the buying and selling of the Company's shares by Directors and senior management during a 30 day period following the release of the final and half-yearly results. Directors and senior management are precluded in trading in Adcorp shares at any time if they are aware of price sensitive information that has not been made public.

In January 2011, the company released to market its updated share trading policy to comply with the updated listing rules of the ASX.

## Principle 4: Safeguard integrity in financial reporting

Adcorp has a structure to verify and safeguard the integrity of the Company's financial reporting independently. The principal components of this are the Audit Committee, external auditors and the certification provided to the Board by the Chief Executive Officer and the Chief Financial Officer.

*Audit Committee*
The Audit Committee operates under a Charter approved by the Board. Their functions are as follows:
- to ensure compliance with statutory responsibilities relating to the accounting policy and disclosure by full review of half-yearly and annual financial statements
- assessment of the management processes and operating controls supporting external reporting
- liaise with, assesses the quality and reviews the scope of work and reports of the external auditors, and whether the Audit Committee is satisfied that independence of this function has been maintained, having regard to the provision of non-audit activities
- assesses the effectiveness of the management of business risk and the reliability of management reporting.

The Audit Committee consists only of Non-Executive Directors.

The members of the Audit Committee during or since the end of the financial year are:
- Ian Rodwell (Chairman)
- Bob Campbell

## Principle 5: Make timely and balanced disclosure

*Shareholder Relations*
Adcorp has policies in place in relation to Shareholder communications. The Board seeks to inform shareholders of all major developments affecting the Company by:
- preparing half-yearly financial reports and making these available to all shareholders
- advising shareholders of the key issues affecting the Company
- submitting proposed major changes in the Company's affairs to a vote of shareholders, as required by the Corporations Act 2001
- conducting shareholder information sessions to maintain the efficiency of the market.
- holding an Annual General Meeting each year to enable shareholders to receive reports by the Board of the Company's activities. All shareholders who are unable to attend these meetings are encouraged to communicate issues or ask questions by writing to the Company
- publishing regular news articles and performance updates on the Company's website.

## Principle 6: Respect the rights of shareholders

The Board is committed to empowering shareholders by:
- communicating effectively with them
- giving them ready access to accurate and understandable information about Adcorp's strategy and performance
- encouraging participation at shareholder meetings
- having Auditors attend the Annual General Meeting to be available to answer shareholder questions.

## Principle 7: Recognise and manage risk

The Audit Committee is responsible for monitoring the Company's risk, exposures and compliance with statutory obligations.

Adcorp has systems in place to identify, assess, monitor and manage risk. The Company has documented its key risks and action plans to manage risk. Managers of all the Company's business units report regularly to the Board on the key risks that may influence achievement of their business objectives.

The Board received assurance from the Chief Executive Officer and Chief Financial Officer that the declaration in accordance with s295 of the Corporations Act is founded on a solid system of internal control and that the system is operating effectively in all material respects in relation to financial reporting risks.

## Principle 8: Remunerate fairly and responsibly

The Board has established a Remuneration and Nomination Committee to consider and report on, among other things, remuneration policies and packages applicable to Board members and senior management of the Company.

Two Directors, Mr Bob Campbell (Chairman) and Mr Ian Rodwell are members of the Committee and meet at least annually. Specific activities include:
- remuneration of the Chief Executive Officer and his direct reports
- proposals for incentive rewards
- succession plans for senior management
- proposals for issues under Employee Share Option Plans
- performance of Chief Executive Officer and senior management
- review the size, range of skills, and composition of the Board.

Adcorp has processes in place to review the performance of senior management and Board members. Each senior manager, including the Chief Executive Officer, has personal objectives as well as objectives related to business units and the Company as a whole. They are assessed against these objectives on an annual basis.

The Board Charter provides for annual reviews of the performance of the Board in achieving shareholder and stakeholder expectations and identifies any particular goals and objectives for the next year.

## Contents



## General information

The financial report covers Adcorp Australia Limited as a consolidated entity consisting of Adcorp Australia Limited and the entities it controlled. The financial report is presented in Australian dollars, which is Adcorp Australia Limited's functional and presentation currency.

The financial report consists of the financial statements, notes to the financial statements and the directors' declaration.

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

Level 1
7 Kelly Street
Ultimo NSW 2007

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

The financial report was authorised for issue, in accordance with a resolution of directors, on 26 August 2011. The directors have the power to amend and reissue the financial report.

**Adcorp Australia Limited**
**Statement of comprehensive income**
**For the year ended 30 June 2011**

| | Note | Consolidated 2011 $'000 | Consolidated 2010 $'000 |
|---|---|---|---|
| **Revenue** | 4 | 29,525 | 31,118 |
| Other income | 5 | 5 | - |
| **Expenses** | | | |
| Client service expenses | | (18,968) | (21,192) |
| Administrative expenses | | (1,330) | (1,621) |
| Marketing expenses | | (1,846) | (1,650) |
| Office and communication expenses | | (5,090) | (5,685) |
| Finance costs | 6 | (86) | (27) |
| Impairment of goodwill | | - | (7,099) |
| Impairment of fixed assets | | (5) | (744) |
| Impairment of software | | - | (132) |
| **Profit/(loss) before income tax expense** | | 2,205 | (7,032) |
| Income tax expense | 7 | (935) | (69) |
| **Profit/(loss) after income tax expense for the year** | | 1,270 | (7,101) |
| **Other comprehensive income** | | | |
| Foreign currency translation | | (170) | 90 |
| Other comprehensive income for the year, net of tax | | (170) | 90 |
| **Total comprehensive income for the year** | | 1,100 | (7,011) |
| Profit/(loss) for the year is attributable to: | | | |
| Non-controlling interest | | (122) | 37 |
| Owners of Adcorp Australia Limited | 22 | 1,392 | (7,138) |
| | | 1,270 | (7,101) |
| Total comprehensive income for the year is attributable to: | | | |
| Non-controlling interest | | (122) | 37 |
| Owners of Adcorp Australia Limited | | 1,222 | (7,048) |
| | | 1,100 | (7,011) |
| | | **Cents** | **Cents** |
| Basic earnings per share | 36 | 2.29 | (11.76) |
| Diluted earnings per share | 36 | 2.29 | (11.76) |

*The above statement of comprehensive income should be read in conjunction with the accompanying notes*

**Adcorp Australia Limited**
**Statement of financial position**
**As at 30 June 2011**

| | Note | Consolidated 2011 $'000 | Consolidated 2010 $'000 |
|---|---|---|---|
| **Assets** | | | |
| **Current assets** | | | |
| Cash and cash equivalents | 8 | 10,273 | 10,875 |
| Trade and other receivables | 9 | 28,557 | 29,101 |
| Income tax refund due | 10 | 65 | 145 |
| Other | 11 | 168 | 150 |
| Total current assets | | 39,063 | 40,271 |
| **Non-current assets** | | | |
| Property, plant and equipment | 12 | 1,350 | 957 |
| Intangibles | 13 | 3,154 | 3,330 |
| Deferred tax | 14 | 1,283 | 1,264 |
| Total non-current assets | | 5,787 | 5,551 |
| **Total assets** | | 44,850 | 45,822 |
| **Liabilities** | | | |
| **Current liabilities** | | | |
| Trade and other payables | 15 | 34,519 | 35,974 |
| Income tax | 16 | 424 | 471 |
| Provisions | 17 | 898 | 1,061 |
| Total current liabilities | | 35,841 | 37,506 |
| **Non-current liabilities** | | | |
| Deferred tax | 18 | 4 | 33 |
| Provisions | 19 | 623 | 394 |
| Total non-current liabilities | | 627 | 427 |
| **Total liabilities** | | 36,468 | 37,933 |
| **Net assets** | | 8,382 | 7,889 |
| **Equity** | | | |
| Contributed equity | 20 | 28,894 | 28,894 |
| Reserves | 21 | (468) | (298) |
| Accumulated losses | 22 | (19,972) | (20,757) |
| Equity attributable to the owners of Adcorp Australia Limited | | 8,454 | 7,839 |
| Non-controlling interest | 23 | (72) | 50 |
| **Total equity** | | 8,382 | 7,889 |

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

**Adcorp Australia Limited**
**Statement of changes in equity**
**For the year ended 30 June 2011**

| | Contributed equity $'000 | Reserves $'000 | Accumulated losses $'000 | Non-controlling interest $'000 | Total equity $'000 |
|---|---|---|---|---|---|
| **Consolidated** | | | | | |
| Balance at 1 July 2009 | 28,894 | (388) | (13,619) | 274 | 15,161 |
| Other comprehensive income for the year, net of tax | - | 90 | - | - | 90 |
| Profit/(loss) after income tax expense for the year | - | - | (7,138) | 37 | (7,101) |
| Total comprehensive income for the year | - | 90 | (7,138) | 37 | (7,011) |
| *Transactions with owners in their capacity as owners:* | | | | | |
| Dividends paid | - | - | - | (261) | (261) |
| Balance at 30 June 2010 | 28,894 | (298) | (20,757) | 50 | 7,889 |

| | Contributed equity $'000 | Reserves $'000 | Accumulated losses $'000 | Non-controlling interest $'000 | Total equity $'000 |
|---|---|---|---|---|---|
| **Consolidated** | | | | | |
| Balance at 1 July 2010 | 28,894 | (298) | (20,757) | 50 | 7,889 |
| Other comprehensive income for the year, net of tax | - | (170) | - | - | (170) |
| Profit/(loss) after income tax expense for the year | - | - | 1,392 | (122) | 1,270 |
| Total comprehensive income for the year | - | (170) | 1,392 | (122) | 1,100 |
| *Transactions with owners in their capacity as owners:* | | | | | |
| Dividends paid | - | - | (607) | - | (607) |
| Balance at 30 June 2011 | 28,894 | (468) | (19,972) | (72) | 8,382 |

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

**Adcorp Australia Limited**
**Statement of cash flows**
**For the year ended 30 June 2011**

| | Note | Consolidated 2011 $'000 | Consolidated 2010 $'000 |
|---|---|---|---|
| **Cash flows from operating activities** | | | |
| Receipts from customers (inclusive of GST) | | 171,686 | 175,859 |
| Payments to suppliers (inclusive of GST) | | (169,898) | (170,560) |
| | | 1,788 | 5,299 |
| Interest received | | 259 | 187 |
| Interest and other finance costs paid | | (86) | (27) |
| Income taxes refunded | | - | 471 |
| Income taxes paid | | (950) | - |
| Net cash from operating activities | 35 | 1,011 | 5,930 |
| **Cash flows from investing activities** | | | |
| Payments for property, plant and equipment | 12 | (752) | (179) |
| Payments for intangibles | 13 | (292) | (415) |
| Payments for security deposits | | (7) | - |
| Proceeds from sale of property, plant and equipment | | 36 | 4 |
| Proceeds from sale of intangibles | | 9 | - |
| Net cash used in investing activities | | (1,006) | (590) |
| **Cash flows from financing activities** | | | |
| Dividends paid | 24 | (607) | (261) |
| Net cash used in financing activities | | (607) | (261) |
| Net increase/(decrease) in cash and cash equivalents | | (602) | 5,079 |
| Cash and cash equivalents at the beginning of the financial year | | 10,875 | 5,768 |
| Effects of exchange rate changes on cash | | - | 28 |
| Cash and cash equivalents at the end of the financial year | 8 | 10,273 | 10,875 |

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

## Note 1. 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, revised or amending Accounting Standards and Interpretations adopted**
The consolidated entity has adopted all of the new, revised or amending Accounting Standards and Interpretations issued by the Australian Accounting Standards Board ('AASB') that are mandatory for the current reporting period.

