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# Corporate Directory

**PACIFIC STAR NETWORK LIMITED**
**ABN 20 009 221 630**

## Directors

Andrew Moffat (Chairman)
Ronald Hall
Gary Pert
Michelle Guthrie

## Company Secretary

Stephen Sweeney FCA, MBA

## Registered Office

473 Swan Street
RICHMOND VIC 3121

Telephone: (03) 8420 1116
Facsimile: (03) 9421 5383

Email: info@pacificstarnetwork.com.au
Internet: www.pacificstarnetwork.com.au

## Share Registry

Computershare Investor Services Pty Ltd
Yarra Falls, 452 Johnson Street
ABBOTSFORD VIC 3067

Telephone: 1300 137 328
Facsimile: 1300 134 341

## Auditor

BDO East Coast Partnership
Level 12, 140 William Street
MELBOURNE VIC 3000

## Solicitors

Arnold Bloch Leibler
Level 21, 333 Collins Street
MELBOURNE VIC 3000

## Bankers

Bank of Melbourne
424 Warrigal Road
MOORABBIN VIC 3189

## Stock Exchange Listing

Pacific Star Network Limited ordinary shares are quoted on the Australian Stock Exchange (ASX code: PNW).

## Meeting

The Company's Annual General Meeting will be held on Wednesday 26 November 2014 at 9.30am.

The venue for the meeting is 473 Swan Street, Richmond Victoria 3121.

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# Chairman's Report 2013-14

Dear Shareholder,

Welcome to the Pacific Star Network Annual Report for the 2013-14 financial year.

## 2014 Highlights

- Profit before tax was up 36.7% to $1.45 million for the financial year. This result was achieved through tight cost management resulting in a 1.6% reduction in day to day operating costs over the period.
- The Melbourne metropolitan broadcast advertising market grew 1.7% to $211 million for the 2013-14 financial year and our radio stations continued to maintain a 6.5% share of this market (2013: 6.5%).
- Launched a three year capital expenditure program to invest over $1.0 million in upgrading, maintaining and protecting key infrastructure assets including transmitters, websites, process improvements, cloud based solutions and contingency planning.
- Digital radio celebrates five years on air this month. DAB+ digital radio is available in Sydney, Melbourne, Brisbane, Adelaide and Perth with trials in Canberra and Darwin. Nearly 1.6 million DAB+ digital radio devices have been sold since launch.

  The Company continues to invest and promote digital radio through its 18.2% shareholding in Melbourne Digital Radio Broadcasting Pty Ltd.
- In early 2014, the radio industry welcomed Gfk as the new provider of Radio Audience Measurement in Australia across the five metropolitan markets; Sydney, Melbourne, Brisbane, Adelaide and Perth plus Newcastle, Canberra and Gold Coast. Over 60,000 people will continue to be surveyed each year.

  The contract was awarded to Gfk for a five year period and to date, they have introduced a number of innovative solutions to survey radio listeners including the use of electronic diaries to survey 20% of respondents, fieldwork interviewers using tablet devices to capture respondent data and conducting more in depth lifestyle surveys to gain insights into listeners' lifestyles and purchasing habits/intentions.

## Operating Results

- Strong EBITDA result of $1.87 million, up 19.1% on the comparative period (2013: $1.57 million).

  This result was at the top end of the earnings guidance of $1.6-$1.9 million provided with our half year results released to the ASX in February this year.
- Profit before tax was $1.45 million, up 36.7% on the comparative period (2013: $1.06 million).
- Full year revenue increased 1.1% to $15.23 million (2013: $15.06 million).
- Operating costs at $13.8 million were down 1.6% on the comparative period (2013: $14.0 million).
- Operating cash flows at $2.17 million increased by 11.8% on the comparative period (2013: $1.94 million).

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# Chairman's Report 2013-14 Cont'd

## Review of Operations

- The full year result shows the business recording marginal growth in revenue together with a significantly increased EBITDA. This is a credible result in the context of the tough and prevailing business conditions over the past twelve months.
- The radio division continued to perform strongly, delivering a profit result of $2.03 million, representing a 31.1% increase on the previous year (see note 23 of the financial statements). Radio station 1116 SEN held its position in the market with an impressive result from our loyal direct sales team.
- An important issue facing the commercial radio broadcasting sector is an ongoing dispute between the commercial radio industry and the Phonographic Performance Company of Australia (PPCA) who represent the major record companies and Australian recording artists. PPCA want radio stations to pay an additional licence fee for streaming broadcasts in addition to the one already paid to the PPCA for broadcasting on radio.

  The PPCA position is essentially seeking to limit listeners' options as technology evolves by seeking a ruling that radio stations should pay more licence fees for using different broadcast channels. If successful, their claim will result in increased operating costs for radio stations across Australia.

  Commercial Radio Australia (CRA), the industry body representing the commercial radio industry is defending this claim against the PPCA. The significant legal costs involved in defending this claim are shared amongst all radio stations including the 1116 SEN and 1377 MyMP radio stations.

## Outlook

- In an environment of declining consumer confidence and negative predictions on future advertising spending, there is no doubt that we are operating in a highly competitive market. Notwithstanding this, our view is that the core business will continue to grow organically with single digit growth in revenue.
- Clients are diversifying marketing and sales spend into a wider range of channels and disciplines, and to remain competitive, our business will need to evolve its offerings and capabilities to meet the changes in technology and channel delivery.
- Advertisers want solutions that target messages to target audiences and our strategy is focused on providing clients with a network of advertising opportunities in radio, publishing, online and mobile mediums.
- For the reasons stated above, our view is that multi channel distribution of content will be a key driver for future growth and your Board believes that a strategy of investing in 'media for communities' will deliver tangible results that will in turn generate long term sustainable returns to shareholders.
- In May, your Board welcomed Wyllie Funds Management Pty Ltd to the share register with a 12% shareholding and the Herszberg family company interests further increased their holding from 8.1% to 14.3%.

  These holdings were acquired from The Opal Trust, who previously held an 18.3% shareholding.

  The Board welcomes the new shareholders and extends its appreciation and thanks to the representatives of The Opal Trust for their longstanding loyalty to the Company.

# Chairman's Report 2013-14 Cont'd

## Dividends

Directors' have declared an unfranked final dividend of 0.9 cents per share maintaining the full year dividend at 1.6 cents (2013: 1.6 cents).

Record date for determining entitlement to the dividend is 5 September and payment date is scheduled for 26 September 2014.

Dividends will continue to be paid unfranked until an adequate reserve of franking credits is established.

Signed in accordance with a resolution of the Directors,

**Andrew Moffat**
Chairman

Melbourne, 17 September 2014

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# Directors' Report

The directors of Pacific Star Network Limited, the consolidated entity, submit herewith the financial report for the year ended 30 June 2014.

In order to comply with the provisions of the *Corporations Act 2001*, the directors report as follows:

The names and particulars of the directors of the company at any time during or since the end of the financial year are:

| *Name* | Particulars |
|---|---|
| Ronald Hall | Appointed Non-Executive Director on 13 February 2002 |
| Andrew Moffat | Appointed Non-Executive Director on 1 September 2004 |
| Gary Pert | Appointed Non-Executive Director on 1 July 2008 |
| Michelle Guthrie | Appointed Non-Executive Director on 1 May 2013 |

## Current Directors

The biographies for current directors and other staff are detailed below:

***Ronald Hall***

**Non Executive Director - Aged 73**

Mr Hall is the founder and promoter of a number of successful Melbourne based retail businesses.

Ron has been a long time supporter of radio for marketing his products.

***Andrew Moffat, B.Bus, Curtin University, Perth***
**Non Executive Director**

**Chairman – Aged 53**

Mr Moffat has over 20 years of corporate and investment banking experience and is the sole principal of Cowoso Capital Pty Ltd, a company providing corporate advisory services.

Prior to establishing Cowoso Capital Pty Ltd, Andrew was a Director of Equity Capital Markets & Advisory for BNP Paribas Equities Australia Limited where he was responsible for mergers and acquisition advisory services and a range of equity capital raising mandates including placements, IPO's, rights issues, dividend reinvestment plans and underwritings. Andrew is Chairman of 360 Capital Property Limited and Keybridge Limited and a Non Executive Director of Rubik Financial Limited.

***Gary Pert***

**Director – Aged 49**

Mr Pert has extensive media industry experience gained whilst serving in various senior executive roles including Managing Director of the Channel Nine Network and General Manager of Austereo Melbourne.

After a successful AFL/VFL football career including 233 games with Fitzroy and Collingwood, Gary took up a role with the AFL as promotions and development officer between 1989 and 1994, following which he became a sales executive in the Melbourne office of the Austereo radio network.

During his 12 years with Austereo, Gary held various senior management roles culminating in 2006 when he held the joint role of General Manager of Austereo Melbourne and Austereo's National Sales Director.

# Directors' Report Cont'd

## Current Directors Cont'd

As Managing Director of Channel Nine Melbourne, Gary held principal responsibility for one of Australia's largest media organisations with more than 450 staff. After one of the most profitable periods in Channel Nine's history, Gary was recruited as Chief Executive Officer of the Collingwood Football Club, one of Australia's largest sporting brands.

***Michelle Guthrie, B.Law, B.A, University of Sydney, Sydney***

**Director – Aged 48**

Michelle has over twenty years' experience in the media and entertainment industry. Her current role is as Google's Managing Director, Partner Business Solutions for Japan and Asia Pacific, with responsibility for managing Google's partner monetisation activities across the region. Michelle was previously a Managing Director for the Hong Kong office of global private equity firm Providence Equity in 2007-09, and was a Senior Advisor in 2009-10.

Michelle was the Chief Executive Officer of STAR Group Limited, a wholly-owned subsidiary of News Corporation, which is Asia's leading media and entertainment company based in Hong Kong.

Michelle has also worked in legal and business development roles for FOXTEL and News International and BSkyB in London.

Michelle has also served on the boards of a number of other companies including NASDAQ-listed technology company VeriSign, Inc. and various STAR joint venture companies including Balaji, ESPN STAR Sports, Hathway, China Network Systems, ANTV and Tata Sky.

***Stephen Sweeney***

**Company Secretary – Aged 50**

The Company Secretary is Stephen Sweeney. Stephen is a Fellow of Chartered Accountants, Australia and New Zealand and holds a Masters in Business Administration from Heriot-Watt (Edinburgh Business School) University, Scotland.

Stephen was appointed to the position of Company Secretary on 24 January 2007.

Stephen also holds the position of Chief Financial Officer and has over twenty years' experience in senior management positions with listed companies and the government and not for profit sector.

## Directorship of other Listed Companies

Directorships of other listed companies held by directors in the three years preceding the end of the financial year are as follows:

| | |
|---|---|
| Andrew Moffat: | Rubik Financial Limited - Non-Executive Director |
| | 360 Capital Property Limited - Non-Executive Director |
| | Keybridge Capital Limited - Non-Executive Chairman and Director |
| | CCK Financial Solutions Limited - Non-Executive Director |
| Michelle Guthrie: | Auckland International Airport Limited - Non-Executive Director |
| | Modern Times Group Mtg AB (Sweden) - Non-Executive Director |

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# Directors' Report Cont'd

## Principal Activities

Pacific Star Network Limited is a media company with interests in AM radio (1116 SEN and MyMP) digital (1116 SEN, MyMP, Aussie and Kool) print (Inside Football magazine) and other applications including (SportSENtral on www.sen.com.au).

## Review of Operations

The trading profit for the consolidated entity for the year after income tax amounted to $953 thousand (2013: $736 thousand). EBITDA result was $1.87 million for the financial year (2013: $1.57 million).

The trading loss for the parent entity for the year was $651 thousand (2013: $554 thousand).

Refer to the Chairman's report for 2013-14 for Highlights, Operating Results and Review of Operations.

## Significant Changes in the State of Affairs

There were no significant changes in the state of affairs of the consolidated entity.

## Profit per Share

The basic profit per share was 1.8 cents (2013: 1.4 cents) and diluted profit per share was 1.8 cents (2013: 1.3 cents).

The weighted average number of ordinary shares on issue during the financial year used in the calculation of basic profit per share was 53,192,452 shares (2013: 53,674,727 shares).

## Events since the end of the Financial Year

No other matters or circumstances have arisen since the end of the financial year that have significantly affected, or may significantly affect the state of affairs of the consolidated entity in subsequent financial years.

## Likely Developments and Expected Results of Operations

Refer to the Chairman's report for details of developments, prospects, and business strategies.

## Dividends

Directors declared an interim dividend of 0.7 cents and a final dividend of 0.9 cents per share, a total of 1.6 cents in respect of the 2014 financial year.

## Auditors

BDO East Coast Partnership continues in office in accordance with section 327 of the Corporations Act 2001.

## Compliance with National Greenhouse & Energy Reporting (NGER) Act

The consolidated entity is not subject to any significant and / or particular NGER framework.

## Shares and Options granted to Executives and Employees

The business has two plans for granting shares and options. The Employee Share Option Plan (ESOP) and the Exempt Employee Share Option Plan (EESP). When exercisable, each option is convertible into one ordinary share of Pacific Star Network Limited (ASX Code: PNW). Obligations under the existing plans are shown on the next page.

# Directors' Report Cont'd

## Shares and Options granted to Executives and Employees Cont'd

The Company has granted options over ordinary shares to Key Management Personnel (KMP) that can be exercised at future dates. If all performance conditions were met over the remaining term of these contracts, then up to six hundred and eighty thousand options could be exercised by KMP as Short Term Incentives (STI) for nil consideration.

Options not yet vested lapse if KMP resign their position.

Information on the relevant performance / vesting criteria of these options is located in the Remuneration Report.

(i) Options issued under the ESOP only vest when performance and vesting conditions are achieved and no options will be issued until this occurs. The vesting period is deemed to commence on the date that new contracts are agreed by both parties and it is only at this point that the business is conditionally obliged to issue options in accordance with those contracts.

(ii) No options vested or were exercised during the year[1]. In accordance with the terms for the grant of these options, ordinary shares issued are held in escrow until the end of the contract period.

In accordance with *AASB 2: "Share-based payment"* options have been valued and are or will be accounted for as an expense in the Consolidated Statement of Profit and Loss and Other Comprehensive Income in this or future periods.

The following KMP have pre-existing entitlements relating to the grant of options in previous financial years:

| Key Management Personnel | Number of unvested options granted in previous years | Exercise Price | Value per option at grant date | Vesting Date | Expiry Date |
|---|---|---|---|---|---|
| B Quick | 500,000 | Nil cents | 35 cents | 100% on 01/10/15 | 01/10/16 |
| D Hung | 100,000 | Nil cents | 23 cents | 100% on 01/10/14 | 01/10/15 |
| S Sweeney | 80,000 | Nil cents | 23 cents | 100% on 01/10/14 | 01/10/15 |
| **Total** | **680,000** | **Nil cents** | **26 cents** | | |

## Meetings of Directors

The following table sets out the number of Directors' meetings held during the financial year and the number of meetings attended by each Director.

During the financial year, ten board meetings were held.

| Directors | Eligible to attend | Attended |
|---|---|---|
| Ronald Hall | 10 | 10 |
| Andrew Moffat | 10 | 10 |
| Gary Pert | 10 | 10 |
| Michelle Guthrie | 10 | 10 |

[1] KMP did not achieve the required performance conditions in respect of KPI targets for the previous financial year.



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# Directors' Report Cont'd

## Indemnification of Officers and Auditors

During the financial year, premiums were paid to insure Directors and Officers against liabilities and expenses incurred by them in defending any legal proceedings arising out of their conduct while acting in their capacity as an officer, other than conduct involving a wilful breach of duty in relation to the Company. The amount of the premium is not disclosed under the terms and conditions of the policy.

