

29 August 2018

Dear Fellow YBR Shareholders

RE: YBR STRATEGY & RESULTS

I would like to take this opportunity to communicate with you, in greater than usual detail, about:

- the “market/investment proposition” for Yellow Brick Road Holdings Limited (**YBR** or the **Company**);
- what YBR has achieved since it listed on the Australian Securities Exchange (**ASX**) in 2011;
- the FY2018 Results;
- the considerable restructuring that we have undertaken during the FY2018 year;
- what is planned in the FY2019 Business as Usual (**BAU**) Strategy; and
- our intentions with our Securitisation Strategy.

It is a big agenda, but it is the right time with the structural shift that has occurred in the last 12 months in the mortgage and broader financial services sector.

We are taking this approach to show what may not have been apparent to some shareholders or the public about how YBR has been investing in improving the scalability and efficiency of the business, and how YBR has been working diligently towards capturing an exciting market opportunity that is presenting itself. The timing of this FY2019 Strategy disclosure has also been brought forward partly because of recent events whereby a subsidiary of Mercantile Investment Company Limited (**MVT**) has made an announcement of a takeover offer for all of YBR’s shares (**Takeover Offer**). We would like YBR shareholders to better understand what YBR is and where it intends to go before they receive any Takeover Offer documentation.

Please note that YBR’s formal detailed response to the Takeover Offer will be forwarded to shareholders in due course in the YBR Target’s Statement but, in the interim, the YBR Directors re-iterate their advice that you do nothing with your YBR shareholding.

A. The YBR Group Market & Investment Proposition

My original rationale for establishing YBR was to address an unmet need in the financial services sector for an alternate lender and adviser. At its core, this was to build a wealth creation business that leverages the centrepiece of wealth for most Australians (ie the family home, and the aspirational investment property) through a proven mortgage-based customer acquisition model, with the provision of additional wealth generating strategies for young and middle aged families, as well as retirees.

The logic for this strategy is clear. By spending money on customer acquisition, one should have a whole-of-life proposition and product set. By leveraging its mortgage offering, YBR can introduce wealth creation far earlier in a family’s life cycle and decision timeframe, providing access to advice to enable them to focus on long term wealth creation commencing from mortgage settlement. In addition, the significant permission inherent in establishing new mortgage relationships enables YBR to efficiently leverage the information capture process to additionally deliver long term wealth creation strategies.

This enables YBR to provide a seamless offering that is free of the barriers inherent with the traditional bank model and captures a market that most other wealth companies ignore until pre-retirement. Fundamentally, it also enables YBR to generate multiple robust long-term annuity streams that are complementary – wealth increases as home loans are paid down.

B. The YBR Group Today

YBR is a young company compared to its listed peers, the benefit of which is that it has been able to establish a 'fit for purpose' whole-of-life wealth business from the ground up. Whilst this has taken longer than first envisaged and has involved some well documented challenges along the way, YBR is on track to becoming one of the leading non-bank financial services companies in Australia.

Another significant benefit of its young history is that YBR is an agile business that is able to take advantage of the emerging opportunities from macro-prudential and other regulatory controls that are impacting more onerously on the larger established banks and financial institutions.

In its brief history since it listed on the ASX in 2011, YBR has established the following horizontally and vertically integrated assets and businesses:

1. A Strong Brand:

We have achieved this via:

- Our prominent YBR-branded physical shopfront branch network that creates a strong local market presence and awareness.
- A significant relationship with the Nine Entertainment Group (**NEC**) as an 18% shareholder in YBR and a major contributor to leveraging YBR's brand equity.
- The translation of awareness to YBR from the association with my personal brand, consumer reach and media channels via The Apprentice/Celebrity Apprentice TV series, The Mentor TV series, mentored.com.au, and my standing via my chairing of or participation in various regulatory taskforces and industry reviews and other media commentary.

2. Loan Books and Lending Platforms with Scale:

Together with its \$47.6b underlying "book" of loans under management, YBR has a significant national mortgage distribution network of local business owners in numerous communities across Australia utilising diversified business models suited to their maturity and preference involving independent and branded brokers, direct to customer channels and wholesale mortgage provision. We have done this via:

- The YBR-branded physical "shopfront" franchise network. We now have a footprint of 117 YBR contracted and active franchisees with over 180 accredited business writers. This network has an underlying mortgage book of \$7.3b as at 30 June 2018, and with average mortgage settlements per month of \$185m to June 2018.
- The Vow "independent broker" network. Vow is estimated to be the 4th largest mortgage aggregator in Australia with a footprint of 529 independent active broking firms, with over 1200 accredited business writers. This network has an underlying mortgage book of circa \$38.5b as at 30 June 2018, and with average mortgage settlements per month of \$948m to June 2018.
- The Resi/Loan Avenue "mortgage manager" wholesale business. This business has a credit decisioning capacity, which is important as it adds greater control over the certainty and speed of approval and direction of allocation of funding of any mortgage application, and allows the YBR Group to be a "manufacturer" of mortgage products via separate wholesale funding lines from the likes of Bank of Adelaide/Bendigo Bank, Advantedge, Resimac, etc. The Resi/Loan Avenue business has an underlying mortgage book of circa \$1.8b as at 30 June 2018, and with average mortgage settlements per month of \$28m to June 2018.

3. Growing Wealth Platform that provides Margin:

Given the dominance of the mortgage business within the overall YBR Group, it is often overlooked that it has a small but significant and growing wealth business. This division offers the following suite of products and services, mainly through its YBR branch network and head office teams:

- Advice
- Life, Total Permanent Disability, Trauma, Income Protection Insurances
- Investments & Superannuation

- General Insurance Broking

YBR also has a profitable cash/interest trust distribution, management and investment business known as Smarter Money Investments (**SMI**), which is 50% owned by YBR. This business manages 3 funds which collectively are rated by 6 research agencies, are listed on over 50 approved product lists (**APLs**) and 24 investment management platforms, and have over 80 Australian Financial Services Licensees (**AFSLs**) supporting and having clients invested in its funds. It is consistently ranked in the top quartile of its peers in terms of gross, net and risk-adjusted returns.

Overall, as at 30 June 2018, the wealth business had funds under management (**FUM**) (attributable to YBR via its 50% indirect SMI interests and its other 100% direct interests) of \$1.049b and premiums under management/gross written premiums (**PUM**) of \$18m p.a. These are annuity-style income products, with strong margins.

4. Market Leading Compliance & Training Platform:

Given the increasing regulation prevalent in the mortgage and wealth industries, to stay ahead YBR has developed an industry leading compliance and training platform called YBR & Vow Professional, which has been positively received by both ASIC and several banks. It encompasses the following components, set out in on-line and physical modules:

- Induction Program
- Accreditation Processes
- Continuing Training and Professional Development
- Audit and Remediation Programs
- YBR and Vow Chat – an online Q&A option to enable our business writers to ask questions and to receive answers from our expert staff and partners.

This platform is currently only available to the YBR and Vow networks, but it is intended in the future to be offered to external parties to generate additional revenues.

C. FY2018 Results Summary & Commentary

In the circumstances of the significant headwinds that have surrounded the financial services market in the last 12 months, I am pleased with our FY2018 Results.

We made a small Comprehensive Net Loss of \$0.64m (FY2017 Comprehensive Net Profit of \$1.18m). This result was mainly impacted by a \$5.1m reduction in the contribution from non-cash revenue. Despite this, it was pleasing to see the following:

- a \$9.5m increase in total revenue to \$230.7m (FY2017: \$221.3m)
- a \$13.0m increase in recurring revenue to \$97.1m (FY2017: \$84.1m)
- an increase in the proportion of recurring revenue to 52% of total cash revenue (FY2017: 46%)
- a \$1.3m increase in cash gross profit to \$32.1m (FY2017: \$30.7m)
- a \$1.7m improvement in cash EBITDA* to \$1.8m (FY17: \$0.1m)
- a \$4.8m improvement in operating cash surplus to \$2.4m (FY17: deficit of \$2.3m)
- a 2% decrease in operating costs by \$0.5m to \$33.6m

(* Cash EBITDA excludes non-cash trail gross profit recognised in advance - ie NPV)

Set out below is a summary of YBR's FY2018 performance and pertinent balance sheet items, as well as other key financials:

Summary Items (\$m)	2018	2017	Var \$	% var
REVENUE				
Cash revenue				
Origination	85.0	97.7	(12.7)	(13%)
Recurring	97.1	84.1	13.0	15%
Sponsorship & volume bonus	2.3	2.4	(0.1)	(3%)
Other revenue	1.2	0.2	1.0	613%
Total cash revenue	185.5	184.3	1.2	1%
Trail income recognised in advance	45.2	37.0	8.3	22%
Total revenue	230.7	221.3	9.5	4%
Origination % of total cash revenue	46%	53%	-7%	
Recurring % of total cash revenue	52%	46%	7%	
GROSS PROFIT				
Cash Gross Profit				
Origination	7.3	11.8	(4.6)	(39%)
Recurring	21.4	16.2	5.2	32%
Sponsorship & volume bonus	1.9	2.4	(0.4)	(19%)
Other revenue	1.4	0.3	1.1	374%
Total cash gross profit	32.1	30.7	1.3	4%
Trail gross profit recognised in advance	0.2	5.4	(5.1)	(96%)
Total gross profit	32.3	36.1	(3.8)	(11%)
Cash gross profit margin	17.3%	16.7%	0.6%	
Origination % of total cash gross profit	23%	39%	-16%	
Recurring % of total cash gross profit	67%	53%	14%	
Costs	(33.6)	(34.1)	0.5	2%
Net Profit Before Taxation	(1.3)	2.0	(3.3)	(162%)
NET PROFIT AFTER TAX	(0.7)	1.0	(1.7)	
EBITDA				
Reported (Inc non cash revenue)	2.1	5.5	(3.4)	
Excluding non cash trail gross profit recognised in advance	1.8	0.1	1.7	
Cash Flow				
Operating	2.4	(2.3)	4.8	
Investing	(2.1)	(0.5)	(1.6)	
Financing	0.0	1.1	(1.1)	
Total				
Closing cash	5.4	5.1	0.4	6.9%
Closing debt	8.7	8.7	0.0	0.0%
Closing net debt	(3.2)	(3.6)	0.3	(9.5%)
NPV of underlying loan book	50.3	49.9	0.4	0.8%
Net tangible assets	37.7	38.6	(0.9)	(2.3%)
EBITDA reconciliation				
Net profit (loss) after tax	(0.7)	1.0	(1.7)	
Add depreciation & amortisation	2.7	2.7	(0.0)	
Add interest expense	0.7	0.8	(0.1)	
Add income tax (benefit) expense	(0.6)	1.0	(1.6)	
EBITDA: Reported (Inc non cash revenue)	2.1	5.5	(3.4)	
Trail gross profit recognised in advance	0.2	5.4	(5.1)	
EBITDA: Excluding non cash revenue	1.8	0.1	(1.7)	

D. Summary of FY2018 Growth Initiatives and Restructuring

In FY2018 YBR commenced various key initiatives with the primary aim to:

- enhance the overall team by recruiting highly skilled, experienced and market respected executives
- align distribution, manufacturing, funding and support areas to establish a solid foundation to build a low cost and efficient operation to sponsor growth and maximise profit
- invest in real time systems and tools to align our management, network and clients.

These initiatives and work completed by the team resulted in a number of important achievements which I would like to recognise, specifically:

1. Adoption of a new Business Architecture

YBR achieved financial and headcount benefits through implementing a revised Organisational Structure by:

- integrating the Adelaide Loan Avenue processing operation with the Resi Sydney operation, reducing headcount by 10 FTEs;
- reducing YBR's FTEs from a peak of 157 (including full time, part time, contractors) to 131;
- recruiting a number of experienced executives:
 - GM YBR Retail (replacement)
 - YBR Recruitment and Training (replacement)
 - In-house lawyer (replacement)
 - Head of Compliance (replacement)
 - Head of Learning & Development (replacement)
 - Financial Controller (replacement)
 - GM Revenue and MIS (new role)
 - Head of HR (new role).

2. Rationalising the Distribution Footprint and Productivity

A strategy to rationalise the YBR branch footprint and to reduce the number of high volume but low economic value advisors in the Vow network was implemented. This and some other factors contributed to a reduction in loan settlement volumes during the year, specifically:

- The active management of non-performing YBR branches during FY 2018 resulted in reduction in the branch footprint from 124 to 117. This proactive action was implemented to support focus on increased productivity in high value franchises whilst identifying new franchisees and growth territories to expand the YBR footprint.
- The limited platform functionality of the legacy Vow platform not only inhibited VOW's capacity to attract new broker partners but also contributed to a decline in broker partner numbers during the year. To address this, VOW has built a new and market leading, lending, advice and customer management platform called Vownet. The roll-out of the Vownet platform is expected to drive an increase in broker groups and settlement volumes in FY 2019.

3. Investing in Systems and Platforms

YBR continued its significant investment in key operational systems and platforms, investing a total of \$3.4 million for the 2018 financial year. Major investments included:

- Vownet, as highlighted above.
- Money Manager, which is a sophisticated financial fitness tool and personal cash flow manager powered by live market data. Money Manager provides the YBR network with the tools to navigate changing credit underwriting requirements whilst also strengthening the responsible lending process.
- Business Intelligence, a reporting platform to support an agile business through proactive portfolio management. Business Intelligence will provide franchised networks with increased key business reporting, including real time analytics and trend analysis.

- YBR & Vow Professional, (as mentioned earlier) YBR's market leading compliance and training platform. This was specifically designed and built for the YBR and Vow networks and provides scalable and efficient compliance and training capabilities which can be rolled out externally.

E. Summary of FY2019 BAU Strategy

We look forward to FY2019 with confidence in that the work and restructuring YBR completed in FY2018 will position and support growth in a number of our key businesses, human talent and resources:

1. Lending, in which we aim to:

- diversify YBR's revenue base by increasing the retail mortgage product offering;
- expand the existing Vow commercial business by combining and embedding it with the YBR network for commercial, leasing, equipment finance and SME lending;
- grow YBR's new business settlements across residential, commercial and wealth divisions assisted by market momentum and recruitment of new branches;
- integrate proactive distribution initiatives to increase wealth product sales penetration into the YBR and Vow networks and average loan settlements per branch;
- expand our sales footprint into geographic growth corridors and the eastern seaboard; and
- build out our BDM team to nurture prospective franchise owners and mobile sales people to grow new business flow.