Except for AASB 2010-4, which was early adopted last year, all other new, revised or amending Accounting Standards or Interpretations that are not yet mandatory have not been early adopted.

Any significant impact on the accounting policies of the consolidated entity from the adoption of these Accounting Standards and Interpretations are disclosed in the relevant accounting policy.

The adoption of these Accounting Standards and Interpretations did not have any impact on the financial performance or position of the consolidated entity. The following Accounting Standards and Interpretations are most relevant to the consolidated entity:

*AASB 2 Share-based Payment Transactions - amendments for Group Cash-settled Share-based Payment Transactions*
The consolidated entity has applied the amendments to AASB 2 from 1 July 2010. The amendments clarified the scope of AASB 2 by requiring an entity that receives goods or services in a share-based payment arrangement to account for those goods or services no matter which entity in the consolidated entity settles the transaction, and no matter whether the transaction is settled in shares or cash.

*Interpretation 19 Extinguishing Financial Liabilities with Equity Instruments*
The consolidated entity has applied Interpretation 19 from 1 July 2010. The interpretation clarified that equity instruments issued to a creditor to extinguish a financial liability qualifies as consideration paid. The equity instruments issued are measured at their fair value, or if not reliably measured, at the fair value of the liability extinguished, with any gain or loss recognised in profit or loss.

*AASB 2009-5 Amendments to Australian Accounting Standards arising from the Annual Improvements Project*
The consolidated entity has applied AASB 2009-5 amendments from 1 July 2010. The amendments result in some accounting changes for presentation, recognition or measurement purposes, while some amendments that relate to terminology and editorial changes had no or minimal effect on accounting. The main changes were:
AASB 101 'Presentation of Financial Statements' - classification is not affected by the terms of a liability that could be settled by the issuance of equity instruments at the option of the counterparty;
AASB 107 'Statement of Cash Flows' - only expenditure that results in a recognised asset can be classified as a cash flow from investing activities;
AASB 117 'Leases' - removal of specific guidance on classifying land as a lease;
AASB 118 'Revenue' - provides additional guidance to determine whether an entity is acting as a principal or agent; and
AASB 136 'Impairment of Assets' - clarifies that the largest unit permitted for allocating goodwill, acquired in a business combination, is the operating segment as defined in AASB 8 'Operating Segments' before aggregation for reporting purposes.

## Note 1. Significant accounting policies (continued)

*AASB 2009-10 Amendments to AASB 132 - Classification of Rights Issues*
The consolidated entity has applied AASB 2009-10 from 1 July 2010. The amendments clarified that rights, options or warrants to acquire a fixed number of an entity's own equity instruments for a fixed amount in any currency are equity instruments if the entity offers the rights, options or warrants pro-rata to all existing owners of the same class of its own non-derivative equity instruments. The amendment therefore provides relief to entities that issue rights in a currency other than their functional currency from treating the rights as derivatives with fair value changes recorded in profit or loss.

*AASB 2010-3 Amendments to Australian Accounting Standards arising from the Annual Improvements Project*
The consolidated entity has applied AASB 2010-3 amendments from 1 July 2010. The amendments result in some accounting changes for presentation, recognition or measurement purposes, while some amendments that relate to terminology and editorial changes had no or minimal effect on accounting. The main changes were:
AASB 127 'Consolidated and Separate Financial Statements' and AASB 3 Business Combinations - clarifies that contingent consideration from a business combination that occurred before the effective date of revised AASB 3 is not restated; the scope of the measurement choices of non-controlling interest is limited to when the rights acquired include entitlement to a proportionate share of net assets in the event of liquidation; requires an entity in a business combination to account for the replacement of acquiree's share-based payment transactions, unreplaced and voluntarily replaced, by splitting between consideration and post combination expenses.

### 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. 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 consolidated entity'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 2.

### Parent entity information
In accordance with the Corporations Act 2001, these financial statements present the results of the consolidated entity only. Supplementary information about the parent entity is disclosed in note 31.

**Note 1. Significant accounting policies (continued)**

**Principles of consolidation**
The consolidated financial statements incorporate the assets and liabilities of all subsidiaries of Adcorp Australia Limited ('company' or 'parent entity') as at 30 June 2011 and the results of all subsidiaries for the year then ended. Adcorp Australia Limited and its subsidiaries together are referred to in these financial statements as the 'consolidated entity'.

Subsidiaries are all those entities over which the consolidated entity has the power to govern the financial and operating policies, generally accompanying a shareholding of more than one-half of the voting rights. The effects of potential exercisable voting rights are considered when assessing whether control exists. Subsidiaries are fully consolidated from the date on which control is transferred to the consolidated entity. They are de-consolidated from the date that control ceases.

Intercompany transactions, balances and unrealised gains on transactions between entities in the consolidated entity 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 consolidated entity.

The acquisition of subsidiaries is accounted for using the acquisition method of accounting. Refer to the 'business combinations' accounting policy for further details. 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.

Non-controlling interest in the results and equity of subsidiaries are shown separately in the statement of comprehensive income and statement of financial position of the consolidated entity. Losses incurred by the consolidated entity are attributed to the non-controlling interest in full, even if that results in a deficit balance.

Where the consolidated entity loses control over a subsidiary, it derecognises the assets including goodwill, liabilities and non-controlling interest in the subsidiary together with any cumulative translation differences recognised in equity. The consolidated entity 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 report is presented in Australian dollars, which is Adcorp Australia 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.

*Foreign operations*
The assets and liabilities of foreign operations are translated into Australian dollars using the exchange rates at the reporting date. The revenues and expenses of foreign operations are translated into Australian dollars using the average exchange rates, which approximates the rate at the date of the transaction, for the period. All resulting foreign exchange differences are recognised in the foreign currency reserve in equity.

The foreign currency reserve is recognised in profit or loss when the foreign operation or net investment is disposed of.

## Note 1. Significant accounting policies (continued)

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

*Operating revenues*
Media, production and creative revenue, net of direct costs, are brought to account when billed to the client once an advertisement has appeared or published material produced. For cash flow purposes the amounts are shown as gross receipts and gross payments.

*Dividends*
Dividends revenue is recognised when 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.

*Rent*
Rent revenue from investment properties is recognised on a straight-line basis over the lease term. Lease incentives granted are recognised as part of the rental revenue. Contingent rentals are recognised as income in the period when earned.

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

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

Deferred tax assets and liabilities are recognised for temporary differences at the tax rates expected to apply 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 investments in subsidiaries, associates or interests in 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 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 entity's which intend to settle simultaneously.

**Note 1. Significant accounting policies (continued)**

Adcorp Australia Limited (the 'head entity') and its wholly-owned Australian controlled entities have formed an income tax consolidated group under the tax consolidation regime. The head entity and the controlled entities 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 controlled entities in the tax consolidated group.

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

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

**Trade and other receivables**
Trade receivables are initially recognised at fair value and subsequently measured at amortised cost using the effective interest method, less any provision for impairment. Trade receivables are generally due for settlement within 30 days. The company has a trade credit policy in place at 30 June 2011.

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 consolidated entity will not be able to collect all amounts due according to the original terms of the receivables. Significant financial difficulties of the debtor, probability that the debtor will enter bankruptcy or financial reorganisation and default or delinquency in payments (more than 60 days overdue) are considered indicators that the trade receivable may be impaired. The amount of the impairment allowance is the difference between the asset’s carrying amount and the present value of estimated future cash flows, discounted at the original effective interest rate. Cash flows relating to short-term receivables are not discounted if the effect of discounting is immaterial.

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

**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.

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

| | |
|---|---|
| Office equipment | 3-5 years |
| Plant and equipment | over lease term |

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

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

**Note 1. Significant accounting policies (continued)**

**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 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 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 consolidated entity 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. 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 intangibles 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*
Where an entity or operation is acquired in a business combination, the identifiable net assets acquired are measured at fair value. The excess of the fair value of the cost of the acquisition over the fair value of the identifiable net assets acquired is brought to account as goodwill. 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.

*Software licences*
Significant costs associated with software are deferred and amortised on a straight-line basis over the period of their expected benefit, being their finite life of 2 to 3 years.

*Customer lists*
Costs in relation to customer lists of the consolidated entity are capitalised as an asset and amortised on a straightline basis over 3 years.

**Note 1. Significant accounting policies (continued)**

**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 to sell 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 consolidated entity 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 not discounted. The amounts are unsecured and are usually paid within 30 days of recognition except for media creditors who are on 45 day terms. Other payables have repayment terms of less than 12 months.

**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 consolidated entity has a present (legal or constructive) obligation as a result of a past event, it is probable the consolidated entity 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**

*Wages and salaries and annual leave*
Liabilities for wages and salaries, including non-monetary benefits, and annual leave expected to be settled within 12 months of the reporting date are recognised in current liabilities in respect of employees' services up to the reporting date and are measured at the amounts expected to be paid when the liabilities are settled.

*Long service leave*
The liability for long service leave is recognised in current and non-current liabilities, depending on the unconditional right to defer settlement of the liability for at least 12 months after the reporting date. The liability is measured as the present value of expected future payments to be made in respect of services provided by employees up to the reporting date using the projected unit credit method. 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 national government 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.