As at the date of this report, no amounts have been claimed or paid in respect of this indemnity, other than the premium referred to above.

During or since the financial period, the Company has not indemnified or made a relevant agreement to indemnify the auditor against a liability incurred as auditor.

## Directors' Shareholdings

The relevant interests of current Directors' shares in the Company or a related body corporate as at the date of this report are as follows:

| **Directors** | **No. of Fully Paid Ordinary Shares** |
|---|---|
| Ronald Hall[2] | 15,909,707 |
| Andrew Moffat[3] | 704,629 |
| Gary Pert | - |
| Michelle Guthrie | - |
| **Total** | **16,614,336** |

There are no options on issue to Directors.

# Remuneration Report (Audited)

This Remuneration Report which has been audited outlines Director and Executive remuneration arrangements in accordance with the requirements of the *Corporations Act 2001* and its regulations.

For the purposes of this report, Key Management Personnel (KMP) are defined as those persons having authority and responsibility for planning, directing and controlling the major activities of the business, directly or indirectly, whether as an executive or contractor.

## Key Management Personnel disclosed in this report

| Non-executive directors | Other key management personnel |
|---|---|
| Ronald Hall | Barrie Quick – Chief Executive Officer |
| Andrew Moffat | Mark Johnson – Program Director |
| Gary Pert | Stephen Sweeney – Company Secretary / CFO |
| Michelle Guthrie | Gordon Moore – Creative / Brand Director |
| | David Hung – Sales Director |
| | Andrew Harrison – Direct Sales Manager |

[2] Ron Hall holds a beneficial interest through holdings in Rosh Hagiborim Pty Ltd, Talk to Edith Pty Ltd and Mastiff Nominees Pty Ltd.

[3] Andrew Moffat holds a direct interest in 2,700 shares and a beneficial interest in shares held by Cowoso Superannuation Fund.

## Remuneration Report (Audited) Cont'd

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

The principal objective is to ensure that rewards paid for performance are competitive and commensurate with the results achieved.

The guiding principles for developing executive remuneration are:

- Remuneration should include an appropriate mix of fixed and performance based variable pay components;
- The various components of remuneration should be understandable, transparent and easy to communicate; and
- Remuneration practices should be acceptable to internal and external stakeholders.

In developing budgets, the board sets out to link remuneration policies with financial performance.

### Relationship between remuneration and the company's financial performance

The following table shows key performance indicators for the company over the past 5 years

| | 2014 | 2013 | 2012 | 2011 | 2010 |
|---|---|---|---|---|---|
| Profit for the year before tax attributable to owners | 1,453 | 1,063 | 1,157 | (3) | 574 |
| Profit for the year after tax attributable to owners | 953 | 736 | 904 | 825 | 684 |
| Basic earnings per share (cents) | 1.8 | 1.4 | 1.7 | 1.5 | 1.3 |
| Dividends per share (cents) | 1.6 | 1.6 | 1.6 | 1.5 | n/a |
| Dividend payments ($000's) | 911 | 612 | 831 | 535 | n/a |
| Dividend payout ratio (%) | 89% | 114% | 94% | 100% | n/a |
| Share price at year end (A$) | 0.31 | 0.21 | 0.22 | 0.30[4] | 0.05[5] |
| Total KMP incentives as % of after tax profit for the year (%) | 18% | 32% | 18% | 29% | 59% |

### Components of Key Management Personnel Total Remuneration

In accordance with best practice corporate governance, the structure of non-executive Director and other Key Management Personnel (KMP) remuneration is separate and distinct.

Non-executive Directors are remunerated with fees within the aggregate limit approved by shareholders. Each non-executive director receives a fixed fee for being a director. Their remuneration for the period ending 30 June 2014 is detailed on page 14 of this report.

The Company rewards executives with a level and mix of remuneration commensurate with their position and responsibilities and remuneration structures are reviewed regularly to ensure that:

- Total remuneration is competitive by market standards;
- Rewards are linked with strategic goals and performance; and
- Accountabilities are clearly defined to minimise conflicts of interest and promote effective decision making.

Total remuneration is made up of the following elements:

- Fixed Remuneration;
- Short Term Incentive (STI); and
- Long Term Incentive (LTI).

[4] Share price on a post-share consolidation basis.

[5] Share price on a pre-share consolidation basis.



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# Remuneration Report (Audited) Cont'd

## Components of Key Management Personnel Total Remuneration Cont'd

Fixed remuneration is determined to provide a base level of remuneration appropriate to the position that is competitive with the market and takes account of each individual's experience, qualifications, capabilities and responsibilities and it is benchmarked to ensure that remuneration is competitive with the market median.

KMP receive their fixed remuneration in cash. This remuneration is detailed on page 14 of this report.

Short Term Incentives (STI) are based on Key Performance Measures (KPI's) that focus participants on achieving personal / business goals that create sustained shareholder value.

STI's are dependent on achieving agreed performance targets and they in turn are linked to key business drivers.

STI's include financial incentives and / or the issuing of ordinary shares at nil consideration to individuals for achieving and exceeding monthly, quarterly and annual sales and EBITDA targets.

The Chief Executive Officer (CEO) is responsible for assessing the performance of individuals against these targets on a periodic basis, and he has the discretion to recommend other STI's over and above target amounts. The CEO presents his recommendations to the full board for approval.

No options were issued during the financial year as KPI's were not fully achieved for the previous financial year.

Options are exercisable to an equivalent number of escrowed ordinary shares. A condition of exercising options is that the holder is restricted from dealing in those shares during the escrow period. Details of options granted are disclosed on page 17 of this report.

The following table summarises the performance and vesting conditions for options that may be issued under the STI plan, as at the date of this report.

The performance conditions required to be achieved by KMP vary depending on the responsibilities and accountabilities of each individual KMP.

| Series | Issued | Vesting Timing | Vesting Conditions |
|---|---|---|---|
| Issue 7 | 28/11/2011 | Vest over a four year employment contract | (i) Manage annual budget and business plans;<br>(ii) Identify, manage and mitigate material risks of the business;<br>(iii) Achieving annual EBITDA targets; and<br>(iv) Continuing to be employed at vesting date. |
| Issue 8 | 28/06/2012 | Vest over a three year employment contract | (i) Develop and grow new business;<br>(ii) Manage and achieve annual group sales budgets; and<br>(iii) Continuing to be employed at vesting date |
| Issue 8 | 28/06/2012 | Vest over a three year contract period | (i) Manage annual budget and business plans;<br>(ii) Contribute towards achieving annual EBITDA targets;<br>(iii) Manage compliance and liaison with key stakeholders; and<br>(iv) Continuing to be contracted at vesting date. |

Options exercised and shares issued are subject to escrow and bad leaver provisions.



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# Remuneration Report (Audited) Cont'd

## Components of Key Management Personnel Total Remuneration Cont'd

The practical impact of this provision is that no ordinary shares vest until the last day of the contract period.

For Long Term Incentives (LTI), the primary objective is to reward staff and KMP in a way that aligns payment of remuneration with generating long term shareholder value.

LTI option grants to KMP and staff are made using a premium or an at market price of the shares under option as a component of the performance hurdle and in addition KMP and staff are required to meet certain length-of-service obligations.

As the fixed or variable component of remuneration is not dependent on share price or dividends, there is no discussion of the relationship between the board's remuneration policy and financial performance, included in this report.

Directors invite individuals to participate in the Employee Share Option Plan (ESOP) whereby they are granted options subject to achieving service and vesting conditions at the end of specific periods.

There is no intention to provide loans, interest free or otherwise to fund such transactions, however, this will be reviewed on an as needs basis.

## Use of remuneration consultants

Directors' have not engaged the services of remuneration consultants during the reporting period.

## Voting and comments at the company's 2013 Annual General Meeting (AGM)

The Company received more than 70% of 'yes' votes on its remuneration report for the 2013 financial year.

The Company did not receive any specific feedback at the AGM relating to its remuneration practices.

# Remuneration Report (Audited) Cont'd

## Details of Remuneration – Key Management Personnel

Remuneration arrangements for KMP are formalised in employment or consulting agreements.

Remuneration packages contain cash salary or fees, commissions, bonuses, long service, superannuation and the cost of share based payments expensed for STI's.

Remuneration for each member of KMP for the year ended 30 June 2014 is shown below.

| | Short Term Employee Benefits | Short Term Incentives | Short Term Benefits Total | Post Employment Benefits | Share Based Payment | Long Term Employee Benefits | |
|---|---|---|---|---|---|---|---|
| | Cash Salary/fee $ | Cash bonus $ / % | $ | Super-annuation $ | Options $ / % | Long service leave $ / % | Total $ |
| **2014** | | | | | | | |
| Directors of Pacific Star Network Limited | | | | | | | |
| R Hall | 45,767 | - | 45,767 | 4,233[6] | - | - | 50,000 |
| A Moffat | 68,650 | - | 68,650 | 6,350 | - | - | 75,000 |
| G Pert | 45,767 | - | 45,767 | 4,233 | - | - | 50,000 |
| M Guthrie | 50,000[7] | - | 50,000 | - | - | - | 50,000 |
| **Sub-total** | **210,184** | **-** | **210,184** | **14,816** | **-** | **-** | **225,000** |
| Other Key Management Personnel of the Group | | | | | | | |
| B Quick | 360,235 | - | 360,235 | 33,321 | 24,266<br>6% | 6,924 | 424,746 |
| M Johnson | 163,750 | 5,500<br>3% | 169,250 | 15,656 | - | 3,301 | 188,207 |
| S Sweeney | 165,000[8] | - | 165,000 | - | 6,334<br>4% | - | 171,334 |
| G Moore | 130,694 | 5,184<br>3% | 135,878 | 12,569 | - | 14,138 | 162,585 |
| D Hung | 178,490 | 72,153<br>26% | 250,643 | 17,775 | 8,714<br>3% | 2,686 | 279,818 |
| A Harrison | 135,000 | 53,896<br>25% | 188,896 | 16,887 | - | 12,168 | 217,951 |
| **Sub-total** | **1,133,169** | **136,733[9]<br>9%** | **1,269,902** | **96,208** | **39,314[10]<br>3%** | **39,217[11]** | **1,444,641** |
| **Total** | **1,343,353** | **136,733<br>8%** | **1,480,086** | **111,024** | **39,314<br>2%** | **39,217** | **1,669,641** |

[6] From 1 July 2013, employers required to make compulsory superannuation contributions for employees aged over 70 years.

[7] Employer not required to make compulsory superannuation contributions as director is considered an overseas resident.

[8] Remuneration is paid to a corporate entity under a Consulting Agreement for the provision of his services.

[9] Includes monthly, quarterly and annual incentives that vested and were payable during the financial year.

[10] Benefit calculated under the Binomial model in respect of the value of share options issued. Refer note 7 of this report.

[11] These KMP became or were entitled to long service leave during the financial year.



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# Remuneration Report (Audited) Cont'd

## Details of Remuneration – Key Management Personnel Cont'd

| | Short Term Employee Benefits | Short Term Incentives | Short Term Benefits Total | Post Employment Benefits | Share Based Payment | Long Term Employee Benefits | |
|---|---|---|---|---|---|---|---|
| | Cash salary/fee $ | Cash bonus $ / % | $ | Super-annuation $ | Options $ / % | Long service leave $ / % | Total $ |
| **2013** | | | | | | | |
| Directors of Pacific Star Network Limited | | | | | | | |
| R Hall | 50,000[12] | - | 50,000 | - | - | - | 50,000 |
| A Moffat | 68,807 | - | 68,807 | 6,193 | - | - | 75,000 |
| G Pert | 45,872 | - | 45,872 | 4,128 | - | - | 50,000 |
| M Guthrie | 8,333[13] | - | 8,333 | - | - | - | 8,333 |
| Sub-total | 173,012 | - | 173,012 | 10,321 | - | - | 183,333 |
| Other Key Management Personnel of the Group | | | | | | | |
| B Quick | 352,599 | 20,000<br>4% | 372,599 | 31,734 | 36,886<br>8% | 42,680 | 483,899 |
| M Johnson | 160,000 | 4,000<br>2% | 164,000 | 14,760 | - | 17,680 | 196,440 |
| S Sweeney | 151,250[14] | - | 151,250 | - | 11,337<br>7% | - | 162,587 |
| G Moore | 115,000 | 5,657<br>4% | 120,657 | 10,859 | - | - | 131,516 |
| D Hung | 178,900 | 63,885<br>22% | 242,785 | 16,470 | 14,968<br>5% | 14,709 | 288,932 |
| A Harrison | 135,000 | 65,773<br>30% | 200,773 | 16,424 | - | - | 217,197 |
| Sub-total | 1,092,749 | 159,315[15]<br>11% | 1,252,064 | 90,247 | 63,191[16]<br>4% | 75,069[17] | 1,480,571 |
| Total | 1,265,761 | 159,315<br>10% | 1,425,076 | 100,568 | 63,191<br>4% | 75,069 | 1,663,904 |

[12] Pre 30 June 2013, employers not required to make compulsory superannuation contributions for employees aged over 70.
[13] Employer not required to make compulsory superannuation contributions as director is considered an overseas resident.
[14] Remuneration is paid to a corporate entity under a Consulting Agreement for the provision of his services.
[15] Includes monthly, quarterly and annual incentives that vested and were payable during the financial year.
[16] Benefit calculated under Binomial model in respect of the value of share options issued to date. Refer note 7 of this report.
[17] During the financial year, these KMP became or were entitled to long service leave.

# Remuneration Report (Audited) Cont'd

## Details of Share Based Compensation

2012 – Issues 7-8

| Issued to / grant date | Date Vested and Exercisable | Expiry Date | Exercise Price Number | Granted during year Number | Exercised during the year Number | Lapsed during the year Number | Balance at 30 June 2014 Number | Share price at grant date | Risk free interest rate % |
|---|---|---|---|---|---|---|---|---|---|
| B Quick<br>28 Nov 11 | 01 Oct 15 | N/a | Nil | - | - | 250,000 | 500,000 | 29 cents | 3.9% |
| D Hung<br>28 Jun 12 | 01 Oct 14 | N/a | Nil | - | - | 100,000 | 100,000 | 20 cents | 3.0% |
| S Sweeney<br>28 Jun 12 | 01 Oct 14 | N/a | Nil | - | - | 80,000 | 80,000 | 20 cents | 3.0% |
| **Total** | | **N/a** | **Nil** | **-** | **-** | **430,000**[18] | **680,000** | **26 cents** | **3.6%** |

## Share Based Payments

- Six hundred and eighty thousand STI options can be exercised at future dates by KMP, subject to achieving stipulated performance conditions.
- No options over ordinary shares were granted during the financial year as KPI's were not fully achieved for the previous financial year.
- When exercisable, each option is convertible into one ordinary share in Pacific Star Network Limited.

Details of options over ordinary shares provided as remuneration to KMP is set out below.

| Key Management Personnel | Granted in previous year Number | Vested and Exercisable Date | Exercised Number | Lapsed during the term Number | Forfeited during the termr Number | Balance at the end of the year Number | Expiry Date | Estimate of min / max grant value $ |
|---|---|---|---|---|---|---|---|---|
| B Quick | 1,000,000 | 01 Oct 15 | 100,000 | 400,000 | - | 500,000 | 1/10/15 | 108,161 |
| D Hung | 300,000 | 01 Oct 14 | 50,000 | 150,000 | - | 100,000 | 1/10/14 | 25,500 |
| S Sweeney | 240,000 | 01 Oct 14 | 40,000 | 120,000 | - | 80,000 | 1/10/14 | 18,960 |
| **Total** | **1,540,000** | **N/a** | **190,000** | **670,000** | **-** | **680,000** | **N/a** | **152,621** |

Assessed fair value at grant date of options granted to individuals is allocated equally over the period from grant date to vesting date and amounts are included in the remuneration tables above. Fair values at grant date is independently determined using the binomial approximation option pricing model and takes into account exercise price, term of the option, impact of dilution, share price at grant date and expected price volatility of the underlying share, expected dividend yield and risk-free interest rate for the term of the option.