2. Wealth, in which we aim to:

- expand the SMI cash/fixed interest product into new APLs, investment platforms and AFSLs;
- migrate the YBR Super offering to Morningstar platform models;
- increase our fund manager & insurance product suites, advocacy and penetration across our customers, advisers and brokers; and
- accelerate expansion of Wealth distribution business through launching Exchange IQ to increase product sales through recruiting new advisers and brokers.

3. Resi, in which we aim to:

- reintroduce the Resi Home Loan brand to the network and greater market with a specific strategy to:
 - establish Resi as the primary go-to funder for various credit gaps not serviced by mainstream lenders; and
 - extend Resi sales footprint internally and externally across broker networks; and
- build a new Resi securitisation funding programme to assist and enable YBR to fill the void created through reduced lending appetite of the banks resulting from APRA's new macro-prudential controls (see **Section F** below).

4. Our People are key to YBR's growth and success, so we aim to:

- identify and recruit experienced and market respected leaders to inspire, coach and mentor our staff and network; and
- continue to refine and implement revised organisation structure which aligns experience and skill sets to key roles within YBR to support growth opportunities.

F. Securitisation Strategy

YBR shareholders may recall that we announced in FY2016 that YBR was considering establishing its own securitisation programme. To that end, we have undertaken a large amount of work which resulted in:

- the employment of a well-known securitisation specialist with detailed expertise and in-house experience in operating a securitisation business, running treasury functions, being a senior analyst at

a major rating agency, and a senior executive in origination and sales distribution and underwriting within the debt capital markets team of a major international investment bank;

- the development and stress testing of detailed financial modelling and a business case;
- the establishment of a securitisation master trust structure;
- the engagement of a well-respected trustee and a mortgage servicer and other service providers;
- designing product sets and features and documenting credit policies and manuals;
- a significant systems build to map servicing processes and create interfaces with our transactional bankers and the trustee and mortgage servicer.

Work was suspended on this major initiative during FYs 2017 and 2018 to wait for more favourable market conditions and allow YBR to implement other important internal projects.

However, the YBR Directors believe the market timing is now ripe. This is because we believe there has been a **structural shift** in the mortgage market in the last 12 months. This structural shift is evident by:

- APRA & ASIC imposed macro-prudential controls – eg the introduction of caps and other restrictions on foreign resident, investor and interest only loans;
- severe tightening by Australian banks of serviceability criteria and income and expense verification processes;
- Australian banks retreating away from certain categories of lending products
- the proliferation of acquisitions by major global private equity firms seeking mortgage and finance sector exposure – eg KKR's acquisition of Pepper, Blackstone's acquisition of LaTrobe, Cerebus' acquisition of Bluestone.

This activity clearly points to an under-serviced gap in the mortgage market product set creating a significant opportunity for the YBR group to address:

- Self-employed lending
- SME business lending
- >80% LVR loans
- Investor loans
- Interest only loans
- SMSF loans
- Foreign loans
- Other specialist lending products.

Yet, despite the unfulfilled demand in the above product categories, there still exist strong fundamentals that underpin the mortgage market and any securitisation initiative:

- Strong population growth of circa 1.7% pa over the last 10 years to December 2017, which is expected to continue with expectation of near doubling of population by 2061 (source ABS);
- The overall mortgage market still continues to grow. In the last 10 years to March 2018 total residential mortgage outstandings in Australia have grown at 6.7% CAGR and in the last 12 months to June 2018 total new residential settlements have been \$389b (source ABS);
- Growth in the non-bank/broker originated mortgage business spiked to 56% of the total mortgage market in September 2017 from 50% in June 2016 (source CoreLogic);
- The supply of mortgage funding via domestic RMBS issuance during CY2017 has been at its highest levels ever at over A\$33b, exceeding pre-GFC levels (source Macquarie Debt Capital Markets);
- Continued low RMBS arrears of 1.38% as at June 2018 (source S&P).

In effect, securitisation is the next step in YBR's mortgage strategy. Such a programme will generate "own" funding via the domestic and/or international debt capital markets. The intention is to replicate what I did after we created Wizard Home Loans and eventually merged it with the Australia Mortgage Securities business during the years between 2001 – 2004 inclusive. This is an essential value enhancing component in our overall mortgage strategy. It affords deeper ownership of the mortgage value chain whereby we have control over the underlying mortgages and "net interest margin" similarly to a bank, as opposed to merely being a broker and the recipient of commission-based income.

As one critical step to achieve this, YBR will need a warehouse facility for the programme. Discussions with potential warehouse providers are reasonably advanced and the Company has received a number of indicative detailed term sheets, which we intend to progress.

Additionally, other critical steps for YBR include the need to source mezzanine and equity “skin-in-the-game” funding for the programme, as well as working capital for the securitisation servicer / trust manager business. YBR has begun planning the sourcing of this capital, but at this date it has not yet begun to implement these plans.

It is noted that there is no guarantee that any definitive transaction documentation for any warehouse facility will be executed, nor that any or all capital required for the intended securitisation programme will be raised.

I trust the above will assist in your greater understanding of what we are and hope to be.

Yours faithfully



Mark Bouris
Executive Chairman

Yellow Brick Road Holdings Limited
Appendix 4E
Preliminary final report

1. Company details

Name of entity:	Yellow Brick Road Holdings Limited
ABN:	44 119 436 083
Reporting period:	For the year ended 30 June 2018
Previous period:	For the year ended 30 June 2017

2. Results for announcement to the market

			\$'000
Revenues from ordinary activities	up	3.9% to	227,365
Loss from ordinary activities after tax attributable to the owners of Yellow Brick Road Holdings Limited	down	163.6% to	(658)
Loss for the year attributable to the owners of Yellow Brick Road Holdings Limited	down	163.6% to	(658)

Dividends

There were no dividends paid, recommended or declared during the current financial period.

Comments

The loss for the consolidated entity after providing for income tax amounted to \$658,000 (30 June 2017: profit of \$1,035,000).

Further information on the review of operations, financial position and future strategies is detailed in the Directors' report attached as part of the financial statements.

Earnings before interest expense, tax, depreciation and amortisation ('EBITDA') after excluding other non-operating expenses for the consolidated entity ('Underlying EBITDA') was a profit of \$885,000 (2017: profit of \$5,202,000). This is calculated as follows:

	Consolidated	
	2018	2017
	\$'000	\$'000
(Loss)/profit after income tax	(658)	1,035
Add: Depreciation and amortisation	2,670	2,694
Add: Interest expense	665	788
Less: Income tax (benefit)/expense	(596)	973
EBITDA	2,081	5,490
Add: Other non-operating expenses - cash and non-cash *	159	846
Less: Gain on revaluation of underlying loan book	(1,355)	(1,361)
Add: Loss on disposal of assets classified as held for sale	-	227
Underlying EBITDA	<u>885</u>	<u>5,202</u>

* Other non-operating expenses - cash and non-cash, represent one-off acquisition costs and are considered non-operating in nature.

Key features of underlying EBITDA result were:

- Revenue from continuing operations increased by 4% to \$227,365,000 (2017: \$218,626,000)
- Underlying loan book size increased by 8.0% to \$47,640 million (2017: \$44,075 million)
- Embedded loan book value increased by 0.7% to \$50.26 million (2017: \$49.90 million)
- Embedded loan book value per ordinary share is 18 cents (2017: 18 cents)
- Underlying funds under management increased by 31.7% to \$1,499 million (2017: \$1,138 million)
- Premiums under management increased by 10.6% to \$18.2 million (2017: \$16.45 million)

Yellow Brick Road Holdings Limited
Appendix 4E
Preliminary final report

More in-depth analysis of performance and strategy will be included with the investor update which will be released in conjunction with the Annual Report.

3. Net tangible assets

	Reporting period Cents	Previous period Cents
Net tangible assets per ordinary security	<u>13.36</u>	<u>13.72</u>

4. Control gained over entities

Not applicable.

5. Loss of control over entities

Not applicable.

6. Dividend reinvestment plans

Not applicable.

7. Details of associates and joint venture entities

Name of associate / joint venture	Reporting entity's percentage holding		Contribution to (loss)/profit (where material)	
	Reporting period %	Previous period %	Reporting period \$'000	Previous period \$'000
Smarter Money Investments Pty Ltd	50.00%	50.00%	2,053	1,327
<i>Group's aggregate share of associates and joint venture entities' (loss)/profit (where material)</i>				
(Loss)/profit from ordinary activities before income tax			2,053	1,327

8. Foreign entities

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

Not applicable.

9. Audit qualification or review

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

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

Yellow Brick Road Holdings Limited
Appendix 4E
Preliminary final report

10. Attachments

Details of attachments (if any):

The Annual Report of Yellow Brick Road Holdings Limited for the year ended 30 June 2018 is attached.

11. Signed



Signed _____

Date: 29 August 2018

Mark Bouris
Executive Chairman
Sydney

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Yellow Brick Road Holdings Limited

ABN 44 119 436 083

Annual Report - 30 June 2018

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Yellow Brick Road Holdings Limited

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General information

The financial statements cover Yellow Brick Road Holdings Limited as a consolidated entity consisting of Yellow Brick Road Holdings Limited and the entities it controlled at the end of, or during, the year. The financial statements are presented in Australian dollars, which is Yellow Brick Road Holdings Limited's functional and presentation currency.

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

Level 11
1 Chifley Square
Sydney NSW 2000

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

The financial statements were authorised for issue, in accordance with a resolution of directors, on 29 August 2018. The directors have the power to amend and reissue the financial statements.

Yellow Brick Road Holdings Limited

Corporate directory

30 June 2018

Directors	Mark Bouris (Chairman) Adrian Bouris Owen Williams John George
Company secretary	Richard Shaw
Registered office	Level 11 1 Chifley Square Sydney NSW 2000 Head office telephone: 02 8226 8200
Share register	Computershare Investor Services Pty Limited Level 2, Reserve Bank Building 45 St George Terrace Perth WA 6000 Shareholders Enquiries: 1300 787 272
Auditor	Grant Thornton Audit Pty Ltd Level 17 383 Kent Street Sydney NSW 2000
Solicitors	Landerer & Company Level 31 133 Castlereagh Street Sydney NSW 2000
Bankers	Commonwealth Bank of Australia Level 9, Tower 1201 Sussex Street, Sydney NSW 2000 St. George Bank 1 Chifley Square Sydney NSW 2000
Stock exchange listing	Yellow Brick Road Holdings Limited shares are listed on the Australian Securities Exchange (ASX code: YBR)
Website	www.ybr.com.au
Corporate Governance Statement	The Corporate Governance Statement which was approved at the same time as the Annual Report can be found at: https://www.ybr.com.au/investor-centre/corporategovernance

Yellow Brick Road Holdings Limited

Directors' report

30 June 2018

The directors present their report, together with the financial statements, on the consolidated entity (referred to hereafter as the 'consolidated entity') consisting of Yellow Brick Road Holdings Limited (variously referred to hereafter as 'Yellow Brick Road', 'YBR', the 'company' or 'parent entity') and the entities it controlled at the end of, or during, the year ended 30 June 2018.

Directors

The following persons were directors of Yellow Brick Road Holdings Limited during the whole of the financial year and up to the date of this report, unless otherwise stated:

Mark Bouris - Chairman
Adrian Bouris
Owen Williams
John George
Frank Ganis (appointed on 14 August 2017 and resigned on 18 January 2018)

Principal activities

During the financial year the principal continuing activities of the consolidated entity consisted of:

- Mortgage broking, aggregation and management services;
- Investment and wealth management services; and
- General insurance services.

Dividends

There were no dividends paid, recommended or declared during the current or previous financial year.

Review of operations

The loss for the consolidated entity after providing for income tax amounted to \$658,000 (30 June 2017: profit of \$1,035,000).

Earnings before interest expense, tax, depreciation and amortisation ('EBITDA') after excluding impairment charges and other non-operating expenses for the consolidated entity ('Underlying EBITDA') was a profit of \$885,000 (2017: profit of \$5,202,000). This is calculated as follows:

	Consolidated	
	2018	2017
	\$'000	\$'000
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Less: Gain on revaluation of underlying loan book	(1,355)	(1,361)
Add: Loss on disposal of assets classified as held for sale	-	227
Underlying EBITDA	885	5,202

* Other non-operating expenses - cash and non-cash, represent one-off acquisition costs and are considered non-operating in nature.

Key features of underlying EBITDA result were:

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Yellow Brick Road Holdings Limited

Directors' report

30 June 2018

More in-depth analysis of performance and strategy will be included with the investor update which will be released in conjunction with the Annual Report.

Significant changes in the state of affairs

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

Matters subsequent to the end of the financial year

On 20 August 2018, the consolidated entity received a Bidder's Statement issued by Mercantile OFM Pty Ltd (Bidder), a wholly-owned subsidiary of Mercantile Investment Company Ltd (ASX:MVT) (MVT), regarding an off-market takeover offer by the Bidder to acquire all of the ordinary shares in YBR ('YBR Shares') at a price of A\$0.09 in cash for each YBR Share (Takeover Bid). The company will respond formally to the Takeover Bid in its Target's Statement to be released after the date of this report, but in the interim the YBR Directors have advised YBR shareholders not to take any action whatsoever regarding their YBR Shares in response to the Takeover Bid.

On 25 June 2018, Yellow Brick Road Holdings Limited announced that wholly-owned subsidiaries Yellow Brick Road Investment Services Pty Ltd and Yellow Brick Road Wealth Management Pty Ltd had entered into a Book Sale and Purchase Agreement whereby INPRO Australia Pty Ltd, a professional financial advisory company will acquire service relationships, records and recurring revenues from approximately 150 private clients and their related wealth portfolio. This transaction is expected to complete by 31 August 2018.