**Note 1. Significant accounting policies (continued)**

*Share-based payments*
Equity-settled and cash-settled share-based compensation benefits are provided to employees. There is currently an employee share option plan ('ESOP') in place which provides benefits to directors and senior executives.

Equity-settled transactions are awards of shares, or options over shares, that are provided to employees in exchange for the rendering of services. Cash-settled transactions are awards of cash for the exchange of services, where the amount of cash is determined by reference to the share price.

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

The cost of cash-settled transactions is initially, and at each reporting date until vested, determined by applying either the Binomial or Black-Scholes option pricing model, taking into consideration the terms and conditions on which the award was granted. The cumulative charge to profit or loss until settlement of the liability is calculated as follows:
- during the vesting period, the liability at each reporting date is the fair value of the award at that date multiplied by the expired portion of the vesting period.
- from the end of the vesting period until settlement of the award, the liability is the full fair value of the liability at the reporting date.

All changes in the liability are recognised in profit or loss. The ultimate cost of cash-settled transactions is the cash paid to settle the liability.

Equity-settled awards by the parent to employees of subsidiaries are recognised in the parent’s individual financial statements as an increase in investment in the subsidiary with a corresponding credit to equity and not as a charge to profit or loss. The investment in subsidiary is reduced by any contribution by the subsidiary.

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 consolidated entity or employee, the failure to satisfy the condition is treated as a cancellation. If the condition is not within the control of the consolidated entity 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.

**Note 1. Significant accounting policies (continued)**

**Contributed equity**
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 consolidated entity assesses the financial assets acquired and liabilities assumed for appropriate classification and designation in accordance with the contractual terms, economic conditions, the consolidated entity's operating or accounting policies and other pertinent conditions in existence at the acquisition-date.

Where the business combination is achieved in stages, the consolidated entity 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 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 1. 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 Adcorp Australia 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.

### Comparative information
Certain comparatives have been reclassified to be consistent with current year presentation.

### Rounding of amounts
The company is of a kind referred to in Class Order 98/100, issued by the Australian Securities and Investments Commission, relating to 'rounding-off'. Amounts in this report have been rounded off in accordance with that Class Order to the nearest thousand dollars, or in certain cases, the nearest dollar.

### New Accounting Standards and Interpretations not yet mandatory or early adopted
Australian Accounting Standards and Interpretations that have recently been issued or amended but are not yet mandatory, have not been early adopted by the consolidated entity for the annual reporting period ended 30 June 2011. The consolidated entity's assessment of the impact of these new or amended Accounting Standards and Interpretations, most relevant to the consolidated entity, are set out below.

**Note 1. Significant accounting policies (continued)**

*IFRS 10 (AASB 10) Consolidated Financial Statements*
This standard is applicable to annual reporting periods beginning on or after 1 January 2013. The standard has a new definition of 'control'. Control exists when the reporting entity is exposed, or has the rights, to variable returns (e.g. dividends, remuneration, returns that are not available to other interest holders including losses) from its involvement with another entity and has the ability to affect those returns through its 'power' over that other entity. A reporting entity has power when it has rights (e.g. voting rights, potential voting rights, rights to appoint key management, decision making rights, kick out rights) that give it the current ability to direct the activities that significantly affect the investee's returns (e.g. operating policies, capital decisions, appointment of key management). The consolidated entity will not only have to consider its holdings and rights but also the holdings and rights of other shareholders in order to determine whether it has the necessary power for consolidation purposes. The adoption of this standard from 1 July 2013 may have an impact where the consolidated entity has a holding of less than 50% in an entity, has de facto control, and is not currently consolidating that entity.

*IFRS 11 (AASB 11) Joint Arrangements*
This standard is applicable to annual reporting periods beginning on or after 1 January 2013. The standard defines which entities qualify as joint ventures and removes the option to account for joint ventures using proportional consolidation. Joint ventures, where the parties to the agreement have the rights to the net assets will use equity accounting. Joint Operations, where the parties to the agreements have the rights to the assets and obligations for the liabilities will account for the assets, liabilities, revenues and expenses separately, using proportionate consolidation. The adoption of this standard from 1 July 2013 will not have a material impact on the consolidated entity.

*IFRS 12 (AASB 12) Disclosure of Interests in Other Entities*
This standard is applicable to annual reporting periods beginning on or after 1 January 2013. It contains the entire disclosure requirement associated with other entities, being subsidiaries, associates and joint ventures. The disclosure requirements have been significantly enhanced when compared to the disclosures previously located in AASB 127 'Consolidation and Separate Financial Statements', AASB 128 'Investments in Associates', AASB 131 'Interests in Joint Ventures', Interpretation 12 'Service Concession Arrangements' and Interpretation 13 'Customer Loyalty Programme'. The adoption of this standard from 1 July 2013 will significantly increase the amount of disclosures required to be given by the consolidated entity such as significant judgements and assumptions made by the consolidated entity in determining whether it has a controlling or non-controlling interest in another entity and the type of non-controlling interest and the nature and risks involved.

*IFRS 13 (AASB 13) Fair Value Measurement*
This standard is applicable to annual reporting periods beginning on or after 1 January 2013. The standard provides a single robust measurement framework, with clear measurement objectives, for measuring fair value using the 'exit price' and it provides guidance on measuring fair value when a market becomes less active. The 'highest and best use' approach would be used to measure assets, but not liabilities. As the standard does not introduce any new requirements for the use of fair value, its impact on adoption by the consolidated entity from 1 July 2013 should be minimal, although there will be increased disclosures where fair value is used.

**Note 1. Significant accounting policies (continued)**

*IAS 1 (AASB 101) Presentation of Financial Statements (Revised)*
This revised standard is applicable to annual reporting periods beginning on or after 1 July 2012. The amendments requires grouping together of items within other comprehensive income on the basis of whether they will eventually be 'recycled' to the profit or loss. The change provides clarity about the nature of items presented as other comprehensive income and their future impact. The adoption of the revised standard from 1 July 2012 will impact the consolidated entity's presentation of its statement of comprehensive income.

*AASB 9 Financial Instruments, 2009-11 Amendments to Australian Accounting Standards arising from AASB 9 and 2010-7 Amendments to Australian Accounting Standards arising from AASB 9*
This standard and its consequential amendments are applicable to annual reporting periods beginning on or after 1 January 2013 and completes phase I of the IASB's project to replace IAS 39 (being the international equivalent to AASB 139 'Financial Instruments: Recognition and Measurement'). This standard introduces new classification and measurement models for financial assets, using a single approach to determine whether a financial asset is measured at amortised cost or fair value. To be classified and measured at amortised cost, assets must satisfy the business model test for managing the financial assets and have certain contractual cash flow characteristics. All other financial instrument assets are to be classified and measured at fair value. This standard allows an irrevocable election on initial recognition to present gains and losses on equity instruments (that are not held-for-trading) in other comprehensive income, with dividends as a return on these investments being recognised in profit or loss. In addition, those equity instruments measured at fair value through other comprehensive income would no longer have to apply any impairment requirements nor would there be any 'recycling' of gains or losses through profit or loss on disposal. The accounting for financial liabilities continues to be classified and measured in accordance with AASB 139, with one exception, being that the portion of a change of fair value relating to the entity's own credit risk is to be presented in other comprehensive income unless it would create an accounting mismatch. The consolidated entity will adopt this standard from 1 July 2013 but the impact of its adoption is yet to be assessed by the consolidated entity.

*AASB 124 Related Party Disclosures (December 2009)*
This revised standard is applicable to annual reporting periods beginning on or after 1 January 2011. This revised standard simplifies the definition of a related party by clarifying its intended meaning and eliminating inconsistencies from the definition. The definition now identifies a subsidiary and an associate with the same investor as related parties of each other; entities significantly influenced by one person and entities significantly influenced by a close member of the family of that person are no longer related parties of each other; and whenever a person or entity has both joint control over a second entity and joint control or significant influence over a third party, the second and third entities are related to each other. This revised standard introduces a partial exemption of disclosure requirement for government-related entities. The adoption of this standard from 1 July 2011 will not have a material impact on the consolidated entity.

*IAS 27 (AASB 127) Separate Financial Statements (Revised)*
*IAS 28 (AASB 128) Investments in Associates and Joint Ventures (Reissued)*
These standards are applicable to annual reporting periods beginning on or after 1 January 2013. They have been modified to remove specific guidance that is now contained in IFRS 10, IFRS 11, IFRS 11 and IFRS 12. The adoption of these revised standards from 1 July 2013 will not have a material impact on the consolidated entity.

*AASB 2009-12 Amendments to Australian Accounting Standards*
These amendments are applicable to annual reporting periods beginning on or after 1 January 2011. These amendments make numerous editorial amendments to a range of Australian Accounting Standards and Interpretations, which have no major impact on the requirements of the amended pronouncements. The main amendment is to AASB 8 'Operating Segments' and requires an entity to exercise judgement in assessing whether a government and entities known to be under the control of that government are considered a single customer for the purposes of certain operating segment disclosures. The adoption of these amendments from 1 July 2011 will not have a material impact on the consolidated entity.

**Note 1. Significant accounting policies (continued)**

*AASB 2010-5 Amendments to Australian Accounting Standards*
These amendments are applicable to annual reporting periods beginning on or after 1 January 2011. These amendments makes numerous editorial amendments to a range of Australian Accounting Standards and Interpretations, including amendments to reflect changes made to the text of International Financial Reporting Standards by the International Accounting Standards Board. The adoption of these amendments from 1 July 2011 will not have a material impact on the consolidated entity.

*AASB 2010-6 Amendments to Australian Accounting Standards - Disclosures on Transfers of Financial Assets*
These amendments are applicable to annual reporting periods beginning on or after 1 July 2011. These amendments add and amend disclosure requirements in AASB 7 about transfer of financial assets, including the nature of the financial assets involved and the risks associated with them. The adoption of these amendments from 1 July 2011 will increase the disclosure requirements on the consolidated entity when an asset is transferred but is not derecognised and new disclosure required when assets are derecognised but the consolidated entity continues to have a continuing exposure to the asset after the sale.

*AASB 2010-8 Amendments to Australian Accounting Standards- Deferred Tax: Recovery of Underlying Assets*
These amendments are applicable to annual reporting periods beginning on or after 1 January 2012 and a practical approach for the measurement of deferred tax relating to investment properties measured at fair value, property, plant and equipment and intangible assets measured using the revaluation model. The measurement of deferred tax for these specified assets is based on the presumption that the carrying amount of the underlying asset will be recovered entirely through sale, unless the entity has clear evidence that economic benefits of the underlying asset will be consumed during its economic life. The consolidated entity is yet to quantify the tax effect of adopting these amendments from 1 July 2012.