Model inputs for options granted up to and including the year ended 30 June 2014 included:

(i) Options were issued for nil consideration and on vesting are exercisable into an equivalent amount of shares. The weighted average fair value of options granted and / or exercised during the year was 29.0 cents.

(ii) The theoretical exercise price of options granted in November 2011 was 35 cents and in June 2012 was 23 cents.

(iii) The price volatility of the company's ordinary shares used for the purposes of calculating the share based cost was 51-55%.

(iv) Risk free rate for options issued November 2011 - 3.9 % and June 2012 - 3.0%.

[18] Market value of options that lapsed during the year was B Quick - $51,250, D Hung - $20,500 and S Sweeney - $16,400, a total of - $88,150.



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# Remuneration Report (Audited) Cont'd

## Movement in Equity Instruments held by Key Management Personnel

The number of ordinary shares and options held directly or beneficially during the financial year by each Director and KMP including their personally related parties is set out below.

| Ordinary Shares | Held at beginning of the year Number | EESP Shares Issued Number | ESOP Shares Issued Number | Other changes during year Number | Held at reporting date Number |
|---|---|---|---|---|---|
| R Hall[19] | 15,909,707 | - | - | - | 15,909,707 |
| A Moffat[20] | 704,629 | - | - | - | 704,629 |
| G Pert | - | - | - | - | - |
| M Guthrie | - | - | - | - | - |
| B Quick | 109,210 | - | - | - | 109,210 |
| M Johnson | 128,333 | 4,878 | - | - | 133,211 |
| S Sweeney[21] | 190,000 | - | - | - | 190,000 |
| G Moore | 3,333 | - | - | - | 3,333 |
| D Hung | 358,333 | 4,878 | - | (70,000) | 293,211 |
| A Harrison | - | - | - | - | - |
| **Sub total** | **17,403,545** | **9,756** | **-** | **(70,000)** | **17,343,301** |

Ordinary shares are issued as part of remuneration.

| Share Options | Held at beginning of the year Number | Granted during year Number | Exercised during the year Number | Lapsed during the year Number | Held at reporting date Number |
|---|---|---|---|---|---|
| B Quick | 750,000 | - | - | (250,000) | 500,000 |
| S Sweeney | 160,000 | - | - | (80,000) | 80,000 |
| D Hung | 200,000 | - | - | (100,000) | 100,000 |
| **Sub total** | **1,110,000** | **-** | **-** | **(430,000)** | **680,000** |
| **Total** | **18,513,545** | **9,756** | **-** | **(500,000)** | **18,023,301** |

No share options are held by Directors or other employees / contractors.

[19] R Hall's interest's in ordinary shares is held through his corporate entities.

[20] A Moffat's interest's in ordinary shares is held individually and through a corporate superannuation fund.

[21] S Sweeney's interest's in ordinary shares is held through a corporate entity.



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# Remuneration Report (Audited) Cont'd

## Transactions with Key Management Personnel

(i) The Company has a lease agreement with Infuture One Pty Ltd as trustee for Infuture One Trust for premises for the radio stations. The majority unit holder in the Trust is Ronald Hall, a director and major shareholder of the Company.

In March 2012, the Company exercised an option with the landlord to renew the lease for a further five year term with annual fixed rent reviews.

The terms and conditions of the lease are on an arms-length basis similar to those negotiable with non-related third parties.

(ii) Profit before income tax includes the following expense resulting from transactions with directors' or director' related entities:

| | *Consolidated* | |
|---|---|---|
| | ***2014*** | ***2013*** |
| | ***$'000*** | ***$'000*** |
| Lease payments | **392** | 387 |

## Service Agreements – Key Management Personnel

Remuneration and other terms of employment for the Chief Executive Officer and other executives are formalised in service agreements. None of the Directors are under contract.

Barrie Quick, Chief Executive Officer

- Term of Agreement is 4 years renewable from 1 December 2015.
- Base salary, inclusive of superannuation, for the year ended 30 June 2014 was $393,556 p.a.
- Payment of termination benefit on early termination, other than for gross misconduct, equal to six months base salary. Employee terminates with six months notice.

Mark Johnson, Group Program Director

- Term of employment is ongoing.
- Base salary, inclusive of superannuation, for the year ended 30 June 2014 was $180,263 p.a.
- Payment of termination benefit for early termination, other than for gross misconduct, equal to three months base salary. Employee terminates with three months notice.

Stephen Sweeney, Company Secretary and Chief Financial Officer

- Term of Agreement is 3 years renewable from 20 October 2014.
- Base fee for the year ended 30 June 2014 was $165,000 p.a.
- Payment of termination benefit on early termination, other than for gross misconduct, equal to three months base fee. Contractor terminates with three months notice.
- Contract may be terminated by contractor providing three months notice.

Gordon Moore, Group Creative & Brand Director

- Term of Agreement is ongoing.
- Base salary, inclusive of superannuation for the year ended 30 June 2014 was $136,563 p.a.
- Payment of termination benefit on early termination, other than for gross misconduct equal to three months base salary. Employee terminates with three months notice.

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# Remuneration Report (Audited) Cont'd

## Service Agreements – Key Management Personnel Cont'd

David Hung, Group Sales Director

- Term of Agreement is 3 years renewable from 1 September 2014.
- Base salary, inclusive of superannuation for the year ended 30 June 2014 was $195,000 p.a.
- Payment of termination benefit on early termination, other than for gross misconduct, equal to three months base salary. Employee terminates with three months notice.

Andrew Harrison, Direct Sales Manager

- Term of Agreement is ongoing.
- Base salary, inclusive of superannuation for the year ended 30 June 2014 was $147,488 p.a.
- Payment of termination benefit on early termination, other than for gross misconduct, equal to one month's base salary. Employee terminates with three months notice.

The 2013 remuneration report was approved at the AGM held on 28 November 2013.

# End of Audited Remuneration Report

## Non Audit Services

The Company may decide to employ the auditors on assignments additional to their statutory audit duties where the auditors' expertise and experience is considered important.

The value of non-audit services performed by the auditor during the year was $27,558 (2013: $30,514) and related to the provision of tax advice. The Board is satisfied that the provision of these non-audit services is compatible with the general standard of independence for auditors imposed by the *Corporations Act 2001,* for the following reasons:

(i) all non-audit services have been reviewed by the Board to ensure they do not impact the impartiality and objectivity of the auditor; and

(ii) none of the services undermine the general principles relating to auditor independence as set out in the *Corporations Act 2001* including reviewing or auditing the auditor's own work, acting in a management or a decision making capacity, or acting as advocate, or jointly sharing economic risk and rewards.

The details of fees paid to auditors are disclosed in note 8 of this report including fees for non-audit services.

## Auditor's Independence Declaration

The auditor's independence declaration for the year ended 30 June 2014 as required under Section 307(c) of the *Corporations Act 2001* has been received and is located on page 20 of this report.

## Proceedings on behalf of the Company

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

## Directors' Interests in Contracts

Directors' interests in contracts are disclosed on page 18 and in note 24(c) of this report.

## Rounding of Amounts

In accordance with ASIC Class Order 98/100 dated 10 July 1998, amounts shown in the Directors' report and the financial report have been rounded off to the nearest thousand dollars.

Signed in accordance with a resolution of the Board of Directors made pursuant to section 298(2) of the *Corporations Act 2001*.

On behalf of the Directors,

**Andrew Moffat**
Chairman

Melbourne, 17 September 2014

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**DECLARATION OF INDEPENDENCE BY DAVID GARVEY TO THE DIRECTORS OF PACIFIC STAR NETWORK LIMITED**

As lead auditor of Pacific Star Network Limited for the year ended 30 June 2014, I declare that, to the best of my knowledge and belief, there have been:

1. No contraventions of the auditor independence requirements of the *Corporations Act 2001* in relation to the audit; and
2. No contraventions of any applicable code of professional conduct in relation to the audit.

This declaration is in respect of Pacific Star Network Limited and the entities it controlled during the period.

David Garvey
**Partner**

**BDO East Coast Partnership**

Melbourne, 17 September 2014

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**INDEPENDENT AUDITOR'S REPORT**

To the members of Pacific Star Network Limited

## Report on the Financial Report

We have audited the accompanying financial report of Pacific Star Network Limited, which comprises the consolidated statement of financial position as at 30 June 2014, the consolidated statement of profit or loss and other 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 are responsible for the preparation of the financial report that gives a true and fair view in accordance with Australian Accounting Standards and the *Corporations Act 2001* and for such internal control as the directors determine is necessary to enable the preparation of the financial report that gives a true and fair view and is free from material misstatement, whether due to fraud or error. In 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 judgement, 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 control relevant to the company's preparation of the financial report that gives a true and fair view 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 company's internal control. 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.

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**Independence**

In conducting our audit, we have complied with the independence requirements of the *Corporations Act 2001.* We confirm that the independence declaration required by the *Corporations Act 2001*, which has been given to the directors of Pacific Star Network Limited, would be in the same terms if given to the directors as at the time of this auditor's report.

**Opinion**

In our opinion:

(a) the financial report of Pacific Star Network Limited is in accordance with the *Corporations Act 2001,* including:

(b) giving a true and fair view of the consolidated entity's financial position as at 30 June 2014 and of its performance for the year ended on that date; and

(c) complying with Australian Accounting Standards and the *Corporations Regulations 2001*; and

(d) 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 10 to 19 of the directors' report for the year ended 30 June 2014. 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 Pacific Star Network Limited for the year ended 30 June 2014 complies with section 300A of the *Corporations Act 2001.*

**BDO East Coast Partnership**

BDO

David Garvey

**Partner**

Melbourne, 17 September 2014

# Directors' Declaration

In the opinion of the Directors' of Pacific Star Network Limited

a) the financial statements and notes set out on pages 25 to 64 are 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 2014 and of its performance for the financial year ended on that date; and

   (ii) Complying with Accounting Standards and the *Corporations Regulations 2001* and other mandatory professional reporting requirements; and

   (iii) As stated in Note 1, the consolidated financial statements also comply with International Financial Reporting Standards.

b) 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

c) the Directors' have been given the declarations required by section 295A of the *Corporations Act 2001* for the financial year ended 30 June 2014.

d) the remuneration disclosures included at pages 10 to 19 of the Directors' Report (Audited Remuneration Report) for the year ended 30 June 2014 comply with section 300A of the *Corporations Act 2001*.

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

On behalf of the Directors,

**Andrew Moffat**
Chairman

Melbourne, 17 September 2014

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# Consolidated Statement of Profit or Loss and Other Comprehensive Income
## for the Financial Year Ended 30 June 2014

| | Notes | 2014 $'000 | 2013 $'000 |
|---|---|---|---|
| **REVENUE** | **2** | **15,229** | 15,063 |
| Sales and marketing expenses | | **(2,959)** | (3,057) |
| Occupancy expenses | | **(637)** | (624) |
| Administration expenses | | **(2,780)**[22] | (2,977) |
| Technical expenses | | **(6,649)**[23] | (6,653) |
| Corporate expenses | | **(703)** | (633) |
| Finance costs | | **(31)** | (46) |
| Share of net loss of associate accounted for using the equity method | **12** | **(17)** | (10) |
| **EXPENSES** | | **(13,776)** | (14,000) |
| **PROFIT BEFORE INCOME TAX** | | **1,453** | 1,063 |
| Income tax expense | **5** | **(500)** | (327) |
| **PROFIT FOR THE YEAR AFTER INCOME TAX** | | **953** | 736 |
| Other comprehensive income net of tax | | **-** | - |
| **TOTAL COMPREHENSIVE INCOME FOR THE YEAR** | | **953** | 736 |
| **EARNINGS PER SHARE FOR THE YEAR ATTRIBUTABLE TO THE MEMBERS OF PACIFIC STAR NETWORK LTD** | | | |
| Basic (cents per share) | **19** | **1.8** | 1.4 |
| Diluted (cents per share) | **19** | **1.8** | 1.3 |

The Consolidated Statement of Profit or Loss and Other Comprehensive Income should be read in conjunction with the accompanying notes.

[22] Includes employment, licence, depreciation, amortisation, consultants, memberships, surveys and utilities costs.

[23] Includes programming, news, production, creative and maintenance costs.

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# Consolidated Statement of Financial Position
## as at 30 June 2014

| | Notes | 2014 $'000 | 2013 $'000 |
|---|---|---|---|
| **CURRENT ASSETS** | | | |
| Cash and cash equivalents | **25(a)** | **4,056** | 3,394 |
| Trade and other receivables | **9** | **2,577** | 2,883 |
| Prepayments | | **521** | 506 |
| **TOTAL CURRENT ASSETS** | | **7,154** | 6,783 |
| **NON-CURRENT ASSETS** | | | |
| Property, plant and equipment | **10** | **1,709** | 1,671 |
| Deferred tax asset | **11** | **381** | 485 |
| Receivables from associate | **12** | **231** | 228 |
| Investments accounted for using the equity method | **12** | **133** | 150 |
| Intangibles | **13** | **9,083** | 9,125 |
| **TOTAL NON-CURRENT ASSETS** | | **11,537** | 11,659 |
| **TOTAL ASSETS** | | **18,691** | 18,442 |
| **CURRENT LIABILITIES** | | | |
| Trade and other payables | **14** | **2,136** | 2,294 |
| Income tax | **14** | **449** | 128 |
| Provisions | **15** | **516** | 408 |
| Borrowings | **16** | **584** | 555 |
| **TOTAL CURRENT LIABILITIES** | | **3,685** | 3,385 |
| **NON-CURRENT LIABILITIES** | | | |
| Provisions | **15** | **73** | 93 |
| **TOTAL NON-CURRENT LIABILITIES** | | **73** | 93 |
| **TOTAL LIABILITIES** | | **3,758** | 3,478 |
| **NET ASSETS** | | 14,933 | **14,964** |
| **EQUITY** | | | |
| Issued Capital | **17** | **16,444** | 16,531 |
| Share based payment reserve | | **674** | 634 |
| Accumulated losses | **18** | **(2,185)** | (2,201) |
| **TOTAL EQUITY** | | **14,933** | 14,964 |

The Consolidated Statement of Financial Position should be read in conjunction with the accompanying notes.

# Consolidated Statement of Changes in Equity
## for the Financial Year Ended 30 June 2014

| | Notes | Issued Capital $'000 | Share Based Payment Reserve $'000 | Accumulated Losses $'000 | Total Equity $'000 |
|---|---|---|---|---|---|
| **TOTAL EQUITY AT 30 JUNE 2013** | | **16,531** | **634** | **(2,201)** | **14,964** |
| Profit after income tax | | - | - | 953 | 953 |
| Other comprehensive income | **18** | - | - | - | - |
| Total comprehensive income | | - | - | 953 | 953 |
| **Transactions with owners in their capacity as owners:** | | | | | |
| Share buy-back scheme | **17** | (113) | - | - | (113) |
| Dividends paid | **18** | - | - | (911) | (911) |
| Issue of share capital | | 26 | - | (26) | - |
| Share options granted to staff | | - | 40 | - | 40 |
| **TOTAL EQUITY AT 30 JUNE 2014** | | **16,444** | **674** | **(2,185)** | **14,933** |
| | | | | | |
| **TOTAL EQUITY AT 30 JUNE 2012** | | **52,381** | **573** | **(38,071)** | **14,883** |
| Profit after income tax | | - | - | 736 | 736 |
| Other comprehensive income | **18** | - | - | - | - |
| Total comprehensive income | | - | - | 736 | 736 |
| **Transactions with owners in their capacity as owners:** | | | | | |
| Share buy-back scheme | **17** | (104) | - | - | (104) |
| Dividends paid | **18** | - | - | (612) | (612) |
| Issue of share capital | | 29 | - | (29) | - |
| Reduction of share capital[24] | **17** | (35,775) | - | 35,775 | - |
| Share options granted to staff | | - | 61 | - | 61 |
| **TOTAL EQUITY AT 30 JUNE 2013** | | **16,531** | **634** | **(2,201)** | **14,964** |

The Consolidated Statement of Changes in Equity should be read in conjunction with the accompanying notes.