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

Likely developments and expected results of operations

Information on likely developments in the operations of the consolidated entity and the expected results of operations will be detailed in the Annual Report to be released in October 2018.

Environmental regulation

The consolidated entity has complied with all regulations applicable to the financial services sector industry. It is not required to report under any specific environmental legislation.

Information on directors

Name:	Mark Bouris
Title:	Executive Chairman
Qualifications:	BCom (UNSW), MCom (UNSW), HonDBus (UNSW), Hon DLitt (UWS), F.C.A
Experience and expertise:	Mark Bouris is the Executive Chairman of Yellow Brick Road and has extensive experience in the finance and property sectors. Mark is also Non-Executive Director of TZ Limited and a board member of the Sydney Roosters. He is an Adjunct Professor at the UNSW Australia Business School and he sits on boards for the UNSW Business Advisory Council.
Other current directorships:	Non-Executive Director of TZ Limited (ASX:TZL)
Former directorships (last 3 years):	Non-Executive Chairman of Serena Resources Limited and Anteo Diagnostics Limited
Special responsibilities:	None
Interests in shares:	51,695,187 ordinary shares
Interests in options:	None
Interests in rights:	5,000,000 performance rights
Contractual rights to shares:	None

Yellow Brick Road Holdings Limited

Directors' report

30 June 2018

Name: Adrian Bouris
Title: Non-Executive Director
Qualifications: BCom (UNSW), LLB (UNSW)
Experience and expertise: Adrian Bouris is a Non-Executive Director of Yellow Brick Road and has extensive experience in investment banking and corporate and commercial law. He is currently a Principal and Managing Director of BBB Capital Pty Ltd, a boutique corporate advisory and investment company. Prior to founding BBB Capital Pty Ltd, Adrian was Managing Director of the Australian Investment Banking Division of ING Bank N.V., and was previously Director of SG Hambros Australia. He is also Director of The Surf Travel Company Holdings Pty Limited and Non-Executive Director of Surfing Australia and Momentum Media/Sterling Publishing Group.

Other current directorships: None
Former directorships (last 3 years): None
Special responsibilities: Member of the Audit and Risk Committee and the Investment Committee, and Chairman of Smarter Money Investments Pty Ltd
Interests in shares: 3,155,400 ordinary shares
Interests in options: None
Interests in rights: None
Contractual rights to shares: None

Name: Owen Williams
Title: Non-Executive Director
Qualifications: BEc (UNE), MTax (Melb), FAICD
Experience and expertise: Owen Williams is a Non-Executive Director of Yellow Brick Road and has extensive experience in investment management, finance and investment banking. He is currently Director of private consulting company ASIR Pty Ltd, and has previously held senior finance roles with Bain & Company, Babcock & Brown and Societe Generale. He is a former director of Tasmanian Ports Corporation.

Other current directorships: None
Former directorships (last 3 years): None
Special responsibilities: Chairman of the Audit and Risk Committee
Interests in shares: 498,250 ordinary shares
Interests in options: None
Interests in rights: None
Contractual rights to shares: None

Name: John George
Title: Non-Executive Director
Qualifications: BCom (QUT), FCPA, FAIM, AICD, ACIS
Experience and expertise: John George is a Non-Executive Director of Yellow Brick Road and has extensive experience in accounting, corporate strategy, governance, capital raising and investor relations. He is currently Director of private consulting firms Standard Edge and SGD Partners and previously held senior roles at ASIC and KPMG. He was CEO of an international insurance recovery firm with offices in North America, New Zealand and Australia and a former Non-Executive Director of Shine Lawyers and Gladstone Airport Corporation Limited. John was the Deputy President of The Governance Institute (Qld) and is currently a member of Public Companies Discussion Group. He holds advisory board roles with EWM and other leading Family Offices in Australia.

Other current directorships: None
Former directorships (last 3 years): None
Special responsibilities: Member of the Audit and Risk Committee
Interests in shares: 240,000 ordinary shares
Interests in options: None
Interests in rights: None
Contractual rights to shares: None

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

Yellow Brick Road Holdings Limited
Directors' report
30 June 2018

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

Company secretary

Richard Shaw is a Certified Practising Accountant and holds a Master of Business Administration from the University of Technology, Sydney. He has over 26 years' experience as a finance executive including roles as CFO at OzEmail Internet, BlueFreeway Limited (following its takeover by Independent Print Media Group) and CommSecure Limited.

Meetings of directors

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

	Full Board		Audit and Risk Committee	
	Attended	Held	Attended	Held
Mark Bouris *	8	8	-	-
Adrian Bouris	8	8	6	6
Owen Williams	8	8	6	6
John George	8	8	6	6
Frank Ganis	2	2	-	-

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

* Mark Bouris is not a member of the Audit and Risk Committee.

Remuneration report (audited)

The remuneration report, which has been audited, outlines the director and other key management personnel ('KMP') arrangements for the consolidated entity and the company, in accordance with the requirements of the Corporations Act 2001 and its Regulations.

KMP are defined as those who have the authority and responsibility for planning, directing and controlling the major activities of the consolidated entity.

The remuneration report is set out under the following main headings:

- Principles used to determine the nature and amount of remuneration
- Details of remuneration
- Service agreements
- Share-based compensation
- Additional information
- Additional disclosures relating to key management personnel

Principles used to determine the nature and amount of remuneration

The objective of the consolidated entity's executive reward framework is to ensure reward for performance is competitive and appropriate for the results delivered. The framework aligns executive reward with the achievement of strategic objectives and the creation of value for shareholders, and conforms with market best practice for delivery of reward. The Board ensures that executive reward satisfies the following key criteria for good reward governance practices:

- competitiveness and reasonableness;
- acceptability to shareholders;
- performance linkage / alignment of KMP compensation; and
- transparency.

The company does not have a dedicated Nomination and Remuneration Committee ('NRC'). The task of ensuring that the level of KMP remuneration is sufficient and reasonable and that its relationship to performance is clear is dealt with by the full Board. The performance of the consolidated entity depends on the quality of its KMP. The remuneration philosophy is to attract, motivate and retain high performance and high quality personnel.

Yellow Brick Road Holdings Limited

Directors' report

30 June 2018

This is achieved through adopting a remuneration structure that:

- rewards capability and experience;
- reflects competitive reward for contribution to growth in shareholder wealth; and
- provides a clear structure for earning rewards.

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

Non-executive directors' remuneration

Non-executive directors' fees and payments are reviewed periodically. The Board relies on advice from independent remuneration consultants, from time to time, to ensure non-executive directors' fees and payments are appropriate and in line with the market. Non-executive directors do not receive share options or other incentives.

ASX listing rules requires that the aggregate non-executive directors' remuneration shall be determined periodically by a general meeting. The most recent determination was at the Annual General Meeting held on 25 November 2014, where the shareholders approved an aggregate remuneration of \$300,000.

Executive remuneration

The executive chairman's fees are determined independently to the fees of non-executive directors and are based on comparative roles in the external market. The executive chairman is not present at any discussions relating to determination of his own remuneration.

The consolidated entity aims to reward KMP with a level and mix of remuneration based on their position and responsibility, which is both fixed and variable.

The KMP remuneration and reward framework has four components:

- base pay and non-monetary benefits;
- short-term performance incentives;
- share-based payments; and
- other remuneration such as superannuation and long service leave.

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

Fixed remuneration, consisting of base salary, superannuation and non-monetary benefits, is reviewed periodically, based on individual and business unit performance, the overall performance of the consolidated entity and comparable market remuneration.

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

Short-term incentives ('STI') are designed to align the targets of the business units with the performance hurdles of executives. STI payments are granted to KMP based on specific annual targets and key performance indicators ('KPI') being achieved.

Consolidated entity performance and link to remuneration

Remuneration for certain individuals is linked to their divisional performance and the performance of the consolidated entity, if relevant. Refer to section 'Details of remuneration' of the remuneration report for details.

Use of remuneration consultants

During the financial year ended 30 June 2018, the consolidated entity engaged Egan and Associates, remuneration consultants, to review its existing remuneration policies to assess and benchmark executive remuneration against market. The review determined that no company executive is in the top quartile of market comparatives. The review made specific observations regarding the Company's remuneration structure. The Company has adopted the recommendation in regard to STI and LTI plans and has engaged Egan and Associates to prepare an employee share plan. Egan and Associates was paid \$15,750 for services related to the remuneration review.

Yellow Brick Road Holdings Limited
Directors' report
30 June 2018

An agreed set of protocols were put in place to ensure that the remuneration recommendations would be free from undue influence from key management personnel. These protocols include requiring that the consultant not provide any information relating to the outcome of the engagement with the affected key management personnel. The Board is also required to make inquiries of the consultant's processes at the conclusion of the engagement to ensure that they are satisfied that any recommendations made have been free from undue influence. The Board is satisfied that these protocols were followed and as such there was no undue influence.

Voting and comments made at the company's 2017 Annual General Meeting ('AGM')

At the 2017 AGM, 90.82% of the votes received supported the adoption of the remuneration report for the year ended 30 June 2017. The consolidated entity did not receive any specific feedback at the AGM regarding its remuneration practices.

Details of remuneration

Amounts of remuneration

Details of the remuneration of the directors and other KMP of Yellow Brick Road Holdings Limited are set out in the following tables.

The KMP of the consolidated entity consisted of the directors of Yellow Brick Road Holdings Limited and the following persons:

- Richard Shaw - Chief Financial Officer and Company Secretary
- Adam Youkhana - General Manager - Wealth
- Clive Kirkpatrick - General Manager - VOW
- Glenn Gibson - General Manager - Lending (appointed on 9 April 2018)
- Andrew Rasby - General Manager - Lending (resigned on 30 April 2018)
- Scott Graham - Chief Commercial Officer (resigned on 24 December 2017)

	Short-term benefits			Post-employment benefits	Long-term benefits	Share-based payments		Total
	Cash salary and fees	Bonus	Non-monetary	Super-annuation	Long service leave	Equity-settled shares	Equity-settled options	
2018	\$	\$	\$	\$	\$	\$	\$	\$
<i>Non-Executive Directors:</i>								
Adrian Bouris	75,000	-	-	-	-	-	-	75,000
Owen Williams	68,493	-	-	6,507	-	-	-	75,000
John George	75,000	-	-	-	-	-	-	75,000
Frank Ganis *	25,000	-	-	-	-	-	-	25,000
<i>Executive Directors:</i>								
Mark Bouris (Chairman)	712,500	-	-	-	-	-	184,583	897,083
<i>Other Key Management Personnel:</i>								
Richard Shaw	300,548	-	4,614	25,000	8,121	-	-	338,283
Adam Youkhana	303,000	-	(2,217)	26,506	545	-	-	327,834
Clive Kirkpatrick	300,004	-	3,461	28,500	563	-	-	332,528
Glenn Gibson	69,615	-	5,266	5,205	15	-	-	80,101
Andrew Rasby **	267,717	-	-	21,618	-	-	-	289,335
Scott Graham **	206,274	-	-	19,658	-	-	-	225,932
	<u>2,403,151</u>	<u>-</u>	<u>11,124</u>	<u>132,994</u>	<u>9,244</u>	<u>-</u>	<u>184,583</u>	<u>2,741,096</u>

* Includes remuneration from his appointment date as a director, on 14 August 2017 until 18 January 2018 date of resignation as a director within the consolidated entity.

** Includes remuneration from beginning of the year to date of cessation as KMP within the consolidated entity.

Yellow Brick Road Holdings Limited
Directors' report
30 June 2018

2017	Short-term benefits			Post-employment benefits	Long-term benefits	Share-based payments		Total
	Cash salary and fees	Bonus	Non-monetary	Super-annuation	Long service leave	Equity-settled shares	Equity-settled options	
	\$	\$	\$	\$	\$	\$	\$	\$
<i>Non-Executive Directors:</i>								
Adrian Bouris	75,000	-	-	-	-	-	-	75,000
Owen Williams	68,493	-	-	6,507	-	-	-	75,000
John George	75,000	-	-	-	-	-	-	75,000
<i>Executive Directors:</i>								
Mark Bouris (Chairman)	1,125,000	-	-	-	-	-	320,000	1,445,000
<i>Other Key Management Personnel:</i>								
Matthew Lawler *	101,841	-	-	4,167	-	-	-	106,008
Richard Shaw	284,189	-	23,329	24,205	10,665	-	-	342,388
Scott Graham	350,000	-	(1,999)	30,479	333	-	-	378,813
Tim Brown *	160,110	-	-	9,808	-	-	-	169,918
Adam Youkhana	218,750	-	7,977	18,441	-	-	-	245,168
Andrew Rasby	182,775	-	4,807	14,908	-	-	-	202,490
Clive Kirkpatrick	173,081	-	1,169	9,500	-	-	-	183,750
	2,814,239	-	35,283	118,015	10,998	-	320,000	3,298,535

* Includes remuneration from beginning of the year to date of cessation as KMP within the consolidated entity.

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

Name	Fixed remuneration		At risk - STI		At risk - LTI	
	2018	2017	2018	2017	2018	2017
<i>Non-Executive Directors:</i>						
Adrian Bouris	100%	100%	-	-	-	-
Owen Williams	100%	100%	-	-	-	-
John George	100%	100%	-	-	-	-
Frank Ganis	100%	-	-	-	-	-
<i>Executive Directors:</i>						
Mark Bouris	80%	78%	-	-	20%	22%
<i>Other Key Management Personnel:</i>						
Matthew Lawler	-	100%	-	-	-	-
Richard Shaw	100%	100%	-	-	-	-
Scott Graham	100%	100%	-	-	-	-
Tim Brown	-	100%	-	-	-	-
Adam Youkhana	100%	100%	-	-	-	-
Andrew Rasby	100%	100%	-	-	-	-
Clive Kirkpatrick	100%	100%	-	-	-	-
Sean Preece	100%	-	-	-	-	-

Yellow Brick Road Holdings Limited
Directors' report
30 June 2018

Service agreements

KMP have no entitlement to termination payments in the event of removal for misconduct.

Non-executive directors do not execute service agreements on appointment to the Board.