*AASB 2011-1 Amendments to Australian Accounting Standards arising from the Trans-Tasman Convergence Project and AASB 2011-2 Amendments to Australian Accounting Standards arising from the Trans-Tasman Convergence Project – Reduced Disclosure Requirements*
These amendments are applicable to annual reporting periods beginning on or after 1 July 2011. They make changes to a range of Australian Accounting Standards and Interpretations for the purpose of closer alignment to IFRSs and harmonisation between Australian and New Zealand Standards. The amendments remove certain guidance and definitions from Australian Accounting Standards for conformity of drafting with International Financial Reporting Standards but without any intention to change requirements. The adoption of these amendments from 1 July 2011 will not have a material impact on the consolidated entity.

*AASB 2011-4 Amendments to Australian Accounting Standards to Remove Individual Key Management Personnel Disclosure Requirement*
These amendments are applicable to annual reporting periods beginning on or after 1 July 2013, with early adoption not permitted. They amend AASB 124 ‘Related Party Disclosures’ by removing the disclosure requirements for individual key management personnel ('KMP'). The adoption of these amendments from 1 July 2013 will remove the duplication of relating to individual KMP in the notes to the financial statements and the directors report. As the aggregate disclosures are still required by AASB 124 and during the transitional period the requirements may be included in the Corporations Act or other legislation, it is expected that the amendments may not have a material impact on the consolidated entity.

## Note 2. 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 within the next financial year are discussed below.

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

*Provision for impairment of receivables*
The provision for impairment of receivables assessment requires a degree of estimation and judgement. The level of provision is assessed by taking into account the recent sales experience, the ageing of receivables, historical collection rates and specific knowledge of the individual debtors financial position.

*Estimation of useful lives of assets*
The consolidated entity determines the estimated useful lives and related depreciation and amortisation charges for its property, plant and equipment and definite 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 consolidated entity 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 1. 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.

*Impairment of non-financial assets other than goodwill and other indefinite life intangible assets*
The consolidated entity 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 consolidated entity 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 to sell or value-in-use calculations, which incorporate a number of key estimates and assumptions.

*Income tax*
The consolidated entity 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 consolidated entity recognises liabilities for anticipated tax audit issues based on the consolidated entity'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 consolidated entity considers it is probable that future taxable amounts will be available to utilise those temporary differences and losses.

## Note 2. Critical accounting judgements, estimates and assumptions (continued)

*Long service leave provision*
As discussed in note 1, the liability for long service leave is recognised and measured at the present value of the estimated future cash flows to be made in respect of all employees at the reporting date. In determining the present value of the liability, estimates of attrition rates and pay increases through promotion and inflation have been taken into account.

*Lease make good provision*
A provision has been made for the present value of anticipated costs for future restoration of leased premises. The provision includes future cost estimates associated with closure of the premises. The calculation of this provision requires assumptions such as application of closure dates and cost estimates. The provision recognised for each site is periodically reviewed and updated based on the facts and circumstances available at the time. Changes to the estimated future costs for sites are recognised in the statement of financial position by adjusting both the expense or asset, if applicable, and provision.

## Note 3. Operating segments

*Identification of reportable operating segments*
The consolidated entity has identified its operating segments based on the internal reports that are reviewed and used by the Board (the chief operating decision maker ('CODM')) in assessing performance and determining the allocation of resources.

The operating segments are identified based on the comparative geographical products and services, production process, regulatory environment and the separate identification of assets reported to the Board on a monthly basis. The consolidated entity's products and services are the same within both geographical segments.

A further assessment is conducted based on the revenue and profit contribution by each segment to the consolidated entity's result. Segments identified as meeting any of the 3 thresholds below, have been separately reported:

| | |
|---|---|
| Reported revenue | Greater than or equal to 10% of total combined revenues of the consolidated entity |
| Reported profit or loss | Greater than or equal to 10% of the greater of (i) total profitable entities or (ii) total loss-making entities |
| Assets | Greater than or equal to 10% of combined assets of the consolidated entity |

*Intersegment transactions*
Intersegment transactions were made at market rates. Intersegment transactions are eliminated on consolidation.

*Corporate charges*
Corporate charges comprise non-segmental expenses such as Head Office expenses and are allocated to each segment in proportion to the labour cost of that segment.

*Inter-entity sales*
Inter-entity sales are recognised based on a set standard cost.

*Intersegment loans*
Loans between Australia and New Zealand operating segments arise through transfer of funds to meet respective working capital payments, are non-interest bearing and do not have any other transaction charges attached.

*Income tax expense*
Income tax expense is calculated based on the segment operating profit using a notional 30% rate (2010: 30%).

*Major customers*
There are no significant customers in any reported segment that comprise greater than 10% of the segments aggregated revenues.

**Adcorp Australia Limited**
**Notes to the financial statements**
**30 June 2011**

## Note 3. Operating segments (continued)

*Operating segment information*

| 2011 | Australia $'000 | New Zealand $'000 | Intersegment eliminations/ unallocated $'000 | Consolidated $'000 |
|---|---|---|---|---|
| **Revenue** | | | | |
| Sales to external customers | 26,092 | 3,085 | - | 29,177 |
| Total sales revenue | 26,092 | 3,085 | - | 29,177 |
| Other income | 475 | 42 | (164) | 353 |
| **Total revenue** | 26,567 | 3,127 | (164) | 29,530 |
| | | | | |
| **Segment result** | 2,459 | 417 | (164) | 2,712 |
| Depreciation and amortisation | (594) | (92) | - | (686) |
| Impairment of assets | (5) | - | - | (5) |
| Interest revenue | 220 | 39 | - | 259 |
| Finance costs | (86) | - | - | (86) |
| Other non-cash expenses | 3 | 8 | - | 11 |
| **Profit/(loss) before income tax expense** | 1,997 | 372 | (164) | 2,205 |
| Income tax expense | | | | (935) |
| **Profit after income tax expense** | | | | 1,270 |
| | | | | |
| **Assets** | | | | |
| Segment assets | 38,853 | 4,584 | 130 | 43,567 |
| *Unallocated assets:* | | | | |
| Deferred tax asset | | | | 1,283 |
| **Total assets** | | | | 44,850 |
| | | | | |
| **Liabilities** | | | | |
| Segment liabilities | 34,937 | 1,397 | 130 | 36,464 |
| *Unallocated liabilities:* | | | | |
| Deferred tax liability | | | | 4 |
| **Total liabilities** | | | | 36,468 |

**Note 3. Operating segments (continued)**

| 2010 | Australia $'000 | New Zealand $'000 | Intersegment eliminations/ unallocated $'000 | Consolidated $'000 |
|---|---|---|---|---|
| **Revenue** | | | | |
| Sales to external customers | 27,508 | 3,371 | - | 30,879 |
| Total sales revenue | 27,508 | 3,371 | - | 30,879 |
| Other income | 449 | 33 | (243) | 239 |
| **Total revenue** | 27,957 | 3,404 | (243) | 31,118 |
| | | | | |
| **Segment result** | 1,401 | 401 | - | 1,802 |
| Depreciation and amortisation | (832) | (187) | - | (1,019) |
| Impairment of assets | (6,643) | (1,332) | - | (7,975) |
| Interest revenue | 154 | 33 | - | 187 |
| Finance costs | (27) | - | - | (27) |
| **Loss before income tax expense** | (5,947) | (1,085) | - | (7,032) |
| Income tax expense | | | | (69) |
| **Loss after income tax expense** | | | | (7,101) |
| | | | | |
| **Assets** | | | | |
| Segment assets | 40,003 | 4,555 | - | 44,558 |
| *Unallocated assets:* | | | | |
| Deferred tax asset | | | | 1,264 |
| **Total assets** | | | | 45,822 |
| | | | | |
| **Liabilities** | | | | |
| Segment liabilities | 36,441 | 1,459 | - | 37,900 |
| *Unallocated liabilities:* | | | | |
| Deferred tax liability | | | | 33 |
| **Total liabilities** | | | | 37,933 |

**Note 4. Revenue**

| | Consolidated 2011 $'000 | Consolidated 2010 $'000 |
|---|---|---|
| *Sales revenue* | | |
| Operating revenues | 29,177 | 30,880 |
| | | |
| *Other revenue* | | |
| Interest | 259 | 187 |
| Rent | 89 | 51 |
| | 348 | 238 |
| | | |
| Revenue | 29,525 | 31,118 |

## Note 5. Other income

| | Consolidated 2011 $'000 | Consolidated 2010 $'000 |
|---|---|---|
| Net gain on disposal of property, plant and equipment | 5 | - |

## Note 6. Expenses

| | Consolidated 2011 $'000 | Consolidated 2010 $'000 |
|---|---|---|
| Profit/(loss) before income tax includes the following specific expenses: | | |
| *Depreciation* | | |
| Office equipment | 147 | 155 |
| Plant and equipment | 202 | 440 |
| Total depreciation | 349 | 595 |
| *Amortisation* | | |
| Software licences | 332 | 351 |
| Customer lists | 54 | 73 |
| Total amortisation | 386 | 424 |
| Total depreciation and amortisation | 735 | 1,019 |
| *Impairment* | | |
| Office equipment | 5 | 332 |
| Plant and equipment | - | 412 |
| Goodwill | - | 7,099 |
| Software | - | 132 |
| Total impairment | 5 | 7,975 |
| *Finance costs* | | |
| Bank loans and overdrafts | 86 | 27 |
| *Net foreign exchange loss* | | |
| Net foreign exchange loss | 17 | 121 |

## Note 6. Expenses (continued)

| | Consolidated | |
|---|---|---|
| | 2011 | 2010 |
| | $'000 | $'000 |
| *Net loss on disposal* | | |
| Net loss on disposal of property, plant and equipment | - | 1 |
| *Rental expense relating to operating leases* | | |
| Minimum lease payments | 2,187 | 2,989 |
| *Superannuation expense* | | |
| Defined contribution superannuation expense | 1,185 | 1,451 |
| *Employee benefits expense* | | |
| Employee benefits expense | 14,346 | 16,442 |

## Note 7. Income tax expense

| | Consolidated | |
|---|---|---|
| | 2011 | 2010 |
| | $'000 | $'000 |
| *Income tax expense* | | |
| Current tax | 946 | 475 |
| Deferred tax | (48) | (473) |
| Under provision in prior years | 37 | 67 |
| Aggregate income tax expense | 935 | 69 |
| Deferred tax included in income tax expense comprises: | | |
| Increase in deferred tax assets (note 14) | (19) | (505) |
| (Decrease)/increase in deferred tax liabilities (note 18) | (29) | 32 |
| | (48) | (473) |
| *Numerical reconciliation of income tax expense to prima facie tax payable* | | |
| Profit/(loss) before income tax expense | 2,205 | (7,032) |
| Tax at the Australian tax rate of 30% | 662 | (2,110) |
| Tax effect amounts which are not deductible/(taxable) in calculating taxable income: | | |
| Impairment of assets | - | 2,130 |
| Write-back of Andrews losses | 127 | - |
| Expenditure non-deductible for tax purposes | 33 | 30 |
| Non-assessable items | 76 | (27) |
| | 898 | 23 |
| Under provision in prior years | 37 | 67 |
| Prior year tax losses not recognised now recouped | - | (21) |
| Income tax expense | 935 | 69 |

## Note 8. Current assets - cash and cash equivalents

| | Consolidated 2011 $'000 | Consolidated 2010 $'000 |
|---|---|---|
| Cash at bank | 10,273 | 10,875 |

Cash at bank earns interest at floating rates based on daily bank deposit rates.