[24] A share capital reduction was completed in the 2012-13 financial year. Refer note 17 of this report.



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# Consolidated Statement of Cash Flows
## for the Financial Year Ended 30 June 2014

| | Notes | *Inflows / (Outflows)* 2014 $'000 | 2013 $'000 |
|---|---|---|---|
| **CASH FLOWS FROM OPERATING ACTIVITIES** | | | |
| Receipts from customers | | **17,449** | 17,298 |
| Payments to suppliers and employees | | **(15,271)** | (15,400) |
| Interest received | | **93** | 85 |
| Interest and other costs of finance paid | | **(31)** | (47) |
| Income taxes paid | | **(75)** | |
| **Net cash provided by operating activities** | **25(b)** | **2,165** | 1,936 |
| **CASH FLOWS FROM INVESTING ACTIVITIES** | | | |
| Payment for property, plant and equipment | | **(486)** | (52) |
| Loans to associate entity | | **(3)** | 230 |
| **Net cash provided by / from investing activities** | | **(489)** | 178 |
| **CASH FLOWS FROM FINANCING ACTIVITIES** | | | |
| Proceeds from borrowings | | **228** | - |
| Repayment of borrowings | | **(199)** | (218) |
| Dividends paid | | **(911)** | (612) |
| Payment for buy back of equity securities | | **(132)** | (104) |
| **Net cash used in financing activities** | | **(1,014)** | (934) |
| **NET INCREASE IN CASH EQUIVALENTS** | | **662** | 1,180 |
| **CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE YEAR** | | **3,394** | 2,214 |
| **CASH AND CASH EQUIVALENTS AT THE END OF THE YEAR** | **25(a)** | **4,056** | 3,394 |

The Consolidated Statement of Cash Flows should be read in conjunction with the accompanying notes.

# Notes to the Consolidated Financial Statements for the year ended 30 June 2014

## 1. Summary of Accounting Policies

The principal accounting policies adopted in the preparation of these consolidated financial statements are set out below.

The financial statements are for the consolidated entity consisting of Pacific Star Network Limited ("the Company") and its subsidiaries.

These policies have been consistently applied for the year presented unless stated otherwise.

### Basis of Preparation

The general purpose financial statements have been prepared on the basis of historical costs and except where stated, does not take into account changing money values or fair values of assets.

All amounts are presented in Australian dollars, unless otherwise stated.

The consolidated financial statements include the information contained in the financial statements of Pacific Star Network Limited and each of its controlled entities as from the date the parent entity obtains control until such time as control ceases.

Separate financial statements for Pacific Star Network Limited as an individual entity are no longer presented as a consequence of a change to the *Corporations Act 2001.*

However, limited financial information for this individual entity is included in note 27 of the financial statements.

Pacific Star Network Limited is a company limited by shares and domiciled in Australia, whose shares are publicly traded on the Australian Securities Exchange.

### Statement of Compliance with IFRS

This report is a general purpose financial report which has been prepared in accordance with Australian Accounting Standards (including Australian Accounting Interpretations), other authoritative pronouncements of the Australian Accounting Standards Board and the *Corporations Act 2001.*

This report is to be read in conjunction with any other public announcements made by Pacific Star Network Limited during the reporting period in accordance with the continuous disclosure requirements of the *Corporations Act 2001* and the Australian Stock Exchange Listing Rules.

Australian Accounting Standards include International Financial Reporting Standards (IFRS) as adopted in Australia. The financial statements and notes of Pacific Star Network Limited comply with International Financial Reporting Standards (IFRS).

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# Notes to the Consolidated Financial Statements for the year ended 30 June 2014

## 1. Summary of Accounting Policies Cont'd

### Critical Accounting Judgements and Key Sources of Estimation Uncertainty

In the application of accounting policies, management is required to make judgements, estimates and assumptions about the carrying values of assets and liabilities that are not readily apparent from other sources.

The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Estimates and underlying assumptions are reviewed on an ongoing basis.

Revisions to accounting estimates are recognised in the period in which the estimates are revised if the revision affects only that period or in the period of the revision and future periods if the revision affects both current and future periods.

### 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.

Any 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 below. The adoption of these Accounting Standards and Interpretations did not have any significant impact on the financial performance or position of the consolidated entity.

The following Accounting Standards and Interpretations is most relevant to the consolidate entity:

*AASB10 Consolidated Financial Statements*

The consolidated entity has applied AASB110 from 1 July 2013, which has a new definition of 'control'. Control exists when the reporting entity is exposed, or has the rights, to variable returns from its involvement with another entity and has the ability to affect those returns through its 'power' over the other entity. A reporting entity had power when it has rights that give it the current ability to direct the activities that significantly affect the investee's returns. The consolidated entity not only has 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.

### New Accounting Standards and Interpretations not yet mandatory or early adopted

*AASB 9 Financial Instruments and its consequential amendments*

This standard and its consequential amendments are applicable to annual reporting periods beginning on or after 1 January 2017 and completes phases I and III of the IASB's project to replace IAS 39 (AASB 139) 'Financial Instruments: Recognition and Measurement'.

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# Notes to the Consolidated Financial Statements for the year ended 30 June 2014

## New Accounting Standards and Interpretations not yet mandatory or early adopted cont'd

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.

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.

Chapter 6 'Hedge Accounting' supersedes the general hedge accounting requirements in AASB 139 and provides a new simpler approach to hedge accounting that is intended to more closely align with risk management activities undertaken by entities when hedging financial and non-financial risks.

The consolidated entity will adopt this standard and the amendments from 1 July 2017 but the impact of its adoption is yet to be assessed by the consolidated entity.

*AASB 2012-3 Amendments to Australian Accounting Standards - Offsetting Financial Assets and Financial Liabilities*

The amendments are applicable to annual reporting periods beginning on or after 1 January 2014. The amendments add application guidance to address inconsistencies in the application of the offsetting criteria in AASB 132 'Financial Instruments: Presentation', by clarifying the meaning of 'currently has a legally enforceable right of set-off'; and clarifies that some gross settlement systems may be considered to be equivalent to net settlement.

The adoption of the amendments from 1 July 2014 will not have a material impact on the consolidated entity.

*AASB 2013-3 Amendments to AASB 136 - Recoverable Amount Disclosures for Non-Financial Assets*

These amendments are applicable to annual reporting periods beginning on or after 1 January 2014. The disclosure requirements of AASB 136 'Impairment of Assets' have been enhanced to require additional information about the fair value measurement when the recoverable amount of impaired assets is based on fair value less costs of disposals. Additionally, if measured using a present value technique, the discount rate is required to be disclosed.

The adoption of these amendments from 1 July 2014 may increase the disclosures by the consolidated entity.

*AASB 2013-4 Amendments to Australian Accounting Standards - Novation of Derivatives and Continuation of Hedge Accounting*

These amendments are applicable to annual reporting periods beginning on or after 1 January 2014 and amends AASB 139 'Financial Instruments: Recognition and Measurement' to permit continuation of hedge accounting in circumstances where a derivative (designated as hedging instrument) is novated from one counter party to a central counterparty as a consequence of laws or regulations.

# Notes to the Consolidated Financial Statements for the year ended 30 June 2014

## New Accounting Standards and Interpretations not yet mandatory or early adopted cont'd

The adoption of these amendments from 1 July 2014 will not have a material impact on the consolidated entity.

*AASB 2013-5 Amendments to Australian Accounting Standards - Investment Entities*

These amendments are applicable to annual reporting periods beginning on or after 1 January 2014 and allow entities that meet the definition of an 'investment entity' to account for their investments at fair value through profit or loss. An investment entity is not required to consolidate investments in entities it controls, or apply AASB 3 'Business Combinations' when it obtains control of another entity, nor is it required to equity account or proportionately consolidate associates and joint ventures if it meets the criteria for exemption in the standard. The adoption of these amendments from 1 July 2014 will have no impact on the consolidated entity.

*IFRS 15 (issued June 2014) Revenue from Contracts with Customers*

An entity will recognise revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. This means that revenue will be recognised when control of goods or services is transferred, rather than on transfer of risks and rewards as is currently the case under IAS 18 *Revenue*. Annual reporting periods beginning on or after 1 January 2017. Due to the recent release of this standard, the entity has not yet made a detailed assessment of the impact of this standard.

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# Notes to the Consolidated Financial Statements for the year ended 30 June 2014

## 1. Summary of Accounting Policies Cont'd

Accounting policies are selected and applied in a manner which ensures that the resulting financial information satisfies the concepts of relevance and reliability, thereby ensuring that the substance of the underlying transactions or other events is reported.

### Principles of Consolidation

The consolidated financial statements are those of the consolidated entity, comprising Pacific Star Network Limited (the parent entity) and all entities which the parent entity controlled from time to time during the year and at reporting date.

The financial statements of controlled entities are prepared for the same reporting year as the parent entity, using consistent accounting policies. All inter-company balances and transactions have been eliminated in full.

A list of controlled entities appears in note 22 of this report.

The following is a summary of material accounting policies adopted by the consolidated entity in the preparation and presentation of the financial report.

### a) *Trade and Other Payables*

Trade payables and other accounts payable are recognised when the consolidated entity becomes obliged to make future payments resulting from the purchase of goods and services. Accounts payable are initially measured at fair value, and subsequently at amortised cost.

### b) *Borrowing Costs*

Borrowing costs are recognised as an expense when incurred.

### c) *Business Combinations*

Acquisitions of subsidiaries and businesses are accounted for using the acquisition method. The consideration for each acquisition is measured at the aggregate of the fair values (at the date of exchange) of assets given and liabilities incurred or assumed and equity instruments issued in exchange for control of the acquiree.

Acquisition related costs are recognised in the profit and loss account as incurred. The acquiree's identifiable assets, liabilities and contingent liabilities that meet the conditions for recognition under AASB 3 "*Business Combinations*" are recognised at their fair values at the acquisition date, except for non-current assets that are classified as held for sale in accordance with AASB 5 "*Non-current Assets held for Resale and Discontinued Operations*" which are recognised at their fair value less costs to sell.

Goodwill arising in a business combination is recognised as an asset at the date that control is acquired. Goodwill is measured as the excess of the sum of the consideration transferred, the amount of any non-controlling interests in the acquiree, and the fair value of the acquirer's previously held equity interests in the acquiree (if any) over the net of the acquisition date amounts of the identifiable assets acquired and the liabilities assumed.

# Notes to the Consolidated Financial Statements for the year ended 30 June 2014

## 1. Summary of Accounting Policies Cont'd

### *(b) Business Combinations Cont'd*

If after reassessment, the interest in the fair value of the acquiree's net assets exceeds the sum of the consideration transferred, the amount of any non controlling interests in the acquiree and the fair value of the acquirer's previously held equity interest in the acquiree (if any), the excess is recognised immediately in profit and loss.

### *d) Cash and Cash Equivalents*

For statement of cash flows presentation purposes, 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, and bank overdrafts.

### *e) Changes in Accounting Policies*

There have been no changes in accounting policies since the last financial period.

### *f) Employee Entitlements*

Provision is made for benefits accruing to employees in respect of wages and salaries, annual leave, long service leave and sick leave when it is probable that settlement will be required and they are capable of being measured reliably.

A liability and expense for bonuses is recognised where contractually obliged or where there is a past practice that has created a constructive obligation.

Provisions made in respect of wages and salaries, annual leave, sick leave, and other employee entitlements expected to be settled within twelve months, are measured at their nominal values.

Provisions made in respect of other employee entitlements which are not expected to be settled within twelve months are measured at the present value of the estimated future cash outflows to be made by the company in respect of services provided by employees to the reporting date.

### *g) Earnings per Share*

#### (i) Basic Earnings per Share

Basic earnings per share is determined by dividing the profit attributable to equity holders, 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 share issues during the year.

#### (ii) Diluted Earnings per Share

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



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# Notes to the Consolidated Financial Statements for the year ended 30 June 2014

## 1. Summary of Accounting Policies Cont'd

### h) *Goods and Services Tax*

Revenues, expenses and assets are recognised net of the amount of goods and services tax (GST), except:

(i) where the amount of GST incurred is not recoverable from the Australian Taxation Office (ATO), it is recognised as part of the cost of acquisition of an asset or part of an item of expense;

(ii) for receivables and payables which are recognised inclusive of GST; and

(iii) the net amount of GST recoverable from, or payable to, the ATO is included as a receivable or payable.

Cash flows are included in the statement of cash flows on a gross basis.

The component of cash flows arising from investing / financing activities which is recoverable from / or payable to the ATO is classified as an operating cash flow.

### i) *Interest Bearing Loans and Borrowings*

All loans and borrowings are initially recognised at cost, being the fair value of the consideration received net of issue costs associated with the loans and borrowings.

After initial recognition, interest bearing loans and borrowings are subsequently measured at amortised cost using the effective interest method. Amortised cost is calculated by taking into account any issue costs, and any discount or premium on settlement.

Gains and losses are recognised in the profit and loss when the liabilities are derecognised as well as through the amortisation process.

### j) *Income Tax*

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

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:

(i) 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

(ii) 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.

# Notes to the Consolidated Financial Statements for the year ended 30 June 2014

## 1. Summary of Accounting Policies Cont'd

### *j) Income Tax Cont'd*

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.

Pacific Star Network Limited (the "Company") and its wholly-owned 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.

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# Notes to the Consolidated Financial Statements for the year ended 30 June 2014

## 1. Summary of Accounting Policies Cont'd

### *k) Investments in Controlled Entities, Associates and Joint Ventures*

Investments in controlled entities are recorded at cost less any impairment losses in the parent entity disclosures in note 27 of this report.

Investments in associates and joint ventures are accounted for in the financial statements by applying the equity method of accounting.

Investments in associates and joint ventures is carried in the Statement of Financial Position at cost plus any post-acquisition changes in the share of net assets of the associate and joint venture less any impairment in value.

When the business has significant influence over an entity that is not jointly controlled it is deemed an associate.

A joint venture is one which the company controls with other parties in equal proportions.

### *l) Intangible Assets*

Radio licences are stated at cost. Analogue licences are renewed for a minimal cost every five years under the provisions of the *Broadcasting Services Act 1992*. Licences are a tradeable commodity and have an underlying value which is ultimately determined by agreement between vendor and purchaser.

The Directors understand that the revocation of a radio licence has never occurred in Australia and have no reason to believe the licences have a finite life. These licences are not amortised since, in the opinion of the Directors the licences have an indefinite useful life.

Patents and trademarks are not amortised because they are related to the useful life of the licences.

The masthead has been assessed to have an indefinite useful live and accordingly, it is not amortised. It is tested for impairment annually and at each reporting date where there is an indication that the carrying value may be impaired.

Intangible assets with a finite life such as websites are amortised over their expected useful life.

The following estimated useful life is used in determining the amortisation cost for tangible assets with a finite life:

- Websites - 5 years

### *m) Impairment of Assets*

Goodwill and 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 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.