The Executive Chairman, Mark Bouris, is engaged under a consultancy agreement between the company and Golden Wealth Holdings Pty Limited ('GWH'), a company controlled by Mark Bouris. The term of the consultancy agreement expires on 31 July 2019. A maximum fee of \$1,125,000 per annum is payable under this agreement. During the year ended 30 June 2018, a total consulting fee of \$712,500 has been charged.

Share-based compensation

Issue of shares

There were no shares issued to directors and other key management personnel as part of compensation during the year ended 30 June 2018.

Performance rights

On 29 August 2014, GWH (controlled by Mark Bouris) was granted 10,000,000 performance rights over ordinary shares of the company in four equal tranches of 2,500,000 each as part of his remuneration. The vesting conditions attached to these performance rights is to get the full stock price only if the future stock price exceeds the share target prices which varies by tranches. The performance rights do not vest unless the share price target for vesting is achieved.

The total fair value of the performance rights granted was \$1,475,000. The amount expensed during the year ended 30 June 2018 is \$185,000 (2017: \$320,000). Performance rights granted carry no dividend or voting rights.

The details of such grant of performance rights are as follows:

Grant date	Vesting date	Expiry date	Share price target for vesting	Fair value per option at grant date
29 August 2014	29 August 2017 *	29 August 2019	\$1.21	\$0.150
29 August 2014	29 August 2018	29 August 2019	\$1.45	\$0.150
29 August 2014	29 August 2019	29 August 2019	\$1.74	\$0.140

* These performance rights did not vest and lapsed during the year.

Options

There were no options over ordinary shares granted to, or vested in, directors and other KMP as part of compensation during the year ended 30 June 2018.

Additional information

The earnings of the consolidated entity for the five years to 30 June 2018 are summarised below:

	2018 \$'000	2017 \$'000	2016 \$'000	2015 \$'000	2014 \$'000
Sales revenue	227,365	218,626	215,203	155,734	29,846
(Loss)/profit after income tax	(658)	1,035	(9,528)	(2,554)	(8,759)

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

	2018	2017	2016	2015	2014
Share price at financial year end (\$)	0.09	0.12	0.18	0.48	0.65
Basic earnings per share (cents per share)	(0.23)	0.37	(3.42)	(0.96)	(4.50)

Yellow Brick Road Holdings Limited
Directors' report
30 June 2018

Additional disclosures relating to key management personnel

Shareholding

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

	Balance at the start of the year	Received as part of remuneration	Additions	Disposals/ other	Balance at the end of the year
<i>Ordinary shares</i>					
Mark Bouris	51,211,262	-	483,925	-	51,695,187
Adrian Bouris	3,155,400	-	-	-	3,155,400
Owen Williams	498,250	-	-	-	498,250
John George	-	-	240,000	-	240,000
Richard Shaw	60,714	-	-	-	60,714
	<u>54,925,626</u>	<u>-</u>	<u>723,925</u>	<u>-</u>	<u>55,649,551</u>

Performance rights holding

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

	Balance at the start of the year	Granted	Vested	Expired/ forfeited/ other	Balance at the end of the year
<i>Performance rights over ordinary shares</i>					
Mark Bouris*	7,500,000**	-	-	(2,500,000)	5,000,000
	<u>7,500,000</u>	<u>-</u>	<u>-</u>	<u>(2,500,000)</u>	<u>5,000,000</u>

* Performance rights were issued to GWH.

** The closing balance in the 2017 directors' report included 2.5 million rights which had lapsed. The opening balance, as shown above, includes only unexpired rights at the start of the year.

This concludes the remuneration report, which has been audited.

Options and performance rights

Share options and performance rights over unissued ordinary shares of Yellow Brick Road Holdings Limited issued at the date of this report are as follows:

Grant date	Expiry date	Number of options and performance rights
29 August 2014 *	29 August 2019	5,000,000
29 July 2015 **	27 September 2017	36,057
29 July 2015 **	30 November 2019	92,307
29 July 2015 **	27 September 2020	168,268
29 July 2015 **	31 October 2020	144,230
29 July 2015 **	7 February 2021	38,461
29 July 2015 **	30 November 2022	92,307
		<u>5,571,630</u>

* Performance rights granted to GWH, a company controlled by Mark Bouris. Refer to Note 30 for further details.

** Performance rights granted to the former Resi Branch owners. Refer to Note 36 for further details.

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

Yellow Brick Road Holdings Limited
Directors' report
30 June 2018

Shares issued on the exercise of options

There were no ordinary shares of the company issued on the exercise of options during the year ended 30 June 2018 and up to the date of this report.

Shares issued on the exercise of performance rights

The following ordinary shares of Yellow Brick Road Holdings Limited were issued during the year ended 30 June 2018 and up to the date of this report on the exercise of performance rights granted:

Date performance rights granted	Exercise price	Number of shares issued
29 July 2015	\$0.23	314,902

Indemnity and insurance of officers

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

During the financial year, the company paid a premium in respect of a contract to insure the directors and executives of the company against a liability to the extent permitted by the Corporations Act 2001. The contract of insurance prohibits disclosure of the nature of the liability and the amount of the premium.

Indemnity and insurance of auditor

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

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

Proceedings on behalf of the company

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

Non-audit services

Details of the amounts paid or payable to the auditor for non-audit services provided during the financial year by the auditor are outlined in note 27 to the financial statements.

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

The directors are of the opinion that the services as disclosed in note 27 to the financial statements do not compromise the external auditor's independence requirements of the Corporations Act 2001 for the following reasons:

- all non-audit services have been reviewed and approved to ensure that they do not impact the integrity and objectivity of the auditor; and
- none of the services undermine the general principles relating to auditor independence, including reviewing or auditing the auditor's own work, acting in a management or decision-making capacity for the company, acting as advocate for the company or jointly sharing economic risks and rewards.

Officers of the company who are former partners of Grant Thornton Audit Pty Ltd

There are no officers of the company who are former partners of Grant Thornton Audit Pty Ltd.

Rounding of amounts

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

Auditor's independence declaration

A copy of the auditor's independence declaration as required under section 307C of the Corporations Act 2001 immediately follows this report.

Yellow Brick Road Holdings Limited
Directors' report
30 June 2018

Auditor

Grant Thornton Audit Pty Ltd continues in office in accordance with section 327 of the Corporations Act 2001.

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

On behalf of the directors



Mark Bouris
Executive Chairman

29 August 2018
Sydney

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Auditor's Independence Declaration

To the Directors of Yellow Brick Road Holdings Limited

In accordance with the requirements of section 307C of the Corporations Act 2001, as lead auditor for the audit of Yellow Brick Road Holdings Limited for the year ended 30 June 2018, I declare that, to the best of my knowledge and belief, there have been:

- a no contraventions of the auditor independence requirements of the Corporations Act 2001 in relation to the audit; and
- b no contraventions of any applicable code of professional conduct in relation to the audit.

Grant Thornton

Grant Thornton Audit Pty Ltd
Chartered Accountants

Madeleine Mattera

Madeleine Mattera
Partner – Audit & Assurance

Sydney, 29 August 2018

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Yellow Brick Road Holdings Limited
Statement of profit or loss and other comprehensive income
For the year ended 30 June 2018

	Note	Consolidated 2018 \$'000	2017 \$'000
Revenue from continuing operations	4	227,365	218,626
Share of profits of joint ventures accounted for using the equity method	33	2,053	1,327
Gain on revaluation of underlying loan book		1,355	1,361
Expenses			
Commissions and consultancy expenses		(184,924)	(174,105)
Employee benefits expense		(16,776)	(17,358)
Depreciation and amortisation expense	5	(2,670)	(2,694)
Operating expenses		(11,520)	(10,596)
Occupancy expenses		(1,616)	(1,502)
Other non-operating expenses	5	(159)	(846)
Finance costs	5	(14,362)	(11,994)
(Loss)/profit before income tax benefit/(expense) from continuing operations		(1,254)	2,219
Income tax benefit/(expense)	6	596	(973)
(Loss)/profit after income tax benefit/(expense) from continuing operations		(658)	1,246
Loss after income tax expense from discontinued operations	7	-	(211)
(Loss)/profit after income tax benefit/(expense) for the year attributable to the owners of Yellow Brick Road Holdings Limited	22	(658)	1,035
Other comprehensive income			
<i>Items that may be reclassified subsequently to profit or loss</i>			
Gain on the revaluation of available-for-sale financial assets, net of tax		18	140
Other comprehensive income for the year, net of tax		18	140
Total comprehensive income for the year attributable to the owners of Yellow Brick Road Holdings Limited		(640)	1,175
Total comprehensive income for the year is attributable to:			
Continuing operations		(640)	1,386
Discontinued operations		-	(211)
		(640)	1,175

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

Yellow Brick Road Holdings Limited
Statement of profit or loss and other comprehensive income
For the year ended 30 June 2018

	Note	Consolidated 2018	Consolidated 2017
		Cents	Cents
Earnings per share for profit/(loss) from continuing operations attributable to the owners of Yellow Brick Road Holdings Limited			
Basic earnings per share	35	(0.23)	0.44
Diluted earnings per share	35	(0.23)	0.44
Earnings per share for loss from discontinued operations attributable to the owners of Yellow Brick Road Holdings Limited			
Basic earnings per share	35	-	(0.08)
Diluted earnings per share	35	-	(0.08)
Earnings per share for profit/(loss) attributable to the owners of Yellow Brick Road Holdings Limited			
Basic earnings per share	35	(0.23)	0.37
Diluted earnings per share	35	(0.23)	0.37

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

Yellow Brick Road Holdings Limited
Statement of financial position
As at 30 June 2018

	Note	Consolidated 2018 \$'000	2017 \$'000
Assets			
Current assets			
Cash and cash equivalents	8	5,415	5,073
Trade and other receivables	9	81,219	74,930
Deposits		471	469
Other	10	1,086	2,042
		<u>88,191</u>	<u>82,514</u>
Non-current assets classified as held for sale	12	164	-
Total current assets		<u>88,355</u>	<u>82,514</u>
Non-current assets			
Trail commission receivables		255,212	217,853
Investments accounted for using the equity method		468	130
Available-for-sale financial assets		371	353
Property, plant and equipment	13	562	657
Intangibles	14	35,282	34,681
Other		1,613	1,907
Total non-current assets		<u>293,508</u>	<u>255,581</u>
Total assets		<u>381,863</u>	<u>338,095</u>
Liabilities			
Current liabilities			
Trade and other payables	15	75,160	71,616
Borrowings		1,451	251
Provisions	16	2,417	2,582
Total current liabilities		<u>79,028</u>	<u>74,449</u>
Non-current liabilities			
Payables		4,453	-
Borrowings	17	7,200	8,320
Deferred tax	18	2,794	3,390
Provisions	19	159	157
Trail commissions payables		215,207	178,463
Total non-current liabilities		<u>229,813</u>	<u>190,330</u>
Total liabilities		<u>308,841</u>	<u>264,779</u>
Net assets		<u>73,022</u>	<u>73,316</u>
Equity			
Issued capital	20	109,963	109,792
Reserves	21	2,422	2,229
Accumulated losses	22	(39,363)	(38,705)
Total equity		<u>73,022</u>	<u>73,316</u>

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

Yellow Brick Road Holdings Limited
Statement of changes in equity
For the year ended 30 June 2018

Consolidated	Issued capital \$'000	Reserves \$'000	Accumulated losses \$'000	Total equity \$'000
Balance at 1 July 2016	109,672	1,740	(39,740)	71,672
Profit after income tax expense for the year	-	-	1,035	1,035
Other comprehensive income for the year, net of tax	-	140	-	140
Total comprehensive income for the year	-	140	1,035	1,175
<i>Transactions with owners in their capacity as owners:</i>				
Contributions of equity, net of transaction costs (note 20)	120	-	-	120
Share-based payments (note 36)	-	349	-	349
Balance at 30 June 2017	109,792	2,229	(38,705)	73,316
Consolidated	Issued capital \$'000	Reserves \$'000	Accumulated losses \$'000	Total equity \$'000
Balance at 1 July 2017	109,792	2,229	(38,705)	73,316
Loss after income tax benefit for the year	-	-	(658)	(658)
Other comprehensive income for the year, net of tax	-	18	-	18
Total comprehensive income for the year	-	18	(658)	(640)
<i>Transactions with owners in their capacity as owners:</i>				
Contributions of equity, net of transaction costs (note 20)	171	-	-	171
Share-based payments (note 36)	-	175	-	175
Balance at 30 June 2018	109,963	2,422	(39,363)	73,022

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

Yellow Brick Road Holdings Limited
Statement of cash flows
For the year ended 30 June 2018

	Note	Consolidated	
		2018 \$'000	2017 \$'000
Cash flows from operating activities			
Receipts from customers (inclusive of GST)		203,696	200,978
Payments to suppliers and employees (inclusive of GST)		(200,706)	(202,699)
		2,990	(1,721)
Interest received		55	47
Interest and other finance costs paid		(598)	(650)
Net cash from/(used in) operating activities	34	2,447	(2,324)
Cash flows from investing activities			
Payment for expenses relating to acquisitions		-	(816)
Payments for property, plant and equipment		(70)	(258)
Payments for intangibles		(3,270)	(1,372)
Payments for investment		(113)	-
Proceeds from disposal of business		1,348	1,932
Net cash used in investing activities		(2,105)	(514)
Cash flows from financing activities			
Proceeds from borrowings		-	1,057
Net cash from financing activities		-	1,057
Net increase/(decrease) in cash and cash equivalents		342	(1,781)
Cash and cash equivalents at the beginning of the financial year		5,073	6,854
Cash and cash equivalents at the end of the financial year	8	5,415	5,073

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

Note 1. Significant accounting policies

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

New or amended Accounting Standards and Interpretations adopted

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

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

Basis of preparation

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

Historical cost convention

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

Critical accounting estimates

The preparation of the financial statements requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the consolidated entity's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the financial statements, are disclosed in note 2.