## Note 9. Current assets - trade and other receivables

| | Consolidated 2011 $'000 | Consolidated 2010 $'000 |
|---|---|---|
| Trade receivables | 28,043 | 28,490 |
| Less: Provision for impairment of receivables | (510) | (519) |
| | 27,533 | 27,971 |
| Other receivables | 1,024 | 1,130 |
| | 28,557 | 29,101 |

Trade debtors and other receivables are non-interest bearing.

*Impairment of receivables*
The consolidated entity has recognised a net gain of $9,000 (2010: $185,000) in respect of doubtful debt provision for the year ended 30 June 2011.

The ageing of the impaired receivables recognised above are as follows:

| | Consolidated 2011 $'000 | Consolidated 2010 $'000 |
|---|---|---|
| Over 3 months overdue | 510 | 519 |

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

| | Consolidated 2011 $'000 | Consolidated 2010 $'000 |
|---|---|---|
| Opening balance | 519 | 704 |
| Additional provisions recognised | 184 | 17 |
| Unused amounts reversed | (193) | (202) |
| Closing balance | 510 | 519 |

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

*Past due but not impaired*
Customers with balances past due but without provision for impairment of receivables amount to $11,449,000 as at 30 June 2011 ($11,624,000 as at 30 June 2010). The consolidated entity did not consider a credit risk on the aggregate balances after reviewing agency credit information and credit terms of customers based on recent collection practices.

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

| | Consolidated | |
|---|---|---|
| | 2011<br>$'000 | 2010<br>$'000 |
| 1 to 3 months overdue | 9,123 | 10,025 |
| Over 3 months overdue | 2,326 | 1,599 |
| | 11,449 | 11,624 |

## Note 10. Current assets - income tax refund due

| | Consolidated | |
|---|---|---|
| | 2011<br>$'000 | 2010<br>$'000 |
| Income tax refund due | 65 | 145 |

## Note 11. Current assets - other

| | Consolidated | |
|---|---|---|
| | 2011<br>$'000 | 2010<br>$'000 |
| Prepayments | 161 | 150 |
| Security deposits | 7 | - |
| | 168 | 150 |

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

| | Consolidated 2011 $'000 | Consolidated 2010 $'000 |
|---|---|---|
| Office equipment - at cost | 1,955 | 1,693 |
| Less: Accumulated depreciation | (1,224) | (1,077) |
| Less: Impairment | (337) | (332) |
| | 394 | 284 |
| Plant and equipment - at cost | 3,793 | 3,308 |
| Less: Accumulated depreciation | (2,425) | (2,223) |
| Less: Impairment | (412) | (412) |
| | 956 | 673 |
| | 1,350 | 957 |

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

| | Office equipment $'000 | Plant and equipment $'000 | Total $'000 |
|---|---|---|---|
| **Consolidated** | | | |
| Balance at 1 July 2009 | 509 | 1,614 | 2,123 |
| Additions | 163 | 16 | 179 |
| Disposals | (1) | (3) | (4) |
| Exchange differences | (2) | - | (2) |
| Impairment of assets | (332) | (412) | (744) |
| Transfers in/(out) | 102 | (102) | - |
| Depreciation expense | (155) | (440) | (595) |
| Balance at 30 June 2010 | 284 | 673 | 957 |
| Additions | 247 | 505 | 752 |
| Disposals | (21) | (10) | (31) |
| Exchange differences | 36 | (10) | 26 |
| Impairment of assets | (5) | - | (5) |
| Depreciation expense | (147) | (202) | (349) |
| Balance at 30 June 2011 | 394 | 956 | 1,350 |

## Note 13. Non-current assets - intangibles

| | Consolidated 2011 $'000 | Consolidated 2010 $'000 |
|---|---|---|
| Goodwill - at cost | 10,443 | 10,522 |
| Less: Impairment | (7,555) | (7,555) |
| | 2,888 | 2,967 |
| Software licences - at cost | 2,278 | 2,076 |
| Less: Accumulated amortisation | (1,890) | (1,635) |
| Less: Impairment | (122) | (132) |
| | 266 | 309 |
| Customer lists - at cost | 133 | 133 |
| Less: Accumulated amortisation | (133) | (79) |
| | - | 54 |
| | 3,154 | 3,330 |

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

| | Goodwill $'000 | Software licences $'000 | Customer list $'000 | Total $'000 |
|---|---|---|---|---|
| **Consolidated** | | | | |
| Balance at 1 July 2009 | 10,048 | 500 | 2 | 10,550 |
| Additions | - | 290 | 125 | 415 |
| Exchange differences | 18 | 2 | - | 20 |
| Impairment of assets | (7,099) | (132) | - | (7,231) |
| Amortisation expense | - | (351) | (73) | (424) |
| Balance at 30 June 2010 | 2,967 | 309 | 54 | 3,330 |
| Additions | - | 292 | - | 292 |
| Disposals | - | (9) | - | (9) |
| Revaluation increments | - | 10 | - | 10 |
| Exchange differences | (79) | (4) | - | (83) |
| Amortisation expense | - | (332) | (54) | (386) |
| Balance at 30 June 2011 | 2,888 | 266 | - | 3,154 |

Goodwill acquired through business combinations is allocated to cash generating units for impairment testing by office location. The recoverable amount is determined based on value-in-use calculations using a discounted cash flow model with an adjusted Weighted Average Cost of Capital ('WACC') discount rate. The cash flow projections are based on budgets approved by the Board for the year ending 30 June 2012 plus four years of extrapolated results plus a terminal value. The average revenue growth rate is approximately 3.6% (2010: 3.0%) per annum. The discount rate applied to cash flows is approximately 20% (2010: 18%).

During the current financial year there was no significant impairment. During the comparative period, the carrying value of goodwill was written down $7,099,000, the most significant portion being a $4.3 million write-down of the goodwill in 75% owned subsidiary, Andrews Advertising Pty Limited ('Andrews'). A further $0.9 million write down of goodwill related to the value of the Quadrant investment.

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

A range of scenarios has been applied to test the sensitivity of the figures used to evaluate future sustainable cash flows in the cash generating units. Using financial year 30 June 2012 budgets for these CGU's at 0% growth in future years, and a conservative WACC of 23%, no impairment indicators exist.

The carrying amount of goodwill allocated to each cash generating unit is:

| | Consolidated | |
|---|---|---|
| | 2011 $'000 | 2010 $'000 |
| Victoria | 358 | 358 |
| Queensland | 785 | 785 |
| New Zealand | 1,745 | 1,824 |
| | 2,888 | 2,967 |

### Note 14. Non-current assets - deferred tax

| | Consolidated | |
|---|---|---|
| | 2011 $'000 | 2010 $'000 |
| *The balance comprises temporary differences attributable to:* | | |
| Amounts recognised in profit or loss: | | |
| Property, plant and equipment | 141 | 325 |
| Employee benefits | 358 | 400 |
| Other provisions | 784 | 539 |
| Deferred tax asset | 1,283 | 1,264 |
| *Movements:* | | |
| Opening balance | 1,264 | 759 |
| Credited to profit or loss (note 7) | 19 | 505 |
| Closing balance | 1,283 | 1,264 |

### Note 15. Current liabilities - trade and other payables

| | Consolidated | |
|---|---|---|
| | 2011 $'000 | 2010 $'000 |
| Trade payables | 27,304 | 30,741 |
| Other payables | 7,215 | 5,233 |
| | 34,519 | 35,974 |

Refer to note 25 for detailed information on financial instruments.

## Note 16. Current liabilities - income tax

| | Consolidated 2011 $'000 | Consolidated 2010 $'000 |
|---|---|---|
| Provision for income tax | 424 | 471 |

## Note 17. Current liabilities - provisions

| | Consolidated 2011 $'000 | Consolidated 2010 $'000 |
|---|---|---|
| Employee benefits | 853 | 984 |
| Deferred consideration | - | 52 |
| Decommissioning | 45 | 25 |
| | 898 | 1,061 |

*Decommissioning*
The provision represents the present value of the estimated costs to make good the premises leased by the consolidated entity at the end of the respective lease terms.

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

| | Deferred consideration $'000 | Decom-missioning $'000 |
|---|---|---|
| **Consolidated - 2011** | | |
| Carrying amount at the start of the year | 52 | 25 |
| Additional provisions recognised | - | 45 |
| Amounts used | - | (25) |
| Foreign exchange | (3) | - |
| Unused amounts reversed | (49) | - |
| Carrying amount at the end of the year | - | 45 |

## Note 18. Non-current liabilities - deferred tax

| | Consolidated | |
|---|---|---|
| | **2011** | **2010** |
| | **$'000** | **$'000** |
| *The balance comprises temporary differences attributable to:* | | |
| Amounts recognised in profit or loss: | | |
| Accrued interest income | - | 6 |
| Accrued income | - | 2 |
| Work in progress | - | 21 |
| Other | 4 | 4 |
| Deferred tax liability | 4 | 33 |
| *Movements:* | | |
| Opening balance | 33 | 1 |
| Charged/(credited) to profit or loss (note 7) | (29) | 32 |
| Closing balance | 4 | 33 |

## Note 19. Non-current liabilities - provisions

| | Consolidated | |
|---|---|---|
| | **2011** | **2010** |
| | **$'000** | **$'000** |
| Employee benefits | 344 | 185 |
| Decommissioning | 279 | 209 |
| | 623 | 394 |

*Decommissioning*
The provision represents the present value of the estimated costs to make good the premises leased by the consolidated entity at the end of the respective lease terms.