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# Notes to the Consolidated Financial Statements for the year ended 30 June 2014

## 1. Summary of Accounting Policies Cont'd

### m) *Impairment of Assets Cont'd*

The recoverable amount is the higher of an asset's fair value less costs to sell and value in use.

For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash inflows which are largely independent of the cash flows from other assets or groups of assets (cash generating units).

Non financial assets other than goodwill that have been impacted by impairment are reviewed for possible reversal of the impairment at each reporting date.

Radio licences and the masthead are tested annually for impairment at cash generating unit level.

Useful lives are also examined on an annual basis and adjustments where applicable, are made on a prospective basis and an assessment of the recoverable amount of the licences and masthead is made each reporting period to ensure this is not less than its carrying amount.

### n) *Leased Assets*

Assets acquired under finance leases are classified as property, plant and equipment.

The amount initially brought to account is the fair valued of the leased assets or if lower the present value of minimum lease payments.

A finance lease is one which effectively transfers from the lessor to the lessee substantially all the risks and benefits incidental to ownership of the leased property.

Capitalised leased assets are amortised on a straight line basis over the estimated useful life of the asset. Finance lease payments are apportioned between interest expense and reduction of lease liability over the term of the lease. The interest expense is determined by applying the interest rate implicit in the lease to the outstanding lease liability at the beginning of each lease payment period.

Operating lease payments are recognised as an expense on a straight line basis.

### o) *Property, Plant and Equipment*

Property, plant and equipment are stated at historical cost less depreciation.

Historical cost includes expenditure that is directly attributable to the acquisition of the items.

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow and the cost of the item can be measured reliably.

The asset's residual values and useful lives are reviewed and adjusted if appropriate, at each reporting date.

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount.

Depreciation is provided on a straight line basis so as to write down the cost of assets in use, net of residual values over their expected useful life.



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# Notes to the Consolidated Financial Statements for the year ended 30 June 2014

## 1. Summary of Accounting Policies Cont'd

### *o) Property, Plant and Equipment Cont'd*

The following estimated useful lives are used in determining the calculation of depreciation:

- Computer equipment – 4 years
- Office equipment – 5 years
- Fixtures and fittings – 7 years
- Studio facilities – 8 years
- Plant and equipment – 10 years

### *p) Provisions*

Provisions are recognised when the consolidated entity has a present obligation, the future sacrifice of economic benefits is probable, and the amount can be measured reliably.

When some or all of the economic benefits required to settle a provision are expected to be recovered from a third party, the receivable is recognised as an asset if it is probable that the recovery will be received and the amount of the receivable can be measured reliably.

The amount recognised as a provision is the best estimate of the consideration required to settle the present obligation at reporting date, taking into account the risks and uncertainties surrounding the obligation.

Where a provision is measured using the cash flows estimated to settle the present obligation, its carrying amount is the present value of those cash flows.

### *q) Trade Receivables*

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

Collectability of trade receivables is reviewed on an ongoing basis. Debts which are known to be uncollectable are written off by reducing the carrying amount directly. A provision for impairment of trade receivables is raised when there is objective evidence that the 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.

Trade receivables and other receivables are recorded at original invoice amount less any allowance for doubtful debts. Bad debts are written off as incurred. An estimate of doubtful debts is made when collection of the full amount is no longer probable.

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# Notes to the Consolidated Financial Statements for the year ended 30 June 2014

## 1. Summary of Accounting Policies Cont'd

### r) *Revenue Recognition*

#### (i) Broadcasting Income

Broadcasting operations derive revenue primarily from the sale of advertising time to local and national advertisers. Revenue is recognised when commercial announcements are broadcast.

Other regular sources of operating revenue are derived from commercial production for advertisers and the sale of programming. Revenue from commercial production and programming sale is recognised on invoice at the time of completion of the commercial or sale.

#### (ii) Interest Income

Interest income is recognised as it accrues, taking into account the effective yield on the financial asset.

### s) *Rounding of Amounts*

The Company is of a kind referred to in Class order 98/100, issued by the Australian Securities and Investments Commission (ASIC), relating to "rounding off" of amounts in the financial report.

Amounts in the financial report have been rounded off in accordance with that Class Order to the nearest thousand dollars, or in certain cases, the nearest dollar.

### t) *Segment Reporting*

A business segment is a group of assets and operations engaged in providing products or services that are subject to risks and returns that are different to those of other business segments.

### u) *Share Based Payments*

#### (i) Executive Share Option Plan / Exempt Employee Share Plan

Benefits are provided to employees / consultants in the form of share based payment transactions, whereby employees / consultants render services in exchange for shares or rights over shares (equity settled transactions).

The cost of these equity settled transactions is measured by reference to the fair value of the equity instruments at the date at which they are granted. The cost of such transactions are recognised as an expense, together with a corresponding increase in equity, over the period in which the performance conditions (where applicable) are fulfilled, ending on the date on which the relevant employee / consultant becomes fully entitled to the award ('vesting date').

The fair value of options included in the remuneration report was determined using the binomial approximation model. This model takes into account at grant date the exercise price, expected life of the option, vesting criteria, current price and its expected volatility, dividends and risk free interest rate for expected life of the option.

# Notes to the Consolidated Financial Statements for the year ended 30 June 2014

## 1. Summary of Accounting Policies Cont'd

### *u) Share Based Payments Cont'd*

#### (i) Executive Share Option Plan / Exempt Employee Share Plan Cont'd

Options are issued pursuant to the Employee Share Option Plan (ESOP) and have expiry dates of up to 48 months from their date of grant. The option pricing model values each vesting portion and accordingly the amortised share based compensation disclosed in the remuneration report includes the apportioned value of any options issued during the financial year.

The cumulative expense recognised for equity settled transactions at each reporting date until vesting reflects (i) the extent to which the vesting period has expired and (ii) the number of awards that, in the opinion of the Directors, will ultimately vest.

The charge for a period represents the difference in the cumulative expense recognised at the beginning and end of that period and is reflected in note 2.

#### (ii) Share Based Payments for Services

In the normal course of business, options may be issued to third parties as consideration for entering into contracts. Due to the nature of these agreements, it is not always possible to value these rights by reference to the fair value of the services received and therefore in those circumstances, the costs associated with these rights are based upon the fair value of options granted.

The fair value of options granted or issued under these arrangements, is determined using a binomial approximation model. This model takes into account at grant date, the exercise price, expected life of the option, vesting criteria, current price and its expected volatility, expected dividends and the risk free interest rate for the expected life of the option.

The fair value of options issued under such arrangements is expensed to the profit and loss and where applicable is detailed in note 2 of the financial statements.

At reporting date, there were no options on issue as share based payments for services.

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# Notes to the Consolidated Financial Statements for the year ended 30 June 2014

## 2. Profit from Continuing Operations

Profit from continuing operations before income tax includes the following:

| | Consolidated 2014 $'000 | Consolidated 2013 $'000 |
|---|---|---|
| ***a) Revenue from Continuing Activities*** | | |
| Sales revenue | **14,970** | 14,843 |
| | **14,970** | 14,843 |
| **Non-Operating Revenue** | | |
| Interest revenue: Other entities | **93** | 90 |
| Other | **166** | 130 |
| | **259** | 220 |
| Revenue from continuing operations | **15,229** | 15,063 |
| Associate loss: | | |
| Digital Radio Broadcasting Melbourne Pty Ltd | **(17)** | (10) |
| ***b) Expenses*** | | |
| Bad and doubtful debts – trade receivables | **74** | 78 |
| Depreciation / amortisation of non-current assets: | | |
| Property, plant and equipment | **427** | 508 |
| Intangible assets – websites | **46** | 46 |
| Operating lease rental expenses: | | |
| Minimum lease payments – premises | **392** | 387 |
| Employee benefits expense | **5,523** | 5,521 |
| Defined contribution superannuation expense | **482** | 436 |
| Share based payments – ESOP / EESP | **65** | 61 |

## 3. Critical accounting judgements / sources of uncertainty

Management is required to make judgements, estimates, and assumptions about the carrying values of assets and liabilities that are not readily apparent from other sources. In doing so, management makes certain estimates and assumptions concerning the future, which by definition will seldom represent actual results.

Estimates and assumptions have been utilised for the impairment testing of intangible assets (radio licences and mastheads) with indefinite lives. These estimates incorporate inherent risks as they are based on future events that could have a material impact on the value of assets and liabilities in this financial year.

(i) Valuation of share options - note 7 of this report and;

(ii) Impairment testing of intangible assets with indefinite useful lives - note 1 (l) and (m) and note 13 of this report.



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# Notes to the Consolidated Financial Statements for the year ended 30 June 2014

## 4. Financial Risk Management

Financial instruments consist mainly of cash and short term deposits with banks, accounts receivable, payables, and intercompany and third party loans.

There were no derivative instruments at reporting date. The board reviews and agrees policies for each of these risks as summarised below.

### Risk Exposures and Responses

The primary risk exposure is to interest rate, foreign currency, credit, and liquidity risk.

### a) *Interest Rate Risk*

Interest rate risk arises from term deposits and loans. Interest income varies with interest rates. A one per cent increase / decrease in term deposit rates would change trading results by +/- $11 thousand (2013: +/- $15 thousand). An increase / decrease in loan rates would change trading results by +/- $7 thousand (2013: +/- $10 thousand).

At reporting date, the Company and parent entity had the following mix of financial assets and liabilities exposed to Australian variable interest rate risk that are not designated in cash flow hedges:

| | *Consolidated* | |
|---|---|---|
| | ***2014*** | ***2013*** |
| | ***$'000*** | ***$'000*** |
| **Financial Assets** | | |
| Cash and cash equivalents | **4,056** | 3,394 |
| | **4,056** | 3,394 |
| **Financial Liabilities** | | |
| Bank loans | **584** | 555 |
| | **584** | 555 |
| **Net exposure** | **3,472** | 2,839 |

Consideration is given to interest rate exposure and to potential renewals of existing positions, alternative financing and the mix of fixed and variable interest rates.

### b) *Foreign Currency Risk*

Business operations are located in Australia and there is minimal transactional currency exposure. Where exposures do arise, they relate to sales or purchases by an operating entity in currencies other than the functional currency.

At 30 June 2014, exposure to foreign currency trade receivables not designated in cash flow hedges was Nil (2013: Nil).

At reporting date, there were no significant committed foreign currency purchases and no significant foreign currency denominated financial assets or liabilities and income and operating cash flows are not materially exposed to changes in foreign currency movements. On this basis, management has concluded that it is not necessary to use sensitivity analysis to monitor or measure foreign currency risks.

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# Notes to the Consolidated Financial Statements for the year ended 30 June 2014

## 4. Financial Risk Management Cont'd

### Fair Value

The methods for estimating fair value are outlined in the relevant notes to the financial statements.

### Credit Risk

Credit risk arises from financial assets such as cash and cash equivalents, trade and other receivables.

At reporting date, the maximum exposure to credit risk on recognised financial assets is the carrying amount, net of any provisions for impairment of those assets as disclosed in the statement of financial position.

Exposure at reporting date where applicable is addressed in each applicable note.

It is business policy to trade only with recognised, creditworthy third parties. Collateral is not requested nor is it the policy to securitise trade and other receivables.

Trade receivables are monitored on an ongoing basis to minimise potential exposure and consequently bad debts as a percentage of sales is not material.

The business does not have any material credit risk exposure to any single receivable or group of receivables under financial instruments entered into by the business.

### Capital Risk Management

The objective in managing capital is to safeguard the Company's ability to continue as a going concern so that the business can continue to provide returns for shareholders and benefits to other stakeholders and to maintain an optimal capital structure to reduce the cost of capital.

Capital is monitored through current business operations and cash flow requirements.

The gearing ratio for the reporting period was 4% (2013: 5%).

### c) *Liquidity Risk*

Liquidity risk is managed by forecasting and monitoring cash flows on an ongoing basis. The primary objective is to maintain a balance between continuity of funding and flexibility. The business has loans outstanding of $584 thousand at reporting date.

These loans are due to be fully repaid between December 2015 and May 2018.

The contractual maturity of other financial liabilities of $2.6 million (2013: $2.4 million) is less than six months.

The maturity analysis for financial assets and liabilities is based on contractual obligations and these are set out in the table on the next page.

The risks implied from the values disclosed in this table reflects a balanced view of cash inflows, outflows, payables, loans and other financial liabilities that originate from the financing of assets used in ongoing operations such as property, equipment and investments in working capital such as receivables. These assets are fully considered in assessing liquidity risk.

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# Notes to the Consolidated Financial Statements for the year ended 30 June 2014

## 4. Financial Risk Management Cont'd

| 2014 | ≤ 6 months $'000 | 6-12 months $'000 | 1-5 years $'000 | > 5 years $'000 | Total $'000 |
|---|---|---|---|---|---|
| **Financial Assets** | | | | | |
| Cash & cash equivalents | 4,056 | - | - | - | 4,056 |
| Trade, other receivables and prepayments | 3,098 | - | - | - | 3,098 |
| | **7,154** | **-** | **-** | **-** | **7,154** |
| **Financial Liabilities – Non Interest Bearing** | | | | | |
| Trade & other payables | (2,137) | - | - | - | (2,137) |
| **Financial Liabilities – Interest Bearing** | | | | | |
| Loans - contractual[25] | (154) | (154) | (276) | - | (584) |
| | **(2,291)** | **(154)** | **(276)** | **-** | **(2,721)** |
| **Net maturity** | **4,863** | **(154)** | **(276)** | **-** | **4,433** |

| 2013 | ≤ 6 months $'000 | 6-12 months $'000 | 1-5 years $'000 | > 5 years $'000 | Total $'000 |
|---|---|---|---|---|---|
| **Financial Assets** | | | | | |
| Cash & cash equivalents | 3,394 | - | - | - | 3,394 |
| Trade, other receivables and prepayments | 3,389 | - | - | - | 3,389 |
| | 6,783 | - | - | - | 6,783 |
| **Financial Liabilities – Non Interest Bearing** | | | | | |
| Trade & other payables | (2,294) | - | - | - | (2,294) |
| **Financial Liabilities – Interest Bearing** | | | | | |
| Loans - contractual | (112) | (112) | (331) | - | (555) |
| | (2,406) | (112) | (331) | - | (2,849) |
| **Net maturity** | 4,377 | (112) | (331) | - | 3,934 |

[25] In accordance with the terms of this loan, the balance owed is classified as a current liability in the financial statements.

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# Notes to the Consolidated Financial Statements for the year ended 30 June 2014

## 5. Income Tax

a) Income tax expense for the financial year differs from the amount calculated in the net result from continuing operations. The difference is reconciled as follows:

| | Consolidated 2014 $'000 | Consolidated 2013 $'000 |
|---|---|---|
| Profit before income tax expense | **1,453** | 1,063 |
| Income tax expense calculated at 30% | **436** | 319 |
| Non allowable expenses | **24** | 19 |
| Deductible expenses / non assessable income | **-** | (11) |
| | **460** | 327 |
| Income tax – under provision for 2011-12 | **32** | - |
| Income tax – under provision for 2012-13 | **8** | - |
| Income tax expense | **500** | 327 |

b) Income tax expense

| | 2014 $'000 | 2013 $'000 |
|---|---|---|
| Current tax | **395** | 128 |
| Deferred tax | **105** | 199 |
| | **500** | 327 |

c) Deferred tax assets not brought to account

| | 2014 $'000 | 2013 $'000 |
|---|---|---|
| Non-utilised tax losses for which no tax deferred asset is recognised | **14,994** | 14,994 |
| Potential tax benefits at 30% | - | - |

Under normal circumstances, the benefits of deferred tax losses not brought to account can only be realised in the future if:

(i) assessable income is derived of a nature, and of an amount sufficient to enable the benefit from the deductions to be realised;

(ii) conditions for deductibility imposed by the law are complied with; and

(iii) no changes in tax legislation adversely affect the realisation of the benefit from the deductions.