Parent entity information

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

Principles of consolidation

The consolidated financial statements incorporate the assets and liabilities of all subsidiaries of Yellow Brick Road Holdings Limited ('company' or 'parent entity') as at 30 June 2018 and the results of all subsidiaries for the year then ended. Yellow Brick Road Holdings Limited and its subsidiaries together are referred to in these financial statements as the 'consolidated entity'.

Subsidiaries are all those entities over which the consolidated entity has control. The consolidated entity controls an entity when the consolidated entity is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power to direct the activities of the entity. Subsidiaries are fully consolidated from the date on which control is transferred to the consolidated entity. They are de-consolidated from the date that control ceases.

Intercompany transactions, balances and unrealised gains on transactions between entities in the consolidated entity are eliminated. Unrealised losses are also eliminated unless the transaction provides evidence of the impairment of the asset transferred. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the consolidated entity.

The acquisition of subsidiaries is accounted for using the acquisition method of accounting. A change in ownership interest, without the loss of control, is accounted for as an equity transaction, where the difference between the consideration transferred and the book value of the share of the non-controlling interest acquired is recognised directly in equity attributable to the parent.

Where the consolidated entity loses control over a subsidiary, it derecognises the assets including goodwill, liabilities and non-controlling interest in the subsidiary together with any cumulative translation differences recognised in equity. The consolidated entity recognises the fair value of the consideration received and the fair value of any investment retained together with any gain or loss in profit or loss.

Note 1. Significant accounting policies (continued)

Operating segments

Operating segments are presented using the 'management approach', where the information presented is on the same basis as the internal reports provided to the Chief Operating Decision Makers ('CODM'). The CODM is responsible for the allocation of resources to operating segments and assessing their performance.

Revenue recognition

Revenue is recognised at the fair value of consideration received or receivable.

Lending revenue includes the rendering of mortgage broking services and aggregation and management services. Wealth management revenue includes the rendering of investment and wealth management services and general insurance services.

The following specific recognition criteria must also be met before revenue is recognised:

Rendering of services – Investment and wealth management services

Revenue from the provision of investment and wealth management services is recognised on an accruals basis in the period in which the financial service or advice is given.

Mortgage broking services - Origination commissions

Revenue in the form of a commission generated on origination of mortgages is recognised as revenue on settlement of the loan. Commissions may be "clawed back" by lenders at a later date as per their individual policies.

Mortgage broking services - Trailing commissions

At the time of loan settlement, trailing commission revenue and the related receivable are recognised at fair value being the present value of the expected future trailing commissions to be received from the lending institution. An associated expense and payable to the franchisees and licensees is also recognised and measured at fair value being the present value of the expected future trailing commission payable to licensees.

Subsequent to initial recognition, both the trailing commission receivable and payable are measured at amortised cost. The carrying amounts of the receivable and payable are adjusted to reflect actual and revised estimated cash flows by recalculating the net present value of estimated future cash flows at the original effective interest rate. Any resulting adjustment to the carrying value is recognised in profit or loss.

Refer to Note 2 for the significant assumptions and estimates in measuring commission revenue.

General insurance services

Commissions received from underwriters based on the value of insurance premiums written, are recognised as revenue when relevant insurance cover is established.

Interest

Revenue is recognised as interest accrues using the effective interest method. The effective interest method uses the effective interest rate which is the rate that exactly discounts the estimated future cash receipts over the expected life of the financial asset.

Other revenue

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

Income tax

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

Note 1. Significant accounting policies (continued)

Deferred tax assets and liabilities are recognised for temporary differences at the tax rates expected to be applied when the assets are recovered or liabilities are settled, based on those tax rates that are enacted or substantively enacted, except for:

- when the deferred income tax asset or liability arises from the initial recognition of goodwill or an asset or liability in a transaction that is not a business combination and that, at the time of the transaction, affects neither the accounting nor taxable profits; or
- when the taxable temporary difference is associated with interests in subsidiaries, associates or joint ventures, and the timing of the reversal can be controlled and it is probable that the temporary difference will not reverse in the foreseeable future.

Deferred tax assets are recognised for deductible temporary differences and unused tax losses only if it is probable that future taxable amounts will be available to utilise those temporary differences and losses.

The carrying amount of recognised and unrecognised deferred tax assets are reviewed at each reporting date. Deferred tax assets recognised are reduced to the extent that it is no longer probable that future taxable profits will be available for the carrying amount to be recovered. Previously unrecognised deferred tax assets are recognised to the extent that it is probable that there are future taxable profits available to recover the asset.

Deferred tax assets and liabilities are offset only where there is a legally enforceable right to offset current tax assets against current tax liabilities and deferred tax assets against deferred tax liabilities; and they relate to the same taxable authority on either the same taxable entity or different taxable entities which intend to settle simultaneously.

Yellow Brick Road Holdings Limited (the 'head entity') and its wholly-owned Australian controlled entities have formed an income tax consolidated group under the tax consolidation regime. The head entity and the controlled entities in the tax consolidated group continue to account for their own current and deferred tax amounts. The tax consolidated group has applied the 'standalone taxpayer/separate taxpayer within a group' approach in determining the appropriate amount of taxes to allocate to members of the tax consolidated.

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.

A deferred tax benefit relating to previously unrecorded tax losses has been recognised to the extent they are expected to be utilised against the deferred tax liability acquired.

Discontinued operations

A discontinued operation is a component of the consolidated entity that has been disposed of or is classified as held for sale and that represents a separate major line of business or geographical area of operations, is part of a single co-ordinated plan to dispose of such a line of business or area of operations, or is a subsidiary acquired exclusively with a view to resale. The results of discontinued operations are presented separately on the face of the statement of profit or loss and other comprehensive income.

Current and non-current classification

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

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

Note 1. Significant accounting policies (continued)

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

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

Cash and cash equivalents

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

Trade and other receivables

Trade receivables are initially recognised at fair value and subsequently measured at amortised cost using the effective interest method, less any provision for impairment. Trade receivables are generally due for settlement within 30 - 90 days.

Receivables related to trailing commissions are recognised in accordance with the 'Revenue Recognition' accounting policy.

Collectability of trade receivables is reviewed on an ongoing basis. Debts which are known to be uncollectable are written off by reducing the carrying amount directly. A provision for impairment of trade receivables is raised when there is objective evidence that the consolidated entity will not be able to collect all amounts due according to the original terms of the receivables. Significant financial difficulties of the debtor, probability that the debtor will enter bankruptcy or financial reorganisation and default or delinquency in payments (more than 60 days overdue) are considered indicators that the trade receivable may be impaired. The amount of the impairment allowance is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the original effective interest rate. Cash flows relating to short-term receivables are not discounted if the effect of discounting is immaterial.

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

Non-current assets or disposal groups classified as held for sale

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

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

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

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

Joint ventures

A joint venture is a joint arrangement whereby the parties that have joint control of the arrangement have rights to the net assets of the arrangement. Investments in joint ventures are accounted for using the equity method. Under the equity method, the share of the profits or losses of the joint venture are recognised in profit or loss and the share of the movements in equity are recognised in other comprehensive income. Investments in joint ventures are carried in the statement of financial position at cost plus post-acquisition changes in the consolidated entity's share of net assets of the joint venture. Goodwill relating to the joint venture is included in the carrying amount of the investment and is neither amortised nor individually tested for impairment. Income earned from joint venture entities reduce the carrying amount of the investment.

Note 1. Significant accounting policies (continued)

Investments and other financial assets

Investments and other financial assets are initially measured at fair value. Transaction costs are included as part of the initial measurement, except for financial assets at fair value through profit or loss. They are subsequently measured at either amortised cost or fair value depending on their classification. Classification is determined based on the purpose of the acquisition and subsequent reclassification to other categories is restricted. The fair values of quoted investments are based on current bid prices. For unlisted investments, the consolidated entity establishes fair value by using valuation techniques. These include the use of recent arm's length transactions, reference to other instruments that are substantially the same, discounted cash flow analysis, and option pricing models.

Financial assets are derecognised when the rights to receive cash flows from the financial assets have expired or have been transferred and the consolidated entity has transferred substantially all the risks and rewards of ownership.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are carried at amortised cost using the effective interest rate method. Gains and losses are recognised in profit or loss when the asset is derecognised or impaired.

Available-for-sale financial assets

Available-for-sale financial assets are non-derivative financial assets, principally equity securities, that are either designated as available-for-sale or not classified as any other category. After initial recognition, fair value movements are recognised in other comprehensive income through the available-for-sale reserve in equity. Cumulative gain or loss previously reported in the available-for-sale reserve is recognised in profit or loss when the asset is derecognised or impaired.

Impairment of financial assets

The consolidated entity assesses at the end of each reporting period whether there is any objective evidence that a financial asset or group of financial assets is impaired. Objective evidence includes significant financial difficulty of the issuer or obligor; a breach of contract such as default or delinquency in payments; the lender granting to a borrower concessions due to economic or legal reasons that the lender would not otherwise do; it becomes probable that the borrower will enter bankruptcy or other financial reorganisation; the disappearance of an active market for the financial asset; or observable data indicating that there is a measurable decrease in estimated future cash flows.

The amount of the impairment allowance for loans and receivables carried at amortised cost 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. If there is a reversal of impairment, the reversal cannot exceed the amortised cost that would have been recognised had the impairment not been made and is reversed to profit or loss.

Available-for-sale financial assets are considered impaired when there has been a significant or prolonged decline in value below initial cost. Subsequent increments in value are recognised in other comprehensive income through the available-for-sale reserve.

Property, plant and equipment

Plant and equipment is stated at historical cost less accumulated depreciation and impairment. Historical cost includes expenditure that is directly attributable to the acquisition of the items.

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

Leasehold improvements	5-25 years
Office equipment	4-25 years

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

Leasehold improvements and plant and equipment under lease are depreciated over the unexpired period of the lease or the estimated useful life of the assets, whichever is shorter.

Note 1. Significant accounting policies (continued)

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

Leases

The determination of whether an arrangement is or contains a lease is based on the substance of the arrangement and requires an assessment of whether the fulfilment of the arrangement is dependent on the use of a specific asset or assets and the arrangement conveys a right to use the asset.

A distinction is made between finance leases, which effectively transfer from the lessor to the lessee substantially all the risks and benefits incidental to the ownership of leased assets, and operating leases, under which the lessor effectively retains substantially all such risks and benefits.

Operating lease payments, net of any incentives received from the lessor, are charged to profit or loss on a straight-line basis over the term of the lease.

Intangible assets

Intangible assets acquired as part of a business combination, other than goodwill, are initially measured at their fair value at the date of the acquisition. Intangible assets acquired separately are initially recognised at cost. Indefinite life intangible assets are not amortised and are subsequently measured at cost less any impairment. Finite life intangible assets are subsequently measured at cost less amortisation and any impairment. The gains or losses recognised in profit or loss arising from the derecognition of intangible assets are measured as the difference between net disposal proceeds and the carrying amount of the intangible asset. The method and useful lives of finite life intangible assets are reviewed annually. Changes in the expected pattern of consumption or useful life are accounted for prospectively by changing the amortisation method or period.

Goodwill

Where an entity or operation is acquired in a business, the identifiable net assets acquired are measured at fair value. The excess of the fair value of the cost of the acquisition over the fair value of the identifiable net assets acquired is brought to account as goodwill. Goodwill is not amortised. Instead, goodwill is tested annually for impairment, or more frequently if events or changes in circumstances indicate that it might be impaired, and is carried at cost less accumulated impairment losses. Impairment losses on goodwill are taken to profit or loss and are not subsequently reversed.

Customer relationships

Customer relationships acquired in a business combination are amortised on a straight-line basis over the period of their expected benefit, being their finite life of 3-9 years.

Brands

Brand assets are acquired in business combinations are recognised at cost less impairment and amortisation as applicable. The Resi brand name is assessed as having a useful live of three years. The Vow and Loan Avenue brand names are assessed as having an indefinite useful life.

Software

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

Other intangibles

Costs in relation to other minor intangibles, comprising mostly user interface platform, software and wealth book acquisitions, are amortised on a straight-line basis over the period of their expected benefit.

Impairment of non-financial assets

Other non-financial assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount.

Recoverable amount is the higher of an asset's fair value less costs of disposal and value-in-use. The value-in-use is the present value of the estimated future cash flows relating to the asset using a pre-tax discount rate specific to the asset or cash-generating unit ('CGU') to which the asset belongs. Assets that do not have independent cash flows are grouped together to form a cash-generating unit.

Note 1. Significant accounting policies (continued)

Trade and other payables

These amounts represent liabilities for goods and services provided to the consolidated entity prior to the end of the financial year and which are unpaid. Due to their short-term nature, they are measured at amortised cost and are not discounted. The amounts are unsecured and are usually paid within 30-90 days of recognition.

Borrowings

Loans and borrowings are initially recognised at the fair value of the consideration received, net of transaction costs. They are subsequently measured at amortised cost using the effective interest method.

Where there is an unconditional right to defer settlement of the liability for at least 12 months after the reporting date, the loans or borrowings are classified as non-current.

Loans and borrowings are removed from the statement of financial position when the obligation specified in the contract is discharged, cancelled or expired. The difference between the carrying amount and any consideration paid is recognised in profit or loss.

Finance costs

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

Provisions

Provisions are recognised when the consolidated entity has a present (legal or constructive) obligation as a result of a past event, it is probable the consolidated entity will be required to settle the obligation, and a reliable estimate can be made of the amount of the obligation. The amount recognised as a provision is the best estimate of the consideration required to settle the present obligation at the reporting date, taking into account the risks and uncertainties surrounding the obligation. If the time value of money is material, provisions are discounted using a current pre-tax rate specific to the liability. The increase in the provision resulting from the passage of time is recognised as a finance cost.

Employee benefits

Short-term employee benefits

Liabilities for wages and salaries and other employee benefits expected to be settled within 12 months of the reporting date are measured at the amounts expected to be paid when the liabilities are settled.

Other long-term employee benefits

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

Liabilities for employee entitlements which have vested in the employee at reporting date are recognised as current liabilities notwithstanding that they are not expected to be settled within 12 months of reporting date as the consolidated entity does not have an unconditional right to defer settlement.