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

| | Decom-missioning $'000 |
|---|---|
| **Consolidated - 2011** | |
| Carrying amount at the start of the year | 209 |
| Additional provisions recognised | 133 |
| Payments | (61) |
| Foreign exchange | (2) |
| Carrying amount at the end of the year | 279 |

## Note 20. Equity - contributed

| | Consolidated | | Consolidated | |
|---|---|---|---|---|
| | 2011 Shares | 2010 Shares | 2011 $'000 | 2010 $'000 |
| Ordinary shares - fully paid | 60,676,602 | 60,676,602 | 28,894 | 28,894 |

*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.

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

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

*Capital risk management*
When managing capital, management's objective is to ensure the company and consolidated entity continues as a going concern as well as to maintain optimal returns to shareholders. Management are constantly reviewing the capital structure of the company and consolidated entity in light of any expected changes in market conditions. Management has no current plans to issue further shares on the market or to reduce the capital structure by conducting share buybacks.

Management aim to return a high level of profits to shareholders as dividend payments, whilst maintaining sufficient cash in the business for meeting working capital requirements.

## Note 21. Equity - reserves

| | Consolidated | |
|---|---|---|
| | 2011 $'000 | 2010 $'000 |
| Foreign currency reserve | (758) | (588) |
| Employee equity benefits reserve | 290 | 290 |
| | (468) | (298) |

| | Foreign currency $'000 | Employee benefits $'000 | Total $'000 |
|---|---|---|---|
| **Consolidated** | | | |
| Balance at 1 July 2009 | (678) | 290 | (388) |
| Foreign currency translation | 90 | - | 90 |
| Balance at 30 June 2010 | (588) | 290 | (298) |
| Foreign currency translation | (170) | - | (170) |
| Balance at 30 June 2011 | (758) | 290 | (468) |

## Note 21. Equity - reserves (continued)

*Foreign currency reserve*
The reserve is used to recognise exchange differences arising from translation of the financial statements of foreign operations to Australian dollars.

*Employee equity benefit reserve*
The employee share option and share plan reserve is used to record the value of equity benefits provided to employees and directors as part of their remuneration. These plans are detailed in note 37.

## Note 22. Equity - accumulated losses

| | Consolidated | |
|---|---|---|
| | 2011<br>$'000 | 2010<br>$'000 |
| Accumulated losses at the beginning of the financial year | (20,757) | (13,619) |
| Profit/(loss) after income tax expense for the year | 1,392 | (7,138) |
| Dividends paid (note 24) | (607) | - |
| Accumulated losses at the end of the financial year | (19,972) | (20,757) |

## Note 23. Equity - non-controlling interest

| | Consolidated | |
|---|---|---|
| | 2011<br>$'000 | 2010<br>$'000 |
| Contributed equity | 202 | 202 |
| Reserves | 36 | 36 |
| Accumulated losses | (310) | (188) |
| | (72) | 50 |

The non-controlling interest has 25% (2009: 25%) equity holdings in Andrews Advertising Pty Limited and Quadrant Creative Pty Limited.

## Note 24. Equity - dividends

*Dividends*

| | Consolidated | |
|---|---|---|
| | 2011<br>$'000 | 2010<br>$'000 |
| Interim dividend for the year ended 30 June 2011 of 1 cent per ordinary share paid on 31 March 2011 fully franked based on a tax rate of 30% | 607 | - |

The dividend payment of $261,000 in the comparative year relates to the non-controlling interest.

## Note 24. Equity - dividends (continued)

*Franking credits*

| | Consolidated | |
|---|---|---|
| | 2011 | 2010 |
| | $'000 | $'000 |
| Franking credits available for subsequent financial years based on a tax rate of 30% | 6,070 | 5,642 |

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

## Note 25. Financial instruments

***Financial risk management objectives***

The consolidated entity's principal financial liabilities comprise trade payables. These financial liabilities arise directly from the consolidated entity's operations. The consolidated entity has various financial assets such as trade receivables and cash and short-term deposits, which arise directly from its operations.

At 30 June 2011 the consolidated entity did not have financial instruments or derivatives other than those disclosed in these notes.

The main risks arising from the consolidated entity's financial instruments are credit risk, liquidity risk, interest rate risk and foreign currency risk. The Board of Directors reviews the management of each of these risks which are summarised below:

***Market risk***

*Foreign currency risk*

The consolidated entity has transactional foreign currency exposures. Such exposure arises from purchases by the consolidated entity in currencies other than the functional currency of the operating units. Approximately 2% of the consolidated entity's purchases are denominated in currencies other than the functional currency of the operating unit making the sale. These amounts include the payables of foreign creditors, which are not effectively hedged by other foreign currency denominated items.

The consolidated entity's main foreign currency exposure is New Zealand Dollars, as shown below. Based on this exposure, had the Australian Dollar weakened by 10% or strengthened by 10% against the New Zealand Dollar with all other variables held constant, the movement would have an immaterial impact on the consolidated entity. The consolidated entity is not sensitive to movements in other currencies.

**Note 25. Financial instruments (continued)**

The carrying amount of the consolidated entity's foreign currency denominated financial assets and financial liabilities at the reporting date was as follows:

| | Assets | | Liabilities | |
|---|---|---|---|---|
| | 2011 $'000 | 2010 $'000 | 2011 $'000 | 2010 $'000 |
| **Consolidated** | | | | |
| US dollars | - | - | 72 | 70 |
| Pound Sterling | - | - | 41 | 70 |
| New Zealand dollars | 1,164 | 641 | 2 | 24 |
| Canadian dollars | - | - | 9 | 1 |
| South African Rand | - | - | 8 | 10 |
| Singapore Dollars | - | - | 17 | 27 |
| Papua New Guinea Tina | - | - | - | 1 |
| Soloman Island Dollars | - | - | 1 | - |
| | 1,164 | 641 | 150 | 203 |

*Interest rate risk*
The consolidated entity’s exposure to the risk of changes in market interest rates relates primarily to the consolidated entity’s cost of borrowing amounts for working capital requirements which are at market interest rates. As noted below, the impact on the consolidated entity is small, given the consolidated entity has no long-term borrowings.

The consolidated entity’s principal financial instruments comprise cash and short-term deposits. The main purpose of these financial instruments is to finance the consolidated entity’s operations.

The consolidated entity has various other financial instruments such as trade debtors and trade creditors, which arise directly from its operations.

The consolidated entity is exposed to interest rate risk through financial assets and liabilities.

At the reporting date, the consolidated entity had the following variable rate cash balances:

| | 2011 | | 2010 | |
|---|---|---|---|---|
| | Weighted average interest rate % | Balance $'000 | Weighted average interest rate % | Balance $'000 |
| **Consolidated** | | | | |
| Cash at bank | 3.90 | 10,273 | 4.10 | 10,875 |
| Net exposure to cash flow interest rate risk | | 10,273 | | 10,875 |

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

An official increase or decrease in interest rates would have no significant impact on profit before tax.

## Note 25. Financial instruments (continued)

### *Credit risk*
Credit risk arises from the financial assets of the consolidated entity, which comprise cash and cash equivalents, trade and other receivables. The consolidated entity's exposure to credit risk arises from potential default of the counter party, with a maximum exposure equal to the carrying amount of these instruments.

It is the consolidated entity'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 and financial position. Some customer credit risk within the consolidated entity is managed by the use of debtors insurance.

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

### *Liquidity risk*
Liquidity risk is the risk that the consolidated entity will be unable to meet its payment obligations when they fall due under normal and stress circumstances. The consolidated entity's objective is to maintain a balance between continuity of funding and flexibility through effective management of working capital and the use of available bank credit lines. To limit this risk, management has arranged bank credit facilities, manages assets with liquidity in mind, and monitors future cash flows and liquidity on a daily basis.

As at 30 June 2011, the consolidated entity had a commercial bill facility of $6 million (2010: $6 million) with the ANZ Banking Corporation for working capital purposes, but had no bills outstanding and continues to generate positive operating cash flows.

*Remaining contractual maturities*
The following tables detail the consolidated entity'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 - 2011** | 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 | - | 26,960 | - | - | - | 26,960 |
| Other payables | - | 7,101 | - | - | - | 7,101 |
| Total non-derivatives | | 34,061 | - | - | - | 34,061 |

| **Consolidated - 2010** | 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 | - | 33,874 | - | - | - | 33,874 |
| Other payables | - | 2,100 | - | - | - | 2,100 |
| Total non-derivatives | | 35,974 | - | - | - | 35,974 |

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

## Note 25. Financial instruments (continued)

### *Fair value of financial instruments*

Unless otherwise stated, the carrying amounts of financial instruments reflect their fair value. The carrying amounts of trade receivables and trade payables are assumed to approximate their fair values due to their short-term nature. 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 instruments.