In the previous financial year, a review of the company's historical tax loss position was undertaken in consultation with our tax advisers regarding the company's ability to utilise $14,994 thousand of historical tax losses.

At the conclusion of this review, directors' formed the opinion that the business was not in a position to satisfy the criteria for utilising available income tax losses, with the possible exception of tax losses incurred in the 2004 financial year - refer note 5(d) below.

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# Notes to the Consolidated Financial Statements for the year ended 30 June 2014

## 5. Income Tax Cont'd

d) Contingent Liability

The company is in the process of preparing the Tax Consolidated Group's (**TCG**) income tax return for the year ended 30 June 2013. On 1 July 2012 MRO Pty Ltd joined the TCG when the company acquired the remaining 50% shareholding of this entity following a period of voluntary administration. Preliminary tax advice has advised that when MRO Pty Ltd joined the TCG, there may have been a capital gain event resulting from this transaction. The company has limited information in relation to MRO Pty Ltd while it was in voluntary administration. Consequently, the company has not been able to finalise calculations on the quantum of any capital gain and whether there is any income tax exposure.

In preparing the TCG for the year ended 30 June 2013, the company is also analysing the Continuity of Ownership test (COT) for Victorian Radio Network Pty Ltd's 2004 capital losses of $1.77 million transferred into the TCG. Depending on whether COT is satisfied and subject to the calculation of the available fraction, the TCG may be in a position to continue to carry forward and utilise this company's tax losses against any taxable income. In addition, other events such as the write off of other assets at the time of the voluntary administration may reduce any capital gain. The company also intends to obtain external advice as to whether the transaction constitutes a capital gains tax event. Given the uncertainties noted above, directors are not in a position to reliably assess whether there is an income tax liability relating to acquiring the remaining shareholding in MRO Pty Ltd and accordingly no provision has been recorded in these financial statements.

e) Tax Consolidation

On adoption of the tax consolidation legislation in 2004-05, entities in the tax consolidated group entered into a tax sharing arrangement that limits the joint and several liability of the wholly owned entities in the case of a default by the parent entity, Pacific Star Network Limited. The entities have also entered into a tax funding agreement under which wholly owned entities fully compensate the parent entity for any current tax payable assumed and are compensated for any current tax receivable and deferred tax assets relating to unused tax losses or unused tax credits that are transferred to the parent entity under the tax consolidation legislation.

## 6. Key Management Personnel

### a) *Details of Key Management Personnel (KMP)*

Detailed remuneration disclosures are included in the Directors' Report in accordance with section 300A of the *Corporations Act 2001*.

### b) *Compensation of Key Management Personnel*

| | Short Term Employee Benefits | Short Term Employee Incentives | Short Term Benefits Total | Post Employment Benefits | Share Based Payment | Long Term Employee Benefits | Total |
|---|---|---|---|---|---|---|---|
| | $ | $ | $ | $ | $ | $ | $ |
| **2014** | **1,343,353** | **136,733** | **1,480,086** | **111,024** | **39,314** | **39,217** | **1,669,641** |
| 2013 | 1,265,761 | 159,315 | 1,425,076 | 100,568 | 63,191 | 75,069 | 1,663,904 |

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# Notes to the Consolidated Financial Statements for the year ended 30 June 2014

## 7. Share-Based Payments

### a) *Employee Share Option Plan*

The Company operates an Employee Share Option Plan (ESOP).

The plan is designed to provide short and long-term incentives for staff and contractors of Pacific Star Network Limited and associated companies, by allowing them to participate in the future growth of the business and generate improved shareholder returns.

Under the Plan, directors' may in their absolute discretion, offer to grant options to eligible recipients.

The options can be granted for no consideration and carry rights in favour of the option holder to subscribe for one ordinary share for each option issued.

Employees and / or contractors joining after commencement of the plan are eligible recipients and all shares issued upon exercise of options rank parri-passu in all respects with issued shares.

#### Fair value of options granted

The fair value at grant date is determined using a binomial approximation 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.

The model inputs for options granted in previous financial years included:

(i) Options are issued for nil consideration and on vesting are exercisable for up to one year.

(ii) The exercise price for all outstanding options is nil.

(iii) Grant and expiry dates for each option issue is listed on page 48.

(iv) Expected price volatility is within 51-55% range. Volatility was determined using data reports from the Australian Graduate School of Management (AGSM) and this data was utilised to value the options.

(v) Expected dividend yield – 6.5% un-franked.

(vi) A risk free rate of 3.88% at 28 November 2011 and 2.97% at 28 June 2012.

The weighted average fair value of options granted and exercised during the year was nil cents (2013: nil cents).

Details of share options issued under the ESOP are shown on the next page.

# Notes to the Consolidated Financial Statements for the year ended 30 June 2014

## 7. Share-Based Payments Cont'd

### a) *Employee Share Option Plan Cont'd*

| 2014 | | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| Grant Date | Expiry Date | Exercise Price Number | Balance at start of the year Number | Issued during the year Number | Exercised during the year Number | Lapsed during the year Number | Balance at the end of the year Number | Vested and exercisable at end of the year Number |
| 28 Nov 2011 Issue 7 | 30 Oct 2015 | Nil cents | 750,000 | - | - | (250,000) | 500,000 | - |
| 28 Jun 2012 Issue 8 | 20 Oct 2014 | Nil cents | 360,000 | - | - | (180,000) | 180,000 | - |
| **Total** | | | **1,110,000** | **-** | **-** | **(430,000)** | **680,000** | **-** |
| **Weighted Average Exercise Price** | | **N/a** | **Nil cents** | **N/a** | **N/a** | **30 cents** | **Nil cents** | |

The weighted average remaining contractual life for all outstanding options at the end of the financial year is 1.0 year (2013: 1.3 years).

There were no further options issued to KMP during the financial year.

| 2013 | | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| Grant Date | Expiry Date | Exercise Price Number | Balance at start of the year Number | Issued during the year Number | Exercised during the year Number | Lapsed during the year Number | Balance at the end of the year Number | Vested and exercisable at end of the year Number |
| 20 Oct 2008 Issue 3 | 20 Oct 2012 | 40 cents | 700,000 | - | - | (700,000) | - | - |
| 28 Nov 2011 Issue 7 | 30 Oct 2015 | Nil cents | 1,000,000 | - | (100,000) | (150,000) | 750,000 | - |
| 28 Jun 2012 Issue 8 | 20 Oct 2014 | Nil cents | 540,000 | - | (90,000) | (90,000) | 360,000 | - |
| Total | | | 2,240,000 | - | (190,000) | (940,000) | 1,110,000 | - |
| Weighted Average Exercise Price | | N/a | Nil cents | N/a | Nil Cents | 30 cents | Nil cents | |

### b) *Exempt Employee Share Plan (EESP)*

An EESP was launched in 2011 to enable all employees to participate in the growth and success of the business.

Under the Plan, each year, employees are invited to apply for up to $1,000 of ordinary shares subject to meeting certain conditions including:

(i) Being a full, part or casual employee in continuous service for specified months of each calendar year;



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# Notes to the Consolidated Financial Statements for the year ended 30 June 2014

## 7. Share-Based Payments Cont'd

### b) *Exempt Employee Share Plan (EESP) Cont'd*

(ii) The benefit of the grant of shares is that they become tax free in the hands of the recipient subject to retaining them for a period of three years from date of issue.

During the year, the Company issued 126,828 shares to 26 qualifying employees.

### c) *Payments for Services*

There were no options issued for services during this or the previous financial year.

## 8. Remuneration of Auditors

During the year, the following fees were paid or are payable for services provided by the current auditor, BDO East Coast Partnership.

| | *Consolidated* | |
|---|---|---|
| | ***2014*** | ***2013*** |
| | ***$*** | ***$*** |
| **Audit and assurance services:** | | |
| Audit and review of financial statements | **51,500** | 49,500 |
| **Other services:** | | |
| Taxation services | **27,558** | 30,514 |

## 9. Trade and Other Receivables

| | *Consolidated* | |
|---|---|---|
| | ***2014*** | ***2013*** |
| | ***$'000*** | ***$'000*** |
| ***a) Current Receivables*** | | |
| Trade receivables | **2,647** | 3,348 |
| Less provision for doubtful debts | **(224)** | (511) |
| | **2,423** | 2,837 |
| Other | **154** | 46 |
| | **2,577** | 2,883 |
| ***b) Provision for impairment loss*** | | |
| Balance at 1 July 2013 | **511** | 433 |
| Charge for the year | **74** | 78 |
| Receivables balances written off | **(361)** | - |
| Balance at 1 July 2014 | **224** | 511 |



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# Notes to the Consolidated Financial Statements for the year ended 30 June 2014

## 9. Trade and Other Receivables

### *b) Provision for impairment loss Cont'd*

Trade receivables are non-interest bearing and operate on thirty to forty five day credit terms. A provision for impairment loss is recognised when there is objective evidence that an individual trade receivable is impaired.

An impairment loss provision of $74 thousand (2013: $78 thousand) has been recognised as an expense this financial year.

During the financial year, the business determined that $361 thousand of receivable balances should be written off as irrecoverable bad debts. Impairment provisions held against these balances had been created and built up in prior reporting periods.

At reporting date, the ageing analysis of past due but not impaired trade receivables was as follows:

| | 0-30 days $'000 | 30-60 days $'000 | 60-90 days $'000 | 91+ days $'000 | Total $'000 |
|---|---|---|---|---|---|
| 2014 Consolidated | - | 80 | 20 | 243 | 343 |
| | **-** | **80** | **20** | **243** | **343** |
| 2013 Consolidated | 123 | 32 | 28 | 46 | 229 |
| | 123 | 32 | 28 | 46 | 229 |

Receivables past 91 days that are not considered past due were $18 thousand (2013: $29 thousand) and relate to clients on payment plans / deferred settlement.

Other balances within trade and other receivables do not contain impaired assets, and are not considered past due and it is assumed that these balances will be settled in full.

#### Related party receivables

The fair value of related party receivables cannot be reliably measured.

Whilst these entities make regular repayments of the balance outstanding, there are no immediate plans to settle the full amount. These receivables are non-interest bearing.

#### Fair value and credit risk

Due to the short term nature of trade receivables, their carrying value is assumed to approximate to their fair value. The maximum exposure to credit risk is the balance owed on receivables (net of allowances for doubtful debts).

No collateral is held, nor is it the policy to transfer or on-sell receivables to special purpose entities.

#### Foreign exchange and interest rate risk

Details of foreign exchange and interest rate risk exposure are disclosed in note 4 of the financial statements.

# Notes to the Consolidated Financial Statements for the year ended 30 June 2014

## 10. Property, Plant & Equipment

| | Consolidated 2014 $'000 | Consolidated 2013 $'000 |
|---|---|---|
| *Carrying Amount (at cost)* | | |
| Balance at start of the year | **6,760** | 6,704 |
| Additions | **485** | 56 |
| Disposals | **(20)** | - |
| Balance at end of the year | **7,225** | 6,760 |
| *Accumulated Depreciation* | | |
| Balance at start of the year | **5,089** | 4,581 |
| Depreciation expense for the year | **427** | 508 |
| Disposals | **-** | - |
| Balance at end of the year | **5,516** | 5,089 |
| *Net Book Value* | | |
| Balance at start of the year | **1,671** | 2,123 |
| Balance at end of the year | **1,709** | 1,671 |

Depreciation charged during the year is recognised as an expense and disclosed in note 2 (b) of the financial statements.

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# Notes to the Consolidated Financial Statements for the year ended 30 June 2014

## 11. Deferred Tax Assets

| | Consolidated | |
|---|---|---|
| | *2014* *$'000* | *2013* *$'000* |
| Deferred tax asset comprises temporary differences attributable to: | | |
| **Amounts recognised in profit or loss** | | |
| Doubtful debts | 67 | 153 |
| Employment provisions | 177 | 150 |
| Licence fees | 145 | 140 |
| Accrued expenses | 147 | 194 |
| Prepaid rights fees | (155) | (152) |
| **Deferred tax asset** | 381 | 485 |
| | | |
| **Movements** | | |
| Opening balance | 485 | 684 |
| Charge to profit or loss for the year | **(104)** | (199) |
| Closing balance | **381** | 485 |

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# Notes to the Consolidated Financial Statements for the year ended 30 June 2014

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| | Consolidated 2014 $'000 | Consolidated 2013 $'000 |
|---|---|---|

## 12. Investments accounted using the equity method

| | 2014 $'000 | 2013 $'000 |
|---|---|---|
| Digital Radio Broadcasting Melbourne Pty Ltd | **133** | 150 |
| | **133** | 150 |

The shareholding in Digital Radio Broadcasting Melbourne Pty Limited is accounted for using the equity method of accounting.

The business owns 18.2% of this entity and for the reporting period, booked a trading loss of $17 thousand (2013: $10 thousand loss).

The Company is considered to have significant influence due to its voting rights.

No repayments were received on this loan during the year and the remaining loan balance at reporting date was $231 thousand (2013: $228 thousand).

The business provides an interest free loan with no fixed repayment terms.

Information relating to the joint venture is set out below.

*Associate gross assets and liabilities*

| | 2014 $'000 | 2013 $'000 |
|---|---|---|
| Current assets | **802** | 576 |
| Non-current assets | **1,462** | 1,666 |
| **Total assets** | **2,264** | 2,242 |
| Current liabilities | **261** | 168 |
| Non-current liabilities | **1,275** | 1,249 |
| **Total liabilities** | **1,536** | 1,417 |
| **Net assets** | **728** | 825 |

*Associate gross revenue, expenses and results*

| | 2014 $'000 | 2013 $'000 |
|---|---|---|
| Revenues | **1,490** | 1,276 |
| Expenses | **(1,501)** | (1,286) |
| **Loss for the year** | **(11)** | (10) |

# Notes to the Consolidated Financial Statements for the year ended 30 June 2014

| | Consolidated | |
|---|---|---|
| | 2014 $'000 | 2013 $'000 |
| **13. Intangible Assets** | | |
| *Non-Current* | | |
| Patents and trademarks at cost | **117** | 113 |
| Inside Football masthead | **797** | 797 |
| | **914** | 910 |
| Website – SportSENtral | **232** | 232 |
| Website – Amortisation | **(232)** | (186) |
| | **-** | 46 |
| Radio Licences | | |
| SEN 1116 AM | **3,148** | 3,148 |
| MyMP 1377 AM | **5,021** | 5,021 |
| | **8,169** | 8,169 |
| **Total** | **9,083** | 9,125 |

Radio licences are classified as one cash generating unit (CGU) for impairment testing and segment reporting purposes and licences are tested annually for impairment at CGU level.

Intangibles have been allocated to two CGU's for impairment testing as follows:

- Radio 1116AM (SEN) / 1377AM (MyMP) CGU – $8,169 thousand; and
- Inside Football publication CGU generating unit - $797 thousand.

In the opinion of directors, licences have an indefinite useful life and hence they are not amortised.

The recoverable amount of each CGU has been determined based on the higher of value in use or fair value. The basis for determining the recoverable amount under each option is outlined below.

### Value in Use (VIU) – Radio CGU and Print CGU

Value in use is determined by utilising cash flow projections based on financial budgets approved by the board for the subsequent year and these projections form the basis for future cash flow projections.

Key assumptions used for value in use for the current period were:

(i) Net cash flows before tax will grow at an annual rate of 2.5% (2013: 2.5%);



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# Notes to the Consolidated Financial Statements for the year ended 30 June 2014

## 13. Intangible Assets Cont'd

### Value in Use (VIU) Cont'd

(ii) Pre tax discount rate of 15.6% is an appropriate weighted cost of capital (2013: 15.6%).