Defined contribution superannuation expense

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

Share-based payments

Equity-settled share-based compensation benefits are provided to employees and suppliers.

Equity-settled transactions are awards of shares, or options over shares, that are provided to employees in exchange for the rendering of services.

Note 1. Significant accounting policies (continued)

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

Market conditions are taken into consideration in determining fair value. Therefore, any awards subject to market conditions are considered to vest irrespective of whether or not that market condition has been met, provided all other conditions are satisfied.

If equity-settled awards are modified, as a minimum an expense is recognised as if the modification has not been made. An additional expense is recognised, over the remaining vesting period, for any modification that increases the total fair value of the share-based compensation benefit as at the date of modification.

If the non-vesting condition is within the control of the consolidated entity or employee, the failure to satisfy the condition is treated as a cancellation. If the condition is not within the control of the consolidated entity or employee and is not satisfied during the vesting period, any remaining expense for the award is recognised over the remaining vesting period, unless the award is forfeited.

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

Fair value measurement

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

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

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

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

Issued capital

Ordinary shares are classified as equity.

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

Business combinations

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

Note 1. Significant accounting policies (continued)

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

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

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

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

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

Earnings per share

Basic earnings per share

Basic earnings per share is calculated by dividing the profit attributable to the owners of Yellow Brick Road Holdings Limited, excluding any costs of servicing equity other than ordinary shares, by the weighted average number of ordinary shares outstanding during the financial year, adjusted for bonus elements in ordinary shares issued during the financial year.

Diluted earnings per share

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

Goods and Services Tax ('GST') and other similar taxes

Revenues, expenses and assets are recognised net of the amount of associated GST, unless the GST incurred is not recoverable from the tax authority. In this case it is recognised as part of the cost of the acquisition of the asset or as part of the expense.

Receivables and payables are stated inclusive of the amount of GST receivable or payable. The net amount of GST recoverable from, or payable to, the tax authority is included in other receivables or other payables in the statement of financial position.

Cash flows are presented on a gross basis. The GST components of cash flows arising from investing or financing activities which are recoverable from, or payable to the tax authority, are presented as operating cash flows.

Commitments and contingencies are disclosed net of the amount of GST recoverable from, or payable to, the tax authority.

Comparatives

Certain comparative in the statement of profit or loss and other comprehensive income have been reclassified, where necessary, to be consistent with current year presentation.

Note 1. Significant accounting policies (continued)

Rounding of amounts

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

New Accounting Standards and Interpretations not yet mandatory or early adopted

Australian Accounting Standards and Interpretations that have recently been issued or amended but are not yet mandatory, have not been early adopted by the consolidated entity for the annual reporting period ended 30 June 2018. The main standards are listed below together with the applicability date:

AASB 9 'Financial Instruments', applicable to annual reporting periods beginning on or after 1 January 2018

This standard introduces new classification and measurement models for financial assets with no significant change for financial liabilities. There are new simpler hedge accounting requirements and an 'expected credit loss' model to recognise impairment allowance. The consolidated entity will adopt this standard from 1 July 2018, at the same time as AASB 15. The impact of adoption of this standard has been assessed in conjunction with the adoption of AASB15, and is disclosed below.

AASB 15 'Revenue from Contracts with Customers', applicable to annual reporting periods beginning on or after 1 January 2018

This standard is applicable to annual reporting periods beginning on or after 1 January 2018. The standard provides a single standard for revenue recognition. The core principle of the standard is that an entity will recognise revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. The standard will require: contracts (either written, verbal or implied) to be identified, together with the separate performance obligations within the contract; determine the transaction price, adjusted for the time value of money excluding credit risk; allocation of the transaction price to the separate performance obligations on a basis of relative stand-alone selling price of each distinct good or service, or estimation approach if no distinct observable prices exist; and recognition of revenue when each performance obligation is satisfied.

Credit risk will be presented separately as an expense rather than adjusted to revenue. For goods, the performance obligation would be satisfied when the customer obtains control of the goods. For services, the performance obligation is satisfied when the service has been provided, typically for promises to transfer services to customers. For performance obligations satisfied over time, an entity would select an appropriate measure of progress to determine how much revenue should be recognised as the performance obligation is satisfied. Contracts with customers will be presented in an entity's statement of financial position as a contract liability, a contract asset, or a receivable, depending on the relationship between the entity's performance and the customer's payment. Sufficient quantitative and qualitative disclosure is required to enable users to understand the contracts with customers; the significant judgments made in applying the guidance to those contracts; and any assets recognised from the costs to obtain or fulfil a contract with a customer. The consolidated entity will adopt this standard from 1 July 2018, resulting in an expected decrease in trail commission receivables of \$0.8m, an increase in deferred tax asset balance of \$0.2m and an overall decrease in net assets of \$0.6m.

AASB 16 'Leases', applicable to annual reporting periods beginning on or after 1 January 2019

The standard replaces AASB 117 'Leases' and removes the operating lease classification. Instead, subject to short-life/low value exceptions, a 'right-of-use' asset will be capitalised in the statement of financial position, and a liability corresponding to the capitalised lease will also be recognised. Straight-line operating lease expense recognition will be replaced with a depreciation charge for the leased asset and an interest expense on the recognised lease liability. EBITDA (Earnings Before Interest, Tax, Depreciation and Amortisation) results will therefore improve. Had the standard been adopted from 1 July 2017, and using the transitional rules available, the consolidated entity would have recognised a lease liability of \$3,690,000 with a corresponding increase in property, plant and equipment. However, the consolidated entity will adopt this standard from 1 July 2019 and the actual impact will depend on the operating lease assets held by the consolidated entity as at 1 July 2019 and the transitional elections made at that time.

Note 1. Significant accounting policies (continued)

IASB revised Conceptual Framework for Financial Reporting

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

Note 2. Critical accounting judgements, estimates and assumptions

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

Provision for impairment of receivables

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

Revenue recognition

As disclosed in note 1, revenue from trailing commissions is initially recognised at fair value based on the future trailing commissions expected to be received and subsequently adjusted as necessary. The fair value is based on the estimated discounted cash flows expected to be received and reflects the expected life of the underlying loans and drop off rates.

Goodwill and other indefinite life intangible assets

The consolidated entity tests annually, or more frequently if events or changes in circumstances indicate impairment, whether goodwill and other indefinite life intangible assets have suffered any impairment, in accordance with the accounting policy stated in note 1. The recoverable amounts of cash-generating units have been determined based on value-in-use calculations. These calculations require the use of assumptions, including estimated discount rates based on the current cost of capital and growth rates of the estimated future cash flows. Key assumptions are disclosed in note 14.

Impairment of non-financial assets other than goodwill and other indefinite life intangible assets

The consolidated entity assesses impairment of non-financial assets other than goodwill and other indefinite life intangible assets at each reporting date by evaluating conditions specific to the consolidated entity and to the particular asset that may lead to impairment. If an impairment trigger exists, the recoverable amount of the asset is determined. This involves fair value less costs of disposal or value-in-use calculations, which incorporate a number of key estimates and assumptions.

Lease make-good provision

A provision has been made for the present value of anticipated costs for future restoration of leased premises. The provision includes future cost estimates associated with closure of the premises. The calculation of this provision requires assumptions such as application of closure dates and cost estimates. The provision recognised for each site is periodically reviewed and updated based on the facts and circumstances available at the time. Changes to the estimated future costs for sites are recognised in the statement of financial position by adjusting the asset and the provision. Reductions in the provision that exceed the carrying amount of the asset will be recognised in profit or loss.

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

Estimation of lending trail commissions

The consolidated entity recognises a receivable and payable for lending trail commissions at the inception of the lending contract where there is no further contractual obligation to provide a service. The asset and liability are measured at the expected future cash flows to be received or paid over the life of the loan allowing for a 'run off' of clients that discontinue their loan resulting in trail commissions no longer being receivable or payable. The asset is tested for impairment annually. The asset and liability are adjusted for any differences in the expected trail run off and the actual run off experienced. Historical experience, knowledge of the consolidated entity's client base and industry statistics have all been used to determine the appropriate level of assumed run off and the resulting net present value of lending trail commission balances receivable or payable. Key assumptions include a discount rate of 5-12.5% and a weighted average loan life of 3-6 years.

Recognition of deferred tax assets

The net deferred tax liability balance includes a deferred tax asset component that requires the consideration of realisation of carried forward tax losses of the consolidated entity. The extent to which deferred tax assets can be recognised and set off against the deferred tax liability is based on an assessment of the probability of the consolidated entity's future taxable income against which the deferred tax assets can be utilised.

Note 3. Operating segments

Identification of reportable operating segments

The consolidated entity has identified that there are two operating segments based on the internal reports that are reviewed and used by the Executive Chairman and the Board (collectively referred to as the Chief Operating Decision Makers ('CODM')) in assessing business performance and in determining the allocation of resources.

Reportable segments disclosed are based on aggregating operating segments where the segments are considered to have similar economic characteristics and are also similar with respect to the following:

- the products sold and/or services provided by the segment;
- the type or class of customer for the products or services;
- the distribution method; and
- any external regulatory requirements.

The CODM reviews various revenue and operating result metrics for each segment.

The information reported to the CODM is on at least a monthly basis.

Types of products and services

The principal products and services provided by the segments are;

Lending	includes the rendering of mortgage broking services and aggregation and management services.
Wealth management	includes the rendering of investment and wealth management services and general insurance services.

Geographical information

All revenue was derived from customers in Australia and all non-current assets were held in Australia.

Major customers

During the year ended 30 June 2018 the consolidated entity had three major customers that contributed 12.4%, 12.1% and 11.4% respectively of total revenue each (2017: Three major customers contributing 13.4%, 14.8%, 14.2% of total revenue). Revenue from all these three major customers come from lending division.

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Note 3. Operating segments (continued)

Operating segment information

	Lending \$'000	Wealth management \$'000	Other segments \$'000	Total \$'000
Consolidated - 2018				
Revenue				
Sales to external customers from continuing operations	197,310	10,622	-	207,932
Other revenue	18,674	4	755	19,433
Total revenue	215,984	10,626	755	227,365
Segment operating result	10,567	271	-	10,838
Group expenditure				(12,092)
Income tax benefit				596
Loss after income tax benefit				(658)
Consolidated - 2017				
Revenue				
Sales to external customers from continuing operations	194,381	10,426	-	204,807
Sales to external customers from discontinued operations	-	-	161	161
Total sales revenue	194,381	10,426	161	204,968
Other revenue	13,595	3	221	13,819
Total revenue	207,976	10,429	382	218,787
Segment operating result from continuing operations	21,617	(488)	-	21,129
Segment operating result from discontinuing operations			(211)	(211)
Group expenditure				(18,910)
Income tax expense				(973)
Profit after income tax expense				1,035

Note 4. Revenue

	Consolidated	
	2018	2017
	\$'000	\$'000
From continuing operations		
<i>Sales revenue</i>		
Lending	197,310	194,381
Wealth management	10,622	10,426
	<u>207,932</u>	<u>204,807</u>
<i>Other revenue</i>		
Dividends	4	3
Interest	55	58
Discount unwind on trail commission receipts	18,674	13,595
Other	700	163
	<u>19,433</u>	<u>13,819</u>
Revenue from continuing operations	<u><u>227,365</u></u>	<u><u>218,626</u></u>

Yellow Brick Road Holdings Limited
Notes to the financial statements
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Note 5. Expenses

	Consolidated	
	2018	2017
	\$'000	\$'000
<i>(Loss)/profit before income tax from continuing operations includes the following specific expenses:</i>		
<i>Depreciation</i>		
Leasehold improvements	33	122
Office equipment	132	127
Total depreciation	<u>165</u>	<u>249</u>
<i>Amortisation</i>		
Customer relationships	1,082	1,081
Brands	61	514
Software	909	550
Other intangibles	453	300
Total amortisation	<u>2,505</u>	<u>2,445</u>
Total depreciation and amortisation	<u>2,670</u>	<u>2,694</u>
<i>Other non-operating expenses</i>		
Acquisition and integration expenses	96	801
Share-based payments expense	63	45
Total other non-operating expenses	<u>159</u>	<u>846</u>
<i>Finance costs</i>		
Interest and finance charges paid/payable	665	788
Discount unwind on trail commission payments	13,697	11,206
Finance costs expensed	<u>14,362</u>	<u>11,994</u>
Marketing expenses	3,366	3,393
Consultancy expenses	1,351	1,401
Options expense	248	349
Defined contribution superannuation expense	1,119	1,106
Rental expense relating to operating leases	<u>1,304</u>	<u>1,230</u>

Yellow Brick Road Holdings Limited
Notes to the financial statements
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Note 6. Income tax (benefit)/expense

	Consolidated	
	2018	2017
	\$'000	\$'000
<i>Income tax (benefit)/expense</i>		
Deferred tax - origination and reversal of temporary differences	(596)	973
Aggregate income tax (benefit)/expense	<u>(596)</u>	<u>973</u>
Deferred tax included in income tax (benefit)/expense comprises:		
Increase/(decrease) in deferred tax liabilities (note 18)	(596)	973
<i>Numerical reconciliation of income tax (benefit)/expense and tax at the statutory rate</i>		
(Loss)/profit before income tax benefit/(expense) from continuing operations	(1,254)	2,219
Loss before income tax expense from discontinued operations	-	(211)
	<u>(1,254)</u>	<u>2,008</u>
Tax at the statutory tax rate of 30%	(376)	602
Tax effect amounts which are not deductible/(taxable) in calculating taxable income:		
Entertainment expenses	43	42
Share-based payments	104	106
Deduction for YBRH direct to equity costs	-	4
Capital expenditure	-	85
Other adjustments	(367)	134
Income tax (benefit)/expense	<u>(596)</u>	<u>973</u>

Note 7. Discontinued operations

Description

The company divested the accounting cash generating unit from the consolidated entity during the year ended 30 June 2017. Refer to Note 11 for further details.