## Note 26. Key management personnel disclosures

*Directors*

The following persons were directors of Adcorp Australia Limited during the financial year:

| | |
|---|---|
| Bob Campbell | Non-Executive Chairman |
| Ian Rodwell | Non-Executive Director |
| David Morrison (appointed on 21 March 2011) | Executive Director and Chief Executive Officer |
| Matthew Mellor (resigned on 18 March 2011) | Former Executive Director and Former Chief Executive Officer |

*Other key management personnel*

The following persons also had the authority and responsibility for planning, directing and controlling the major activities of the consolidated entity, directly or indirectly, during the financial year:

| | |
|---|---|
| Craig McMenamin | Chief Financial Officer and Company Secretary |

*Compensation*

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

| | Consolidated 2011 $ | Consolidated 2010 $ |
|---|---|---|
| Short-term employee benefits | 665,903 | 928,579 |
| Post-employment benefits | 42,167 | 95,375 |
| Termination benefits | 121,095 | 478,563 |
| | 829,165 | 1,502,517 |

*Shareholding*

The number of shares in the parent entity held during the financial year by each director and other members of key management personnel of the consolidated entity, including their personally related parties, is set out below:

| 2011 | Balance at the start of the year | Received as part of remuneration | Additions | Disposals/ other | Balance at the end of the year |
|---|---|---|---|---|---|
| *Ordinary shares* | | | | | |
| Ian Rodwell | 21,309,127 | - | 407,000 | - | 21,716,127 |
| Craig McMenamin | 2,900 | - | - | - | 2,900 |
| | 21,312,027 | - | 407,000 | - | 21,719,027 |

**Note 26. Key management personnel disclosures (continued)**

| **2010** | Balance at the start of the year | Received as part of remuneration | Additions | Disposals/ other | Balance at the end of the year |
|---|---|---|---|---|---|
| *Ordinary shares* | | | | | |
| Peter James * | 275,000 | - | - | (275,000) | - |
| Ian Rodwell | 20,951,470 | - | 357,657 | - | 21,309,127 |
| Keith Twist * | 25,000 | - | - | (25,000) | - |
| Craig McMenamin | 2,900 | - | - | - | 2,900 |
| | 21,254,370 | - | 357,657 | (300,000) | 21,312,027 |

* Disposals/other represents no longer a director or key management personnel, not necessarily a disposal of shareholding.

*Option holding*

The number of options over ordinary shares in the parent entity held during the financial year by each director and other members of key management personnel of the consolidated entity, including their personally related parties, is set out below:

| **2011** | Balance at the start of the year | Granted | Exercised | Expired/ forfeited/ other | Balance at the end of the year |
|---|---|---|---|---|---|
| *Options over ordinary shares* | | | | | |
| Matthew Mellor * | 200,000 | - | - | (200,000) | - |
| Craig McMenamin | 200,000 | - | - | - | 200,000 |
| | 400,000 | - | - | (200,000) | 200,000 |

* Expired/forfeited/other represents individual no longer being a key management personnel

| **2010** | Balance at the start of the year | Granted | Exercised | Expired/ forfeited/ other | Balance at the end of the year |
|---|---|---|---|---|---|
| *Options over ordinary shares* | | | | | |
| Peter James * | 4,000,000 | - | - | (4,000,000) | - |
| Matthew Mellor | 200,000 | - | - | - | 200,000 |
| Kevin Lodge | 400,000 | - | - | (400,000) | - |
| Keith Twist | 300,000 | - | - | (300,000) | - |
| Craig McMenamin | 200,000 | - | - | - | 200,000 |
| Annette Burke | 50,000 | - | - | (50,000) | - |
| | 5,150,000 | - | - | (4,750,000) | 400,000 |

* Expired/forfeited/other represents individual no longer being a key management personnel

*Related party transactions*

Related party transactions are set out in note 30.

## Note 27. 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, and its related practices:

| | Consolidated 2011 $ | Consolidated 2010 $ |
|---|---|---|
| *Audit services - Ernst & Young* | | |
| Audit or review of the financial report | 255,589 | 216,000 |
| *Other services - Ernst & Young* | | |
| Other services | 30,000 | 30,000 |
| | 285,589 | 246,000 |

## Note 28. Contingent liabilities

| | Consolidated 2011 $'000 | Consolidated 2010 $'000 |
|---|---|---|
| Premises | 1,276 | 1,101 |

## Note 29. Commitments for expenditure

| | Consolidated 2011 $'000 | Consolidated 2010 $'000 |
|---|---|---|
| *Lease commitments - operating* | | |
| Committed at the reporting date but not recognised as liabilities, payable: | | |
| Within one year | 2,557 | 2,563 |
| One to five years | 7,168 | 8,427 |
| More than five years | 142 | - |
| | 9,867 | 10,990 |

Operating leases are entered into as a means of acquiring access to retail property and IT equipment. Rental payments are generally fixed, but with future inflation escalation clauses. No renewal or purchased options exist in relation to operating leases for retail property and no operating leases contain restrictions on financing or other leasing activities.

## Note 30. Related party transactions

*Parent entity*
Adcorp Australia Limited is the parent entity.

*Subsidiaries*
Interests in subsidiaries are set out in note 32.

*Key management personnel*
Disclosures relating to key management personnel are set out in note 26 and the remuneration report in the directors' report.

*Transactions with related parties*
There were no transactions with related parties during the financial year.

*Receivable from and payable to related parties*
There were no trade receivables from or trade payables to related parties at the reporting date.

*Loans to/from related parties*
There were no loans to or from related parties at the reporting date.

## Note 31. Parent entity information

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

*Statement of comprehensive income*

| | Parent | |
|---|---|---|
| | **2011** | **2010** |
| | **$'000** | **$'000** |
| Profit/(loss) after income tax | 1,095 | (3,862) |
| Total comprehensive income | 1,095 | (3,862) |

*Statement of financial position*

| | Parent | |
|---|---|---|
| | **2011** | **2010** |
| | **$'000** | **$'000** |
| Total current assets | 47,198 | 43,223 |
| Total assets | 50,342 | 47,136 |
| Total current liabilities | 41,861 | 39,264 |
| Total liabilities | 42,249 | 39,531 |
| Equity | | |
| Contributed equity | 28,894 | 28,894 |
| Reserves | 290 | 290 |
| Accumulated losses | (21,091) | (21,579) |
| Total equity | 8,093 | 7,605 |

## Note 31. Parent entity information (continued)

*Contingent liabilities*

| | Parent | |
|---|---|---|
| | **2011** | **2010** |
| | **$'000** | **$'000** |
| Bank guarantees | 750 | 575 |

*Lease commitments*
The parent entity had lease commitments of $6,254,000 at 30 June 2011.

*Capital commitments - Property, plant and equipment*
The parent entity had no capital commitments for property, plant and equipment at as 30 June 2011 and 30 June 2010.

*Significant accounting policies*
The accounting policies of the parent entity are consistent with those of the consolidated entity, as disclosed in note 1, except for the following:

- Investments in subsidiaries are accounted for at cost, less any impairment. Impairment is based on value in use calculation using cash flow projections based on budgets approved by the Board for the year ending 30 June 2012 plus a further four years of forecast results plus a terminal value.
- 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.
- Management fees are charged to subsidiaries to recover costs of functions performed by the head office. Revenue is recognised as earned.

## Note 32. Subsidiaries

The consolidated financial statements incorporate the assets, liabilities and results of the following subsidiaries in accordance with the accounting policy described in note 1:

| Name of entity | Country of incorporation | Equity holding 2011 % | Equity holding 2010 % |
|---|---|---|---|
| Adcorp Australia (Vic) Pty Ltd | Australia | 100.00 | 100.00 |
| Adcorp Australia (Qld) Pty Ltd | Australia | 100.00 | 100.00 |
| R&L Advertising Pty Ltd | Australia | 100.00 | 100.00 |
| Adcorp D&D Pty Ltd | Australia | 100.00 | 100.00 |
| Austpac Media Pty Ltd * | Australia | 100.00 | 100.00 |
| Adcorp SWA Pty Ltd * | Australia | 100.00 | 100.00 |
| Donald & Donald (Victoria) Pty Ltd * | Australia | 100.00 | 100.00 |
| Nancarrow Marketing Company Pty Ltd | Australia | 100.00 | 100.00 |
| Adcorp New Zealand Limited | New Zealand | 100.00 | 100.00 |
| Cutriss Dye Limited ** | New Zealand | - | 100.00 |
| Adcorp Technologies Pty Limited | Australia | 100.00 | 100.00 |
| Employment Opportunities in Australia Pty Ltd | Australia | 100.00 | 100.00 |
| Connect2One Pty Ltd *** | Australia | - | 100.00 |
| Andrews Advertising Pty Ltd | Australia | 75.00 | 75.00 |
| Quadrant Creative Pty Ltd | Australia | 75.00 | 75.00 |

* These entities are controlled entities of Adcorp D&D Pty Ltd
** Cutriss Dye Limited was deregistered on 16 July 2010
*** Connect2One Pty Ltd was deregistered on 20 May 2011

## Note 33. 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:

Adcorp Australia Limited
Adcorp Australia (Vic) Pty Ltd
Adcorp Australia (Qld) Pty Ltd
Adcorp D&D Pty Ltd

By entering into the deed, the wholly-owned entities have been relieved from the requirement to prepare a financial report and directors' report under Class Order 98/1418 (as amended) issued by the Australian Securities and Investments Commission ('ASIC').

The above companies represent a 'Closed Group' for the purposes of the Class Order, and as there are no other parties to the Deed of Cross Guarantee that are controlled by Adcorp Australia Limited, they also represent the 'Extended Closed Group'.

## Note 33. Deed of cross guarantee (continued)

Set out below is a consolidated statement of comprehensive income and statement of financial position of the 'Closed Group'.

| Statement of comprehensive income | 2011 $'000 | 2010 $'000 |
|---|---|---|
| Revenue | 23,691 | 23,318 |
| Other income | 293 | 5,123 |
| Client service expenses | (14,858) | (15,772) |
| Administrative expenses | (938) | (2,236) |
| Marketing expenses | (1,518) | (1,216) |
| Office and communication expenses | (3,851) | (4,135) |
| Finance costs | (81) | (23) |
| **Profit before income tax expense** | 2,738 | 5,059 |
| Income tax expense | (498) | (399) |
| **Profit after income tax expense** | 2,240 | 4,660 |
| Other comprehensive income for the year, net of tax | - | - |
| **Total comprehensive income for the year** | 2,240 | 4,660 |

## Note 33. Deed of cross guarantee (continued)

| Statement of financial position | 2011 $'000 | 2010 $'000 |
|---|---|---|
| **Current assets** | | |
| Cash and cash equivalents | 8,810 | 10,032 |
| Trade and other receivables | 25,933 | 24,959 |
| Other | 116 | 118 |
| | 34,859 | 35,109 |
| **Non-current assets** | | |
| Other financial assets | 10,135 | 6,861 |
| Property, plant and equipment | 992 | 591 |
| Intangibles | 255 | 976 |
| Deferred tax | 1,041 | 849 |
| | 12,423 | 9,277 |
| **Total assets** | 47,282 | 44,386 |
| **Current liabilities** | | |
| Trade and other payables | 31,545 | 32,853 |
| Income tax | 48 | 396 |
| Provisions | 3,372 | 612 |
| | 34,965 | 33,861 |
| **Non-current liabilities** | | |
| Deferred tax | 36 | 8 |
| Provisions | 431 | 300 |
| | 467 | 308 |
| **Total liabilities** | 35,432 | 34,169 |
| **Net assets** | 11,850 | 10,217 |
| **Equity** | | |
| Contributed equity | 28,894 | 28,894 |
| Reserves | 290 | 290 |
| Accumulated losses | (17,334) | (18,967) |
| **Total equity** | 11,850 | 10,217 |

## Note 34. Events occurring after the reporting date

No matter or circumstance has arisen since 30 June 2011 that has significantly affected, or may significantly affect the consolidated entity's operations, the results of those operations, or the consolidated entity's state of affairs in future financial years.