Future cash flows are based on five year forecasts prepared by management, and these forecasts have been projected based on actual operating results. Cash flows beyond the five year period are extrapolated using a constant revenue growth rate of 2.5% which does not exceed the long term average growth rate for the CGU business.

Directors' confirm that these valuations are above the recoverable value and no impairment is required to be made to these assets.

Trademarks relate to the radio CGU.

### Fair Value Less Costs to Sell (FVLCS) – Radio CGU

Fair value less costs to sell is determined by reference to an independent valuation report. The independent valuation was higher than the carrying value of the asset

As there have been no radio licence transactions in the market since the date of the last valuation report completed early in the 2013 calendar year, directors' have determined that for the reporting period and in the absence of any impairment indicators, that it is appropriate to continue to place reliance on the previous valuation as a basis for determining current fair value.

This valuation adopted the following assumptions:

(i) That the use of a primary valuation methodology is appropriate as an input to estimate fair value;

(ii) Using the excess earnings method and comparing EBITDA multiples used with other comparable listed companies and merger / acquisition transactions is a valid approach;

(iii) That it is appropriate to include a contributory asset charge in recognition of the economic rent for the use of other assets that contribute to the operating profit of the CGU; and

(iv) Using a terminal growth rate of 2.5% at the end of the projection period and a post tax discount rate of 12% is appropriate.

### Sensitivity

Management believes that any reasonable change in the key assumptions on which the recoverable amount of the asset is based for the Radio CGU and the Inside Football CGU would not cause the cash generating units carrying value to exceed its recoverable amount.

# Notes to the Consolidated Financial Statements for the year ended 30 June 2014

| | Consolidated 2014 $'000 | Consolidated 2013 $'000 |
|---|---|---|
| **14. Current Payables** | | |
| Trade payables | **880** | 817 |
| PAYG payable | **131** | 115 |
| GST payable | **250** | 234 |
| Other creditors and accruals | **875** | 1,128 |
| | **2,136** | 2,294 |
| Income tax payable | **449** | 128 |
| **15. Provisions** | | |
| Employee provisions – current | **516** | 408 |
| Employee provisions – non current | **73** | 93 |
| | **589** | 501 |
| **16. Borrowings** | | |
| Not longer than 1 year | **308** | 224 |
| Between 1 to 4 years | **276** | 331 |
| | **584** | 555 |

Borrowings have been disclosed as current liabilities to comply with the technical requirements of AASB 101 "*Presentation of Financial Statements*" as there is no unconditional right to defer settlement for at least twelve months after reporting date.

The directors' view is that loans will be repaid in accordance with the terms of the agreement and that the business is fully compliant with the financial covenants attached to the loans.

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# Notes to the Consolidated Financial Statements for the year ended 30 June 2014

| | Consolidated | |
|---|---|---|
| | *2014 $'000* | *2013 $'000* |

## 17. Issued Capital

*Contributed Equity*

| | No. | No. |
|---|---|---|
| Number of shares on issue | **53,111,051** | 53,464,806 |
| | *$'000* | *$'000* |
| Total amount paid on these shares | **16,444** | 16,531 |

| | 2014 | | 2013 | |
|---|---|---|---|---|
| *Fully Paid Ordinary Share Capital* | No.'000 | $'000 | No.'000 | $'000 |
| **Balance at beginning of financial year** | **53,465** | **16,531** | 53,660 | 52,381 |
| Issue of shares | **127** | **26** | 335 | 29 |
| Share buy back | **(481)** | **(113)** | (530) | (104) |
| Reduction of share capital | **-** | **-** | - | (35,775) |
| **Balance at end of the financial year** | **53,111** | **16,444** | 53,465 | 16,531 |

*Ordinary Shares*

Ordinary shares entitle the holder to participate in dividends and the proceeds on winding up in proportion to the number of and amounts paid on shares held.

The fully paid ordinary shares have no par value.

*Terms and Conditions of Issued Capital Ordinary Shares*

Ordinary shareholders have the right to receive dividends as declared and in the event of winding up the Company, to participate in the proceeds from the sale of all surplus assets in proportion to the number and amounts of paid up shares held.

Ordinary shares entitle their holder to one vote, either in person or by proxy at a meeting of shareholders.

Details of share options on issue are disclosed in note 7 of this report.

# Notes to the Consolidated Financial Statements for the year ended 30 June 2014

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| | Consolidated | |
|---|---|---|
| | *2014* | *2013* |
| | *$'000* | *$'000* |

## 18. Accumulated Losses

| | 2014 $'000 | 2013 $'000 |
|---|---|---|
| **Balance at beginning of financial year** | **(2,201)** | (38,071) |
| Net profit | **953** | 736 |
| Issue of share capital | **(26)** | (29) |
| Reduction of share capital | **-** | 35,775 |
| Dividend paid | **(911)** | (612) |
| **Balance at end of financial year** | **(2,185)** | (2,201) |

## 19. Earnings per Share

a) *Basic Earnings per Share*

The profit and weighted average number of ordinary shares used in the calculation of basic profit per share are as follows:

| | 2014 | 2013 |
|---|---|---|
| Profit after income tax for the year | **953** | 736 |
| Weighted average number (millions) of ordinary shares | **53,192** | 53,675 |
| Basic (cents per share) | **1.8** | 1.4 |

b) *Diluted Earnings per Share*

The profit and weighted average number of ordinary and potential ordinary shares used in the calculation of diluted profit per share are as follows:

| | 2014 | 2013 |
|---|---|---|
| Profit After Income Tax | **953** | 736 |
| Weighted average number (millions) of ordinary shares and potential ordinary shares | **53,981** | 55,352 |
| These options (thousands) are dilutive and are therefore included in the weighted average number (millions) of ordinary shares and potential ordinary shares used in the calculation of diluted earnings per share. | **680** | 1,110 |
| Diluted (cents per share) | **1.8** | 1.3 |

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# Notes to the Consolidated Financial Statements for the year ended 30 June 2014

| | Consolidated | |
|---|---|---|
| | ***2014 $'000*** | ***2013 $'000*** |

## 20. Commitments for Expenditure

*a) Contract for property lease – including carrying value*

| | 2014 $'000 | 2013 $'000 |
|---|---|---|
| Not longer than 1 year | **403** | 397 |
| Between 1 and 3 years | **842** | 1,284 |
| | **1,245** | 1,681 |

## 21. Contingent Liabilities

The Company and its subsidiaries are not engaged in any litigation proceedings, the outcome of which would have a material impact on the result.

As per the disclosure in note 5(d), the business is currently assessing whether it has a CGT liability relating to acquiring the remaining 50% of MRO Pty Ltd in 2012.

## 22. Controlled Entities

| Name of entity – investment in ordinary shares | Country of Incorporation | Ownership Interest 2014 % | Ownership Interest 2013 % |
|---|---|---|---|
| **Parent Entity** | | | |
| Pacific Star Network Limited | Australia | | |
| **Controlled Entities** | | | |
| Victorian Radio Network Pty Ltd | Australia | **100** | 100 |
| Malbend Pty Ltd | Australia | **100** | 100 |
| Inside Football Pty Ltd | Australia | **100** | 100 |
| Melbourne Radio Operations Pty Ltd | Australia | **100** | 100 |
| **Associate** | | | |
| Digital Radio Broadcasting Melbourne Pty Ltd | Australia | **18.2** | 18.2 |

## 23. Segment Information

The Company operates in the Media industry in Australia only.

There are two operating segments, radio and print.

Segment information is disclosed in a manner that reflects the management information reviewed by senior management and the Board (the Chief Operating Decision Makers ('CODM')).

# Notes to the Consolidated Financial Statements for the year ended 30 June 2014

## 23. Segment Information Cont'd

The financial performance of each segment is reviewed by the CODM at net profit before tax and head office costs.

The result for each segment is shown in the table below.

| | 30 June 2014 $'000 | | | | 30 June 2013 $'000 | | | | Total $000 | |
|---|---|---|---|---|---|---|---|---|---|---|
| | Radio | Print | Sub-Total | Head Office | Radio | Print | Sub-Total | Head Office | 2014 | 2013 |
| Segment revenue | | | | | | | | | | |
| External sales | 14,090 | 886 | 14,976 | - | 13,863 | 980 | 14,843 | - | 14,976 | 14,843 |
| Interest income | 37 | 4 | 41 | 52 | 38 | 2 | 40 | 50 | 93 | 90 |
| Other | 160 | - | 160 | - | 130 | - | 130 | - | 160 | 130 |
| Total revenue | 14,287 | 890 | 15,177 | 52 | 14,031 | 982 | 15,013 | 50 | 15,229 | 15,063 |
| Segment profit or loss before tax | 2,035 | 69 | 2,104 | (651) | 1,553 | 64 | 1,617 | (554) | 1,453 | 1,063 |
| Segment assets | | | | | | | | | | |
| Cash and equivalents | 1,919 | 97 | 2,016 | 2,040 | 1,579 | 152 | 1,731 | 1,663 | 4,056 | 3,394 |
| Receivables | 2,494 | 83 | 2,577 | - | 2,740 | 143 | 2,883 | - | 2,577 | 2,883 |
| Plant and intangibles | 9,974 | 818 | 10,792 | - | 9,993 | 803 | 10,796 | - | 10,792 | 10,796 |
| Deferred tax asset | - | - | - | 381 | - | - | - | 485 | 381 | 485 |
| Other | 871 | 4 | 875 | 10 | 869 | 3 | 872 | 12 | 885 | 884 |
| Total assets | 15,258 | 1,002 | 16,260 | 2,431 | 15,181 | 1,101 | 16,282 | 2,160 | 18,691 | 18,442 |
| Segment liabilities | | | | | | | | | | |
| Trade payables | 1,914 | 137 | 2,051 | 85 | 2,039 | 168 | 2,207 | 66 | 2,137 | 2,273 |
| Employee provisions | 589 | - | 589 | - | 501 | - | 501 | - | 589 | 501 |
| Bank loans | 418 | 166 | 584 | - | 294 | 261 | 555 | - | 584 | 555 |
| Income tax | - | - | - | 449 | - | - | - | 128 | 449 | 128 |
| Total liabilities | 2,921 | 303 | 3,224 | 534 | 2,834 | 430 | 3,273 | 214 | 3,758 | 3,478 |



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# Notes to the Consolidated Financial Statements for the year ended 30 June 2014

## 24. Related Party Disclosures

### a) *Equity Interests in Related Parties*

Equity Interests in Controlled Entities

Details of the percentage of ordinary shares held in controlled entities are disclosed in note 22 of this report.

### b) *Remuneration and Retirement Benefits*

Details of Key Management Personnel remuneration is disclosed in the Directors' Report and note 6 of this report.

### c) *Transactions with Key Management Personnel*

(i) The Company has a lease agreement with Infuture One Pty Ltd as trustee for Infuture One Trust (majority unit holder is Ronald Hall) for premises for the radio stations.

In March 2012, the Company exercised an option with the landlord to renew the lease for a further five year term with annual fixed rent reviews.

The terms and conditions of the lease are on an arms-length basis similar to those negotiable with non-related third parties.

(ii) Profit before income tax includes the following expense resulting from transactions with directors' or their director'related entities:

| | *Consolidated* | |
|---|---|---|
| | ***2014*** | ***2013*** |
| | ***$'000*** | ***$'000*** |
| Lease payments | **392** | 387 |

### d) Parent Entity

- The parent entity in the consolidated entity is Pacific Star Network Limited.
- The ultimate parent entity in the wholly-owned group is Pacific Star Network Limited.
- The ultimate Australian parent entity is Pacific Star Network Limited.

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# Notes to the Consolidated Financial Statements for the year ended 30 June 2014

| | Consolidated 2014 $'000 | Consolidated 2013 $'000 |
|---|---|---|

## 25. Note To The Statement of Cash Flows

### a) *Reconciliation of Cash*

| | 2014 $'000 | 2013 $'000 |
|---|---|---|
| Cash assets | **4,056** | 3,394 |

### b) *Reconciliation of Profit after Income Tax to Net Cash flows from Operating Activities*

| | 2014 $'000 | 2013 $'000 |
|---|---|---|
| Net profit after income tax | **953** | 736 |
| Depreciation and amortisation of non-current assets | **474** | 554 |
| Reversal of provisions | **48** | 61 |
| Decrease in assets: | | |
| - receivables and other | **306** | 211 |
| - deferred tax assets | **104** | 199 |
| Increase / (decrease) in liabilities: | | |
| - payables | **(158)** | 184 |
| - provisions | **88** | 81 |
| - borrowings | **29** | (218) |
| - taxation | **321** | 128 |
| Net cash from operating activities | **2,165** | 1,936 |

## 26. Dividends Paid and Proposed

**Dividends paid / payable were as follows – un-franked:**

| | 2014 $'000 | 2013 $'000 |
|---|---|---|
| Interim dividend paid for half year ended 31 December | **373** | 317 |
| Final dividend paid / payable for year ended 30 June | **538** | 295 |
| | **911** | 612 |

**Dividends paid in cash were as follows:**

| | 2014 | 2013 |
|---|---|---|
| Paid in cash | **911** | 612 |
| Interim dividend paid for half year – cents per share | **0.70** | 0.59 |
| Final dividend paid / payable for full year - cents per share | **0.90** | 1.00 |
| Total dividend paid / payable | **1.60** | 1.59 |

Final dividend not accrued in the financial statements is $531 thousand (2013: $535 thousand).



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# Notes to the Consolidated Financial Statements for the year ended 30 June 2014

## 27. Parent Entity Disclosures

| | Parent Entity | |
|---|---|---|
| | 2014 $'000 | 2013 $'000 |
| **Result of the Parent Entity** | | |
| Loss for the year after tax | **(651)** | (554) |
| Total comprehensive loss for the year | **(651)** | (554) |
| **Summarised Statement of Financial Position** | | |
| Current Assets | **2,126** | 1,676 |
| Total Assets | **14,470** | 15,989 |
| Current Liabilities | **(59)** | (46) |
| Net Assets | **14,411** | 15,943 |
| **Total equity of the parent entity comprising:** | | |
| Share Capital | **16,444** | 16,531 |
| Share Based Payment Reserve | **674** | 634 |
| Accumulated Losses | **(2,707)** | (1,222) |
| Total Equity | **14,411** | 15,943 |

## 28. Events subsequent to reporting date

There were no significant events that occurred subsequent to reporting date.

## 29. Changes in the composition of the consolidated entity

There were no changes in the composition of the consolidated entity.



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# Corporate Governance Statement

ASX Listing rule 4.10.3 requires the Company to disclose the extent to which it has followed the ASX Corporate Governance Principles and Recommendations, 2nd edition (Principles).

The Board remains committed to corporate governance practices that are compatible with the scale and nature of the business and which ensures appropriate accountability and transparency to shareholders and other stakeholders.

**PRINCIPLE 1 – Lay solid foundations for management and oversight**

***Recommendation 1.1: Formalise and disclose the functions reserved to the board and those delegated to management.***

The Board retains responsibility for the following:

a) setting and monitoring of objectives, goals and strategic direction for management with a view to maximising shareholder value;

b) approving annual budgets and monitoring financial performance;

c) approving acquisitions / joint ventures;

d) ensuring adequate internal controls exist and are appropriately monitored for compliance;

e) ensuring significant business risks are proactively identified and appropriately managed;

f) ensuring compliance with regulatory and statutory requirements;

g) selecting and appointing new Directors; and

h) maintaining the highest business standards and ethical behaviour.