Financial performance information

	Consolidated	
	2018	2017
	\$'000	\$'000
<i>Revenue</i>		
Non-branch: Professional services	-	161
<i>Expenses</i>		
Commissions and consultancy expenses	-	(12)
Employee benefits expense	-	(175)
Operating expenses	-	42
Loss on disposal of assets classified as held for sale	-	(227)
Total expenses	<u>-</u>	<u>(372)</u>
Loss before income tax expense	-	(211)
Income tax expense	-	-
Loss after income tax expense from discontinued operations	<u>-</u>	<u>(211)</u>

Yellow Brick Road Holdings Limited
Notes to the financial statements
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Note 7. Discontinued operations (continued)

Cash flow information

	Consolidated	
	2018	2017
	\$'000	\$'000
Net cash used in operating activities	-	(132)

Note 8. Current assets - cash and cash equivalents

	Consolidated	
	2018	2017
	\$'000	\$'000
Cash at bank	5,414	5,071
Cash on deposit	1	2
	<u>5,415</u>	<u>5,073</u>

Note 9. Current assets - trade and other receivables

	Consolidated	
	2018	2017
	\$'000	\$'000
Trade receivables	1,378	1,748
Less: Provision for impairment of receivables	(392)	(321)
	<u>986</u>	<u>1,427</u>
Other receivables	16,527	16,330
Trail commission receivables	63,706	57,173
	<u>81,219</u>	<u>74,930</u>

Impairment of receivables

The consolidated entity has recognised an expense of \$71,000 (2017: \$22,000) in profit or loss in respect of impairment of receivables for the year ended 30 June 2018.

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

	Consolidated	
	2018	2017
	\$'000	\$'000
3 to 6 months overdue	74	30
Over 6 months overdue	318	291
	<u>392</u>	<u>321</u>

Yellow Brick Road Holdings Limited
Notes to the financial statements
30 June 2018

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

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

	Consolidated	
	2018	2017
	\$'000	\$'000
Opening balance	321	974
Additional provisions recognised	71	22
Classified as held for sale	-	(675)
	<u>392</u>	<u>321</u>

Past due but not impaired

Customers with balances past due but without provision for impairment of receivables amount to \$58,000 as at 30 June 2018 (\$105,000 as at 30 June 2017).

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

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

	Consolidated	
	2018	2017
	\$'000	\$'000
2 months overdue	<u>58</u>	<u>105</u>

The above information relates to trade receivables. All other financial assets, both current and non-current, are neither past due nor impaired.

Note 10. Current assets - other

	Consolidated	
	2018	2017
	\$'000	\$'000
Prepayments *	1,066	2,021
Other	20	21
	<u>1,086</u>	<u>2,042</u>

* Refer to note 30 for further information on related party prepayments of \$nil (2017: \$1,244,852). In 2018, the prepayment balance was reclassified to non-current other.

Yellow Brick Road Holdings Limited
Notes to the financial statements
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Note 11. Current assets - assets of disposal groups classified as held for sale

On 23 September 2016, the sale of the accounting business was completed. The sale price totalled approximately \$1,932,000 and was received in cash on completion date. A further \$2,750,000 is receivable over the next 5 years subject to payment set-off arrangements relating to the receipt of accounting services in the future.

The total loss on the sale of the practice was \$227,000 (Refer to note 7).

During the year ended 30 June 2017 net assets of \$5,038,574 including goodwill were sold as part of the sale agreements. The net assets included trade receivables of \$1,382,000, provision for impairment of \$675,000, work in progress of \$207,000 and a liability for employee benefits of \$109,000.

During the year ended 30 June 2018, the company received \$1,325,000 which represented the deferred consideration from the sale of the accounting practice,

Note 12. Current assets - non-current assets classified as held for sale

The Board has decided to sell the "Brightday Website" and the assets are available for sale.

	Consolidated	
	2018	2017
	\$'000	\$'000
Software	164	-

Note 13. Non-current assets - property, plant and equipment

	Consolidated	
	2018	2017
	\$'000	\$'000
Leasehold improvements - at cost	1,326	1,326
Less: Accumulated depreciation	(1,129)	(1,096)
	<u>197</u>	<u>230</u>
Office equipment - at cost	2,492	2,422
Less: Accumulated depreciation	(2,127)	(1,995)
	<u>365</u>	<u>427</u>
	<u><u>562</u></u>	<u><u>657</u></u>

Reconciliations

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

Consolidated	Leasehold improvements \$'000	Office equipment \$'000	Total \$'000
Balance at 1 July 2016	231	417	648
Additions	121	137	258
Depreciation expense	(122)	(127)	(249)
	<u>230</u>	<u>427</u>	<u>657</u>
Balance at 30 June 2017	230	427	657
Additions	-	70	70
Depreciation expense	(33)	(132)	(165)
	<u>197</u>	<u>365</u>	<u>562</u>
Balance at 30 June 2018	<u><u>197</u></u>	<u><u>365</u></u>	<u><u>562</u></u>

Yellow Brick Road Holdings Limited
Notes to the financial statements
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Note 14. Non-current assets - intangibles

	Consolidated	
	2018	2017
	\$'000	\$'000
Goodwill - at cost	23,548	23,548
Customer relationships - at cost	8,472	8,472
Less: Accumulated amortisation	(3,976)	(2,894)
	<u>4,496</u>	<u>5,578</u>
Brands - at cost	2,139	2,139
Less: Accumulated amortisation	(1,100)	(1,039)
	<u>1,039</u>	<u>1,100</u>
Software - at cost	7,939	4,919
Less: Accumulated amortisation	(2,801)	(1,892)
	<u>5,138</u>	<u>3,027</u>
Other intangible assets - at cost	1,983	2,273
Less: Accumulated amortisation	(922)	(845)
	<u>1,061</u>	<u>1,428</u>
	<u><u>35,282</u></u>	<u><u>34,681</u></u>

Reconciliations

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

Consolidated	Goodwill \$'000	Customer relationships \$'000	Brands \$'000	Software \$'000	Other \$'000	Total \$'000
Balance at 1 July 2016	23,548	6,659	1,614	2,975	958	35,754
Additions	-	-	-	602	770	1,372
Amortisation expense	-	(1,081)	(514)	(550)	(300)	(2,445)
	<u>23,548</u>	<u>5,578</u>	<u>1,100</u>	<u>3,027</u>	<u>1,428</u>	<u>34,681</u>
Balance at 30 June 2017	23,548	5,578	1,100	3,027	1,428	34,681
Additions	-	-	-	3,184	86	3,270
Classified as held for sale (note 12)	-	-	-	(164)	-	(164)
Amortisation expense	-	(1,082)	(61)	(909)	(453)	(2,505)
	<u>23,548</u>	<u>4,496</u>	<u>1,039</u>	<u>5,138</u>	<u>1,061</u>	<u>35,282</u>
Balance at 30 June 2018	<u><u>23,548</u></u>	<u><u>4,496</u></u>	<u><u>1,039</u></u>	<u><u>5,138</u></u>	<u><u>1,061</u></u>	<u><u>35,282</u></u>

Impairment testing for goodwill

Impairment testing was based on a value-in-use approach for all CGU's. For the CGU's tested, the recoverable amounts were determined to be higher than the carrying amount and therefore no impairment loss was recognised.

Value-in-use was determined by discounting future cash flows generated from the continuing use of the CGU's.

In the financial year ended 30 June 2018, assumptions have been determined separately for each CGU.

Note 14. Non-current assets - intangibles (continued)

The goodwill was allocated to the following CGUs:

	Consolidated	
	2018	2017
	\$'000	\$'000
Wealth Management	3,900	3,900
Lending	19,648	19,648
	<u>23,548</u>	<u>23,548</u>

Wealth Management CGU

Valuations use cash flow projections that are based on budget expectations and historical performance, are extrapolated for a further nine years, and include a terminal value. The growth rates are split by product and are based on industry growth figures. However, where business growth is driven by factors which are independent of market movements, a growth rate greater than market may be used.

The following assumptions have been used:

- a) 11.7% p.a. (2017: 11.5% p.a.) discount rate.
- b) 44.1% p.a. (FY19), 7.5% to 12.2% p.a. for subsequent years (2017: -10.7% to 6.3% p.a.) projected growth rate in subscription volumes.
- c) 11.5% p.a. (FY19), subsequent years 2.2% p.a. (2017: 2.2% p.a.) increase in operating costs and overheads.
- d) 2.2% p.a. (2017: 2.2% p.a.) terminal growth rate (Note the 20-year average industry growth rate is 8.1% p.a.*).

* Australian Bureau of Statistics (ABS): B15 Superannuation funds outside life offices and Life insurance offices- statutory funds; and B14 Other financial institutions.

Sensitivity analysis

Management has made judgements and estimates in respect of impairment testing of goodwill. The carrying amount of goodwill may decrease if these judgements and estimates do not occur. Management have performed sensitivity analysis as follows:

- a) An increase of 2% p.a. in the discount rate would result in a reduction in the 'value-in-use' ('VIU') valuation headroom of approximately \$4m to \$3.2m. No impairment would result.
- b) A reduction of 1% p.a. in the projected growth rate would result in a reduction in the VIU valuation headroom of approximately \$2m to \$5.2m. No impairment would result.
- c) Achieving 90% of growth rates assumptions would result in a reduction in the VIU valuation headroom of approximately \$3.7m to \$3.5m. No impairment would result.

Lending CGU

Valuations use cash flow projections that are based on budget expectations and historical performance, are extrapolated for a further nine years, and include a terminal value. The growth rates are split by business unit and are based on industry growth figures. However, where business growth is driven by factors which are independent of market movements, a growth rate greater than market may be used.

The following assumptions have been used:

- a) 13.8% p.a. (2017: 13.8% p.a.) discount rate.
- b) 17.6% p.a. (FY19), 3.1% to 8.6% p.a. for subsequent years (2017: -3.6% to 6.7% p.a.) projected growth rate in loan settlement volumes.
- c) 11.5% p.a. (FY19), subsequent years 2.2% p.a. (2017: 2.2% p.a.) increase in operating costs and overheads.
- d) 2.2% p.a. (2017: 2.2% p.a.) terminal growth rate. (Note the 20-year average industry growth rate is 8.6% p.a.**)

** Australian Bureau of Statistics (ABS): Housing Finance series id A2437055C

Note 14. Non-current assets - intangibles (continued)

Sensitivity analysis

Management have made judgements and estimates in respect of impairment testing of goodwill. The carrying amount of goodwill may decrease if these judgements and estimates do not occur. Management have performed sensitivity analysis as follows:

- a) An increase of 2% p.a. in the discount rate would result in a reduction in the VIU valuation headroom of approximately \$10.4m to \$7.6m. No impairment would result.
- b) A reduction of 1% p.a. in the projected growth rate would result in a reduction in the VIU valuation headroom of approximately \$11.8m to \$6.2m. No impairment would result.
- c) Achieving 90% of growth rates assumptions would result in a reduction in the VIU valuation headroom of approximately \$11.9m to \$6.1m. No impairment would result.

Note 15. Current liabilities - trade and other payables

	Consolidated	
	2018	2017
	\$'000	\$'000
Trade payables	15,129	18,479
Trail commission payables	53,447	46,703
Accrued expenses	1,042	1,191
Income received in advance	1,077	735
Underwriter payables	391	347
Other payables	4,074	4,161
	<u>75,160</u>	<u>71,616</u>

Refer to note 24 for further information on financial instruments.

Note 16. Current liabilities - provisions

	Consolidated	
	2018	2017
	\$'000	\$'000
Employee benefits	1,448	1,717
Lease make-good	114	114
Clawback provision	855	751
	<u>2,417</u>	<u>2,582</u>

Lease make-good

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

Clawback provision

The provision represents the net clawback payable for the last 12 months by the consolidated entity to the funders/branches.

Yellow Brick Road Holdings Limited
Notes to the financial statements
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Note 16. Current liabilities - provisions (continued)

Movements in provisions

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

Consolidated - 2018	Lease make-good \$'000	Clawback \$'000
Carrying amount at the start of the year	114	751
Additional provisions recognised	-	104
	<hr/>	<hr/>
Carrying amount at the end of the year	114	855
	<hr/> <hr/>	<hr/> <hr/>

Note 17. Non-current liabilities - borrowings

	Consolidated 2018 \$'000	2017 \$'000
Bank loans	7,200	8,400
Transaction costs	-	(80)
	<hr/>	<hr/>
	7,200	8,320
	<hr/> <hr/>	<hr/> <hr/>

Refer to note 24 for further information on financial instruments.

Total secured liabilities

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

	Consolidated 2018 \$'000	2017 \$'000
Bank loans	8,651	8,651
	<hr/> <hr/>	<hr/> <hr/>

Yellow Brick Road Holdings Limited
Notes to the financial statements
30 June 2018

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

Assets pledged as security

Bank loan facilities are financed by the Commonwealth Bank of Australia which are secured by a first ranking charge over all present and future acquired property of the consolidated entity.

Financing arrangements

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

	Consolidated	
	2018	2017
	\$'000	\$'000
Total facilities		
Bank loans *	8,400	9,600
Other loans	500	500
	<u>8,900</u>	<u>10,100</u>
Used at the reporting date		
Bank loans *	8,651	8,651
Other loans	-	-
	<u>8,651</u>	<u>8,651</u>
Unused at the reporting date		
Bank loans *	-	949
Other loans	500	500
	<u>500</u>	<u>1,449</u>

* A repayment of \$251,000 was made to the bank on 3 July 2018.