## Note 35. Reconciliation of profit/(loss) after income tax to net cash from operating activities

| | Consolidated 2011 $'000 | Consolidated 2010 $'000 |
|---|---|---|
| Profit/(loss) after income tax expense for the year | 1,270 | (7,101) |
| Adjustments for: | | |
| Depreciation and amortisation | 686 | 1,019 |
| Write off of non-current assets | 49 | - |
| Net gain on disposal of property, plant and equipment | (5) | - |
| Foreign exchange differences | (123) | 44 |
| Impairment of assets | 5 | 7,975 |
| Change in operating assets and liabilities: | | |
| (Increase)/decrease in trade and other receivables | 768 | (6,955) |
| Decrease in income tax refund due | 80 | - |
| (Increase)/decrease in deferred tax assets | (19) | 135 |
| (Increase)/decrease in prepayments | (11) | 4 |
| Increase/(decrease) in trade and other payables | (1,679) | 10,509 |
| Increase/(decrease) in provision for income tax | (47) | 256 |
| Increase/(decrease) in deferred tax liabilities | (29) | 32 |
| Increase/(decrease) in employee benefits | 53 | (66) |
| Increase in other provisions | 13 | 78 |
| Net cash from operating activities | 1,011 | 5,930 |

## Note 36. Earnings per share

| | Consolidated | |
|---|---|---|
| | **2011** | **2010** |
| | **$'000** | **$'000** |
| Profit/(loss) after income tax | 1,270 | (7,101) |
| Non-controlling interest | 122 | (37) |
| Profit/(loss) after income tax attributable to the owners of Adcorp Australia Limited | 1,392 | (7,138) |

| | **Number** | **Number** |
|---|---|---|
| Weighted average number of ordinary shares used in calculating basic earnings per share | 60,676,602 | 60,676,602 |
| Weighted average number of ordinary shares used in calculating diluted earnings per share | 60,676,602 | 60,676,602 |

| | **Cents** | **Cents** |
|---|---|---|
| Basic earnings per share | 2.29 | (11.76) |
| Diluted earnings per share | 2.29 | (11.76) |

350,000 options (2010: 650,000) are not included in the calculation of diluted earnings per share due to the exercise price exceeding the average share price throughout the year.

## Note 37. Share-based payments

*Employee share option plan*
The consolidated entity has an Employee Share Option Plan ('ESOP') for the granting of non-transferable options to certain directors and senior executives.

Options issued under the ESOP will vest as follows:
i) on the second anniversary of the grant date - 30% of the options granted;
ii) on the third anniversary of the grant date - a further 30% of the options granted; and
iii) on the fourth anniversary of the grant date - the remaining 40% of the options granted.

Options vest no earlier than 1 July 2010. Of the total 350,000 options on issue, 150,000 vested at 1 July 2010. The remaining 200,000 have not yet vested as the vesting is conditional on a cumulative 10% growth in earnings per share ('EPS') on the 2008 financial year EPS, this growth has not yet been achieved.

Other relevant terms and conditions applicable to options granted under the ESOP include:
i) the exercise price of the options is equal to Adcorp Australia Limited’s weighted average share price for the five days prior to the grant date;
ii) any options that are unvested on the fifth anniversary of their grant date will lapse;
iii) upon exercise, these options will be settled in ordinary shares of Adcorp Australia Limited; and
(iv) options are cancelled 3 months after the employee departs the company.

The fair value of the options is estimated at the date of the grant using the Black-Scholes model.

## Note 37. Share-based payments (continued)

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

**2011**

| 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 |
|---|---|---|---|---|---|---|---|
| 01/07/07 | 30/06/12 | $0.39 | 450,000 | - | - | (300,000) | 150,000 |
| 01/07/08 | 30/06/13 | $0.40 | 200,000 | - | - | - | 200,000 |
| | | | 650,000 | - | - | (300,000) | 350,000 |

**2010**

| 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 |
|---|---|---|---|---|---|---|---|
| 29/10/04 | 28/10/09 | $1.25 | 3,000,000 | - | - | (3,000,000) | - |
| 01/07/07 | 30/06/12 | $0.39 | 1,400,000 | - | - | (950,000) | 450,000 |
| 01/07/08 | 30/06/13 | $0.40 | 1,050,000 | - | - | (850,000) | 200,000 |
| | | | 5,450,000 | - | - | (4,800,000) | 650,000 |

**Adcorp Australia Limited**
**Directors' declaration**

In the directors' opinion:

- the attached financial statements and notes thereto 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 thereto comply with International Financial Reporting Standards as issued by the International Accounting Standards Board as described in note 1 to the financial statements;
- the attached financial statements and notes thereto give a true and fair view of the consolidated entity's financial position as at 30 June 2011 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 33 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) of the Corporations Act 2001.

On behalf of the directors

| | |
|---|---|
| David Morrison<br>Director and Chief Executive Officer | Bob Campbell<br>Chairman |

26 August 2011
Sydney

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# Independent auditor's report to the members of Adcorp Australia Limited

## Report on the financial report

We have audited the accompanying financial report of Adcorp Australia Limited, which comprises the consolidated statement of financial position as at 30 June 2011, the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, notes comprising a summary of significant accounting policies and other explanatory information, and the directors' declaration of the consolidated entity comprising the company and the entities it controlled at the year's end or from time to time during the financial year.

### *Directors' Responsibility for the financial report*

The directors of the company responsible for the preparation of the financial report that gives a true and fair view in accordance with Australian Accounting Standards and the *Corporations Act 2001* and for such internal controls as the directors determine are necessary to enable the preparation of the financial report that is free from material misstatement, whether due to fraud or error. In Note 1, the directors also state, in accordance with Accounting Standard AASB 101 *Presentation of Financial Statements*, that the financial statements comply with *International Financial Reporting Standards*.

### *Auditor's responsibility*

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

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

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

### *Independence*

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

*Opinion*

In our opinion:

a. the financial report of Adcorp Australia Limited is in accordance with the *Corporations Act 2001*, including:

   i giving a true and fair view of the consolidated entity's financial position as at 30 June 2011 and of its performance for the year ended on that date; and

   ii complying with Australian Accounting Standards and the *Corporations Regulations 2001*; and

b. the financial report also complies with *International Financial Reporting Standards* as disclosed in Note 1.

## Report on the remuneration report

We have audited the Remuneration Report included in pages 6 to 11 of the directors' report for the year ended 30 June 2011. The directors of the company are responsible for the preparation and presentation of the Remuneration Report in accordance with section 300A of the *Corporations Act 2001*. Our responsibility is to express an opinion on the Remuneration Report, based on our audit conducted in accordance with Australian Auditing Standards.

*Opinion*

In our opinion, the Remuneration Report of Adcorp Australia Limited for the year ended 30 June 2011, complies with section 300A of the *Corporations Act 2001*.

Ernst + Young

Ernst & Young

John Robinson
Partner
Sydney
26 August 2011

**Adcorp Australia Limited**
**Shareholder information**
**30 June 2011**

The shareholder information set out below was applicable as at 18 August 2011.

**Distribution of equitable securities**
Analysis of number of equitable security holders by size of holding:

| | Number of holders of ordinary shares |
|---|---|
| 1 to 1,000 | 164 |
| 1,001 to 5,000 | 380 |
| 5,001 to 10,000 | 177 |
| 10,001 to 100,000 | 338 |
| 100,001 and over | 53 |
| | 1,112 |
| Holding less than a marketable parcel | 420 |

**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 |
| Sovote Pty Ltd <Rodwell (New Millennium) A/C> | 21,716,127 | 35.79 |
| UBS Wealth Management Australia Nominees Pty Ltd | 6,454,535 | 10.64 |
| Mr Victor John Plummer | 5,312,343 | 8.76 |
| J P Morgan Nominees Australia Limited | 1,799,065 | 2.97 |
| Mr Frederick Benjamin Warmbrand <FB & LJ Warmbrand Super A/C> | 937,345 | 1.54 |
| Mr Richard Mews + Mrs Wee Khoon Mews <Mews Super Fund A/C> | 756,832 | 1.25 |
| Mr Anthony Mark Van Der Steeg | 755,877 | 1.25 |
| K B J Investments Pty Ltd <Jarry Family Super Fund A/C> | 500,000 | 0.82 |
| Lozotu Pty Limited <Superannuation Fund A/C> | 480,753 | 0.79 |
| Mrs Lilian Jeanette Warmbrand | 460,000 | 0.76 |
| Yaffa Syndicate Pty Limited | 390,000 | 0.64 |
| Gemac Investments Pty Ltd | 378,000 | 0.62 |
| Teedon Pty Ltd <Donohue Group S/F A/C> | 371,320 | 0.61 |
| Mrs Nelly Michelle Cunningham | 358,950 | 0.59 |
| Lozotu Pty Limited | 314,011 | 0.52 |
| Mark S Campbell Pty Ltd <Mark Campbell Prov Fund A/C> | 310,038 | 0.51 |
| Mr John Maxwell Inglis + Mrs Bernadette Joan Inglis | 300,000 | 0.49 |
| Miralanco Investments Pty Ltd | 300,000 | 0.49 |
| Bond Street Custodians Limited <Drayne - 120149 A/C> | 275,000 | 0.45 |
| Lindway Investments Pty Limited | 243,493 | 0.40 |
| | 42,413,689 | 69.89 |

*Unquoted equity securities*
There are no unquoted equity securities.

## Substantial holders
Substantial holders in the company are set out below:

| | Ordinary shares | |
|---|---|---|
| | Number held | % of total shares issued |
| Sovote Pty Ltd <Rodwell (New Millennium) A/C> | 21,716,127 | 35.79 |
| UBS Wealth Management Australia Nominees Pty Ltd | 6,454,535 | 10.64 |
| Mr Victor John Plummer | 5,312,243 | 8.76 |

## 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.