The board has delegated authority within the following areas to the Chief Executive Officer, Barrie Quick

a) monitoring, and reporting the performance of the business and its constituent units and management to the Board;

b) recruitment of staff and senior management;

c) ensuring that business processes in relation to risk management/ assurance are met;

d) approving major capital expenditure (excluding acquisitions).

The Board's roles and responsibilities are formalised in a Board Charter which is accessible on the Pacific Star Network Limited website www.pacificstarnetwork.com.au/investors.

Board meetings are held 9-10 times a year, with other meetings called as required.

All Directors are provided with reports in advance of meetings and these contain sufficient information to facilitate informed discussion and resolution of all agenda items.

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# Corporate Governance Statement Cont'd

***Recommendation 1.2: Disclose the process for performance evaluation of the board, its committees and individual directors' and key executives***

The principles adopted for performance evaluation of key executives is outlined in the remuneration section of the Directors' report.

For the current financial year, executives were evaluated using approved budgets and key performance indicators as previously agreed by the Board. When considering performance, the board has regard to:

a) the responsibilities and accountabilities of the executive;

b) annual budgets / stretch targets;

c) any agreed key performance indicators; and

d) relevant qualitative / quantitative measures.

With respect to directors' the process for evaluating performance is informal and based on discussions between the Chairman and each Director.

Directors' have access to continuing education and independent professional advice.

The Company Secretary has a dual responsibility firstly to the Board through the Chairman for all governance matters and to the Chief Executive officer for day to day business matters.

**PRINCIPLE 2 – Structure the board to add value**

***Recommendation 2.1: A majority of the board should be independent Directors.***

The board currently comprises four non-executive Directors. Three are considered independent, Andrew Moffat, Gary Pert and Michelle Guthrie and hence meet the criteria for director independence.

The fourth director, Ronald Hall is not considered independent as he is a substantial shareholder in the Company.

The independence of Directors is reviewed periodically. Each of the Directors' is considered to bring experience from different industry sectors and contributes value to the Board by combining their strengths and skills to lead the strategic direction of the business.

The Board recognises that Directors remain in office for the benefit of and are accountable to shareholders and that shareholders have the voting power to elect members to the board regardless of their standing, independent or otherwise.

The majority of Directors are considered to be independent.

The term in office held by each director at the date of this report is as follows:

| | |
|---|---|
| Andrew Moffat, Chairman and Non-Executive Director | – 10.0 years |
| Ronald Hall, Non-Executive Director | – 12.5 years |
| Gary Pert, Non-Executive Director | – 6.0 years |
| Michelle Guthrie, Non-Executive Director | – 1.3 years |

# Corporate Governance Statement Cont'd

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***Recommendation 2.2: The Chairperson should be an independent Director and;***

***Recommendation 2.3: The roles of the chairperson and Chief Executive should not be exercised by the same individual.***

The Chairman, Andrew Moffat, is an independent Director and the role of Chairman and Chief Executive Officer is not held by the same person.

***Recommendation 2.4: The board should establish a nomination committee.***

Directors' consider this responsibility is best fulfilled by the full board.

***Recommendation 2.5: Disclose the process for performance evaluation of the board, its committees and individual Directors and key executives.***

Refer to Recommendation 1.2.

**PRINCIPLE 3 – Promote ethical and responsible decision making**

***Recommendation 3.1: Establish a code of conduct and disclose the code or summary of the code as to:***

a) the practices necessary to maintain confidence in the Company's integrity;

b) the practices necessary to take into account their legal obligations and the reasonable expectations of their stakeholders; and

c) the responsibility and accountability of individuals for reporting and investigating reports of unethical practice.

The business complies with this principle by ensuring that each employee or contractor is conversant with the company's policies including a Code of Conduct that sets out the principles and standards expected from all directors', employees and contractors.

This Code is supported by a range of additional policies including securities trading, privacy, communications, continuous disclosure, risk management and editorial policies.

Further information on these policies can be accessed on the Pacific Star Network Limited website www.pacificstarnetwork.com.au/investors/policy documents.

The primary aim of embedding and monitoring compliance in the business is to ensure that the Company at all times:

a) complies with laws and regulations;

b) up-holds its ethical and environmental responsibilities;

c) ensures that assets are used appropriately for business purposes;

d) ensures that confidential information is maintained confidential and secured;

e) ensures that all parties act so as not to conflict with the Company's business interests.

***Recommendation 3.2: Companies should establish a policy concerning diversity and disclose the policy or a summary of that policy.***

The Company's Diversity Statement covers women in the workplace, and employees / contractors with an ethnic or indigenous background and disability.

***Recommendation 3.3: Companies should disclose in each annual report the measurable objectives for achieving gender diversity.***

The measureable objective set by the Board for achieving gender diversity was to increase the percentage of full / part time women employed in the workforce by at least 10% by 2015, including appointing a female non-executive independent director to the Board.

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# Corporate Governance Statement Cont'd

***Recommendation 3.4: Companies should disclose in each annual report the proportion of women employees in the organisation, women in senior positions and women on the board.***

The following table discloses the gender diversity of the workforce:

| | 30 June 2014 | | 30 June 2013 | |
|---|---|---|---|---|
| **Category** | **% Males** | **% Females** | **% Males** | **% Females** |
| Board | 75% | 25% | 75% | 25% |
| Management | 86% | 14% | 86% | 14% |
| Full / part time employees | 84% | 16% | 83% | 17% |
| Casual employees | 63% | 37% | 67% | 33% |
| **Total** | **78%** | **22%** | **77%** | **21%** |

**PRINCIPLE 4 – Safeguard integrity of financial reporting**

***Recommendation 4.1: The board should establish an audit committee, and***

***Recommendation 4.2: Structure the audit committee so that it consists of:***

a) only non executive Directors
b) a majority of independent Directors
c) an independent chairperson, who is not chairperson of the board
d) at least three members, and

Due to the limited size, lack of complexity and relatively small number of Directors, the Board has formed the view that this responsibility should be fulfilled by the full Board.

All matters, which might ordinarily be dealt with by an audit committee are discussed at board meetings, these include:

a) ensuring that an effective internal control framework exists and operates within the business;
b) reviewing the annual report, financial statements and other information distributed externally;
c) reviewing audit reports and letters to the board from external auditors;
d) liaising with external auditors and ensuring the annual audit and half year review are conducted in an effective and timely manner;
e) nomination of the external auditor and reviewing the adequacy of the scope and quality of the annual audit and half year review; and
f) monitoring compliance with the *Corporations Act 2001*, ASX Listing Rules, and other matters outstanding with other regulatory and financial authorities.

The auditor attends the Annual General Meeting (AGM) and is available to answer shareholder's questions on the conduct of the audit and the preparation and content of the auditor's report.

***Recommendation 4.3: The audit committee should have a formal operating charter***

The board has reviewed the terms of reference for audit committees and has formed the view that this key responsibility is more appropriately fulfilled by the full Board.

# Corporate Governance Statement Cont'd

## PRINCIPLE 5 – Make timely and balanced disclosure

***Recommendation 5.1:*** ***Establish written policies and procedures designed to ensure compliance with ASX listing rule disclosure requirements and to ensure accountability at senior management level for that compliance.***

It is the Board's policy to provide timely, open and accurate information to its investors, regulators and the wider investment community.

The Board has a continuous disclosure policy setting out the policies, accountabilities and procedures that govern the handling of sensitive information, continuous disclosure and communications to investors and regulators.

The Chairman, Directors', Chief Executive Officer and Company Secretary are closely involved with day to day operations to ensure compliance with these continuous disclosure requirements and in particular Listing Rule 3.1.

## PRINCIPLE 6 – Respect the rights of shareholders

***Recommendation 6.1:*** ***Design and disclose a communications strategy to promote effective communication with shareholders and encourage effective participation at general meetings.***

Communications with shareholders include:

a) The annual report is published electronically on our website and a printed copy of the annual report is distributed to shareholders on request.

   A copy of the full annual report is available to any shareholder that requests it, free of charge.

   The Board ensures that the annual report includes relevant information about operations during the year, in addition to any other disclosures required by law.

   The annual report forms the primary source of publically available information about the business.

b) The half-year report contains summarised financial information and a review of the operations during the period. The half-year report is prepared in accordance with the requirements of Accounting Standards and the Corporations Act, and is lodged with ASIC and ASX.

c) The Board encourages full participation by shareholders at the AGM.

d) Information released to the ASX and the Company's corporate governance policies are published and accessible at www.pacificstarnetwork/investors/policy documents.

e) For formal meetings an explanatory memorandum on the resolutions is included with the notice of meeting and important issues are presented to shareholders as separate resolutions.

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# Corporate Governance Statement Cont'd

**PRINCIPLE 7 – Recognise and manage risk**

***Recommendation 7.1: The board or appropriate board committee should establish policies on risk oversight and management.***

The Board has adopted a Risk Management policy that addresses how the Board oversees the management of key business risks within the business. The policy takes account of:

- Definition of key risks;
- Identification of material business risks;
- Implementing mitigating actions and reporting on how these are managed.
- The recognition of risk as any adverse exposure to events that could affect the its ability to discharge its responsibilities to its stakeholders and / or meet its objectives.

The senior management team has responsibility for the day-to-day implementation of the risk management framework and the internal controls that operate within the business.

Senior management reports regularly to the Board through the Chief Executive Officer on key business risks and the extent to which it believes these risks are being adequately managed / mitigated.

***Recommendation 7.2: The board should require management to design and implement the risk management and internal control system to manage material business risks.***

Risks are managed based on probability of occurrence and the impact of such an event is rated on a scale of impact to our reputation and / or financial performance to build up a robust matrix of the material business risks within the business, that require ongoing focus and management.

Risk management is considered part of day to day business and is comprised of risk oversight, management and internal controls operating at all levels of the business. The priority attributed to managing / mitigating specific risks can and does vary over time.

The senior management team manages the process to monitor and report risk at different operational levels and the ongoing effectiveness of managing business risks is regularly reviewed by directors'.

***Recommendation 7.3: The board should disclose whether it has received assurances from the CEO and CFO that the declaration provided in accordance with section 295A of the Corporations Act is founded on a sound system of risk management and internal control and that the system is operating effectively in all material respects in relation to financial reporting risks.***

In accordance with section 295A of the *Corporations Act 2001*, the Chief Executive Officer and Chief Financial Officer have provided declarations in writing to the Board, that in their view the financial reports are founded on a sound system of risk management and internal compliance and control which implements the policies adopted by the Board and the risk management and internal compliance and control systems are operating effectively in all material respects.

The Board's view is that this recommendation was fully complied with during the reporting period.

# Corporate Governance Statement Cont'd

**PRINCIPLE 8 – Encourage enhanced performance**

***Recommendation 8.1: The board should establish a remuneration committee.***

***Recommendation 8.2: Structure the remuneration committee so that it consists of:***

a) only non executive Directors

b) a majority of independent Directors

c) an independent chairperson, who is not chairperson of the board

d) at least three members, and

The Board has formed the view that this responsibility should be overseen by the full Board.

The Board regularly reviews the remuneration packages and policies applicable to the Chief Executive Officer and senior management team.

***Recommendation 8.3: Clearly distinguish the structure of non-executive Directors' remuneration from that of executives.***

Directors' and key management personnel remuneration is disclosed in detail in the Directors' report and notes to these financial statements.

The principles, details of remuneration and terms of contracts are also outlined in the remuneration report section of the Directors' report and the appointment of all senior executives and board members is approved by the full board.

Non-executive Directors are remunerated by way of fees and statutory superannuation contributions (where applicable).

Directors' do not receive any additional retirement benefits nor do they currently participate in any other incentive arrangement/(s) such as the Employee Share Option Plan or Exempt Employee Share Plan.

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# Additional Stock Exchange Information
as at 3 September 2014

## Number of Holders of Equity Securities

### *Ordinary Share Capital*

53,061,051 fully paid ordinary shares held by 638 individual shareholders.

All issued ordinary shares carry one vote per share.

### *Options*

Six hundred and eighty thousand options are held by three individual option holders.

Share options do not carry the right to vote.

## Distribution of Holders of Equity Securities

| | Fully Paid Ordinary Shares | Issued Share Options |
|---|---|---|
| 1 - 1,000 | 150 | - |
| 1,001 - 5,000 | 275 | - |
| 5,001 - 10,000 | 87 | - |
| 10,001 - 100,000 | 90 | 1 |
| 100,001 - and over | 36 | 2 |
| Total Holders | 638 | 3 |
| Holdings less than a marketable parcel | 229 | - |

## Substantial Shareholders

The following substantial holding notices have been provided to the Company.

| Ordinary Shareholders | Fully Paid Ordinary Shares | % of Issued Capital |
|---|---|---|
| Yarragene Pty Ltd / Denman Audio Pty Ltd | 7,610,136 | 14.30% |
| Wyllie Funds Management Pty Ltd | 6,400,000 | 12.02% |

In May of this year, your Board welcomed Wyllie Funds Management Pty Ltd to the share register with a 12% shareholding and the Herszberg family company interests further increased their holding from 8.1% to 14.3%.

These holdings were acquired from The Opal Trust, who held an 18.3% shareholding.

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# Additional Stock Exchange Information Cont'd
as at 3 September 2014

## Twenty Largest Holders of Quoted Equity Securities

| Rank | Name | Units | % of Units |
|---|---|---|---|
| 1. | ROSH HAGIBORIM PTY LTD | 10,312,738 | 19.44 |
| 2. | RADIO 3AW MELBOURNE PTY LIMITED | 7,932,357 | 14.95 |
| 3. | WYLLIE FUNDS MANAGEMENT PTY LTD | 6,400,000 | 12.06 |
| 4. | TALKTOEDITH PTY LTD | 4,245,746 | 8.00 |
| 5. | KARAPHONE PTY LTD | 3,977,133 | 7.50 |
| 6. | YARRAGENE PTY LTD <YENZIK NO 1 A/C> | 3,283,003 | 6.19 |
| 7. | INSTANT HOLLYWOOD PTY LTD | 1,410,000 | 2.66 |
| 8. | KEMBLA NO 20 PTY LTD | 1,343,750 | 2.53 |
| 9. | MINERALOGY PTY LTD | 1,316,896 | 2.48 |
| 10. | MASTIFF NOMINEES PTY LTD <RAYLIN DIRECTORS RETIRE A/C> | 1,252,621 | 2.36 |
| 11. | QUATTRO HOLDINGS PTY LTD <QUATTRO INVESTMENT #2 A/C> | 883,575 | 1.67 |
| 12. | COWOSO CAPITAL PTY LTD <THE COWOSO S/F A/C> | 701,929 | 1.32 |
| 13. | LESTWICK HOLDINGS PTY LTD <LESTWICK P/L SUPER FUND A/C> | 667,500 | 1.26 |
| 14. | EKSELMAN PTY LTD <HANDK SUPER FUND A/C> | 607,227 | 1.14 |
| 15. | MR EDWARD JAMES STEPHEN DALLY + MRS SELINA DALLY <LEKDAL FAMILY A/C> | 467,162 | 0.88 |
| 16. | LOCOPE PTY LTD | 395,000 | 0.74 |
| 17. | DENMAN AUDIO PTY LTD <THE DENMAN AUDIO P/F A/C> | 350,000 | 0.66 |
| 18. | MR DAVID DAVIDSON | 300,000 | 0.57 |
| 19. | INSTANT HOLLYWOOD PTY LTD | 296,786 | 0.56 |
| 20. | CAMERON WILLIAMS PTY LIMITED <SUPERANNUATION FUND ACCOUNT> | 280,000 | 0.53 |
| **Top 20 holders of ORDINARY FULLY PAID SHARES (TOTAL)** | | **46,423,423** | **87.49** |
| **Total Remaining Holders Balance** | | **6,637,628** | **12.51** |

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