Note 18. Non-current liabilities - deferred tax

	Consolidated	
	2018	2017
	\$'000	\$'000
<i>Deferred tax liability comprises temporary differences attributable to:</i>		
Amounts recognised in profit or loss:		
Borrowings costs	-	308
Intangibles	1,660	2,000
Net trail commissions receivables/payables	15,079	14,932
Deferred tax asset in relation to cost of equity raising	(297)	(278)
Acquisition costs	-	(218)
Accruals	(1,779)	(1,318)
Tax losses	(11,842)	(12,036)
Deferred CGT cost base	(27)	-
	<u>2,794</u>	<u>3,390</u>
Deferred tax liability, net	<u>2,794</u>	<u>3,390</u>
<i>Movements:</i>		
Opening balance	3,390	2,417
Charged/(credited) to profit or loss (note 6)	(596)	973
	<u>2,794</u>	<u>3,390</u>
Closing balance	<u>2,794</u>	<u>3,390</u>

Yellow Brick Road Holdings Limited
Notes to the financial statements
30 June 2018

Note 19. Non-current liabilities - provisions

	Consolidated	
	2018	2017
	\$'000	\$'000
Employee benefits	159	157

Note 20. Equity - issued capital

	Consolidated			
	2018	2017	2018	2017
	Shares	Shares	\$'000	\$'000
Ordinary shares - fully paid	282,419,831	281,522,254	109,963	109,792

Movements in ordinary share capital

Details	Date	Shares	Issue price	\$'000
Balance	1 July 2016	280,953,325		109,672
Shares issued to employees	19 September 2016	280,468	\$0.16	45
Shares issued to acquire the Loan Avenue business	5 June 2017	288,461	\$0.26	75
Balance	30 June 2017	281,522,254		109,792
Shares issued to employees	24 October 2017	582,675	\$0.17	99
Performance rights exercised (Resi Franchisees)	4 May 2018	314,902	\$0.23	72
Balance	30 June 2018	282,419,831		109,963

Ordinary shares

Ordinary shares entitle the holder to participate in dividends and the proceeds on the winding up of the company in proportion to the number of and amounts paid on the shares held. The fully paid ordinary shares have no par value and the company does not have a limited amount of authorised capital.

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

Share buy-back

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

Options and performance rights

At 30 June 2018, there were nil (2017: 3,425,972) options over ordinary shares on issue. All the options had expired as at 30 September 2017. There were also 5,571,630 performance rights over ordinary shares on issue at 30 June 2018. There were no performance rights vested during the year.

Capital risk management

The consolidated entity's objectives when managing capital are to safeguard its ability to continue as a going concern, so that it can provide returns for shareholders and benefits for other stakeholders and to maintain an optimum capital structure to reduce the cost of capital.

Capital is regarded as total equity, as recognised in the statement of financial position, plus net debt. Net debt is calculated as total borrowings less cash and cash equivalents.

In order to maintain or adjust the capital structure, the consolidated entity may adjust the amount of dividends paid to shareholders, return capital to shareholders, issue new shares or sell assets to reduce debt.

Yellow Brick Road Holdings Limited
Notes to the financial statements
30 June 2018

Note 20. Equity - issued capital (continued)

The consolidated entity would look to raise capital when an opportunity to invest in a business or company, or in other growth initiatives, was seen as value adding.

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

Note 21. Equity - reserves

	Consolidated	
	2018	2017
	\$'000	\$'000
Share-based payments reserve	1,975	1,800
Available-for-sale assets revaluation reserve	342	324
Fair value reserve	105	105
	<u>2,422</u>	<u>2,229</u>

Share-based payments reserve

The reserve is used to recognise the value of equity benefits provided to employees and directors as part of their remuneration, and other parties as part of their compensation for services.

Available-for-sale assets revaluation reserve

The reserve is used to recognise increments and decrements in the fair value of available-for-sale financial assets.

Fair value reserve

The reserve is used to recognise the value of the discount applied to non-current financial liabilities in order to recognise them at their fair value in the statement of financial position.

Movements in reserves

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

Consolidated	Share-based payments \$'000	Available-for sale assets revaluation \$'000	Fair value \$'000	Total \$'000
Balance at 1 July 2016	1,451	184	105	1,740
Option expense	349	-	-	349
Available-for sale assets revaluation	-	140	-	140
Balance at 30 June 2017	1,800	324	105	2,229
Option expense	175	-	-	175
Available-for sale assets revaluation	-	18	-	18
Balance at 30 June 2018	<u>1,975</u>	<u>342</u>	<u>105</u>	<u>2,422</u>

Note 22. Equity - accumulated losses

	Consolidated	
	2018	2017
	\$'000	\$'000
Accumulated losses at the beginning of the financial year	(38,705)	(39,740)
(Loss)/profit after income tax benefit/(expense) for the year	(658)	1,035
Accumulated losses at the end of the financial year	<u>(39,363)</u>	<u>(38,705)</u>

Note 23. Equity - dividends

There were no dividends paid, recommended or declared during the current or previous financial year.

Note 24. Financial instruments

Financial risk management objectives

The consolidated entity's activities expose it to a variety of financial risks: market risk, credit risk and liquidity risk. The consolidated entity's overall risk management program focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the financial performance of the consolidated entity. The consolidated entity uses different methods to measure different types of risk to which it is exposed. These methods include sensitivity analysis in the case of interest rate, foreign and ageing analysis for credit risk.

Risk management is carried out by senior finance executives ('finance') under policies approved by the board. These policies include identification and analysis of the risk exposure of the consolidated entity and appropriate procedures, controls and risk limits. Finance identifies, evaluates and hedges financial risks within the consolidated entity's operating units.

Market risk

Foreign currency risk

The consolidated entity is not exposed to significant foreign currency risk.

Price risk

The consolidated entity is not exposed to any significant price risk.

Interest rate risk

Interest rate risk arises from fluctuations in interest bearing financial assets or liabilities that the consolidated entity may have. The consolidated entity's main interest rate risk arises from its cash at bank and bank loans.

As at the reporting date, the consolidated entity had the following variable rate borrowings and cash and cash equivalents outstanding:

	2018		2017	
	Weighted average interest rate %	Balance \$'000	Weighted average interest rate %	Balance \$'000
Consolidated				
Cash and cash equivalents	1.13%	5,415	0.98%	5,073
Loans	6.07%	(8,651)	6.26%	(8,571)
Net exposure to cash flow interest rate risk		<u>(3,236)</u>		<u>(3,498)</u>

An official increase/(decrease) in interest rates of 100 (2017: 100) basis points would have a favourable/unfavourable effect on profit before tax of \$32,300 (2017: \$34,900) per annum and favourable/unfavourable effect on equity of \$22,600 (2017: \$24,400) per annum. The percentage change is based on the expected volatility of interest rates using market data and analysts forecasts.

Credit risk

Credit risk is managed on a consolidated entity basis. Credit risk refers to the risk that a counterparty will default on its contractual obligations resulting in financial loss to the consolidated entity. The maximum exposure to credit risk at the reporting date to recognised financial assets is the carrying amount, net of any provisions for impairment of those assets, as disclosed in the statement of financial position and notes to the financial statements. The consolidated entity does not hold any collateral.

Yellow Brick Road Holdings Limited
Notes to the financial statements
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Note 24. Financial instruments (continued)

The consolidated entity does not have any material credit risk exposure to any single debtor or group of debtors under financial instruments entered into by the consolidated entity. However, 42.85% (2017: 44.56%) of the value of trail commission receivable relates to loans provided by three financial institutions to customers of the consolidated entity. In the unlikely event that any of these APRA regulated financial institutions are subject to an insolvency event, the consolidated entity's obligation to remit future trail commission to its independent branch network would also be suspended pending future receipts, thereby mitigating the financial impact of any default to a point where it would have no material impact on the financial viability of consolidated entity.

The consolidated entity has a concentration of credit risk in relation to its bank balances and deposits to a number of Australian banks, other financial institutions and funds. The risk is mitigated due to the high credit rating of the banks, funds and government backed guarantees.

Liquidity risk

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

The consolidated entity manages liquidity risk by maintaining adequate cash reserves and available borrowing facilities by continuously monitoring actual and forecast cash flows and matching the maturity profiles of financial assets and liabilities.

Financing arrangements

Unused borrowing facilities at the reporting date:

	Consolidated	
	2018	2017
	\$'000	\$'000
Bank loans *	-	949
Other loans	500	500
	<u>500</u>	<u>1,449</u>

* A repayment of \$251,000 was made to the bank on 3 July 2018.

Remaining contractual maturities

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

Consolidated - 2018	Weighted average interest rate %	1 year or less \$'000	Between 1 and 2 years \$'000	Between 2 and 5 years \$'000	Over 5 years \$'000	Remaining contractual maturities \$'000
Non-derivatives						
<i>Non-interest bearing</i>						
Trade payables	-	15,129	4,453	-	-	19,582
Other payables	-	4,074	-	-	-	4,074
Trail commission payables	-	53,447	44,728	91,595	78,884	268,654
Underwriter payables	-	391	-	-	-	391
Income received in advance	-	1,077	-	-	-	1,077
<i>Interest-bearing - variable</i>						
Bank loans	6.07%	1,451	7,200	-	-	8,651
Total non-derivatives		<u>75,569</u>	<u>56,381</u>	<u>91,595</u>	<u>78,884</u>	<u>302,429</u>

Yellow Brick Road Holdings Limited
Notes to the financial statements
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Note 24. Financial instruments (continued)

Consolidated - 2017	Weighted average interest rate %	1 year or less \$'000	Between 1 and 2 years \$'000	Between 2 and 5 years \$'000	Over 5 years \$'000	Remaining contractual maturities \$'000
Non-derivatives						
<i>Non-interest bearing</i>						
Trade payables	-	18,479	-	-	-	18,479
Other payables	-	4,161	-	-	-	4,161
Trail commission payables	-	46,703	39,395	79,562	59,505	225,165
Underwriter payables	-	347	-	-	-	347
Income received in advance	-	735	-	-	-	735
<i>Interest-bearing - fixed rate</i>						
Bank loans	6.26%	790	8,444	-	-	9,234
Total non-derivatives		71,215	47,839	79,562	59,505	258,121

Trail commission is based on expected maturity, not contracted maturity. Other maturities reflect contracted maturities.

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

Fair value of financial instruments

Unless otherwise stated, the carrying amounts of financial instruments reflect their fair value. The carrying amounts of trade receivables and trade payables are assumed to approximate their fair values due to their short-term nature. The fair value of financial liabilities is estimated by discounting the remaining contractual maturities at the current market interest rate that is available for similar financial instruments.

Note 25. Fair value measurement

Fair value hierarchy

The following tables detail the consolidated entity's assets and liabilities, measured or disclosed at fair value, using a three level hierarchy, based on the lowest level of input that is significant to the entire fair value measurement, being:

Level 1: Quoted prices (unadjusted) in active markets for identical assets or liabilities that the entity can access at the measurement date

Level 2: Inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly

Level 3: Unobservable inputs for the asset or liability

Consolidated - 2018	Level 1 \$'000	Level 2 \$'000	Level 3 \$'000	Total \$'000
Assets				
Available-for-sale financial assets	371	-	-	371
Total assets	371	-	-	371

Consolidated - 2017	Level 1 \$'000	Level 2 \$'000	Level 3 \$'000	Total \$'000
Assets				
Available-for-sale financial assets	353	-	-	353
Total assets	353	-	-	353

Assets and liabilities held for sale are measured at fair value on a non-recurring basis.

There were no transfers between levels during the financial year.

Note 25. Fair value measurement (continued)

The carrying values of other financial assets and financial liabilities presented in these financial statements represent a reasonable approximation of fair value.

Note 26. Key management personnel disclosures

Compensation

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

	Consolidated	
	2018	2017
	\$	\$
Short-term employee benefits	2,414,275	2,849,522
Post-employment benefits	132,994	118,015
Long-term benefits	9,244	10,998
Share-based payments	184,583	320,000
	<u>2,741,096</u>	<u>3,298,535</u>

Note 27. Remuneration of auditors

During the financial year the following fees were paid or payable for services provided by Grant Thornton Audit Pty Ltd, the auditor of the company, and unrelated firms:

	Consolidated	
	2018	2017
	\$	\$
<i>Audit services - Grant Thornton Audit Pty Ltd</i>		
Audit or review of the financial statements	<u>286,820</u>	<u>264,313</u>
<i>Other services - Grant Thornton Audit Pty Ltd</i>		
Taxation services	61,175	49,151
Advisory services	-	36,893
	<u>61,175</u>	<u>86,044</u>
	<u>347,995</u>	<u>350,357</u>
<i>Audit services - unrelated firms</i>		
Audit or review of the financial statements	<u>21,700</u>	<u>19,160</u>

Note 28. Contingent liabilities

The consolidated entity has given bank guarantees as at 30 June 2018 of \$1,199,000 (2017: \$1,199,000).

On 22 May 2018, the company received a summons which commenced legal procedures in relation to a dispute over the earn-out provisions contained in the Share Sale Agreement ('SSA') dated 8 July 2014 under which the company acquired Resi Mortgage Corporation Pty Ltd ('Resi').

An earn-out amount of up to \$2,500,000 in cash was agreed to be paid by the company to the vendors of Resi on or about the first anniversary of the completion of the acquisition if certain earn-out conditions were satisfied.

The proceedings deal with the issue as to whether the earn-out conditions have been satisfied or not. Based on legal advice, the company is confident that its interpretations of the SSA is correct, and that no earn-out is payable. The company intends to defend the proceedings.

Note 28. Contingent liabilities (continued)

During the financial year the consolidated entity received claims from 2 broker groups for additional commission totalling \$600,000. Management has received legal advice on these claims and they have been strongly disputed and as such no liability has been recorded in the financial statements.

Note 29. Commitments

	Consolidated	
	2018	2017
	\$'000	\$'000
<i>Lease commitments - operating</i>		
Committed at the reporting date but not recognised as liabilities, payable:		
Within one year	1,086	1,274
One to five years	1,871	2,704
	<u>2,957</u>	<u>3,978</u>
Operating lease commitments includes contracted amounts for office accommodation, under non-cancellable operating leases expiring within three to six years with, in some cases, options to extend. The leases have various escalation clauses. On renewal, the terms of the leases are renegotiated.		
<i>Advertising commitments</i>		
Committed at the reporting date but not recognised as liabilities, payable:		
One to five years	<u>13,697</u>	<u>14,847</u>

Note 30. Related party transactions

Parent entity

Yellow Brick Road Holdings Limited is the parent entity.

Subsidiaries

Interests in subsidiaries are set out in note 32.

Joint ventures

Interests in joint ventures are set out in note 33.

Key management personnel

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

Yellow Brick Road Holdings Limited
Notes to the financial statements
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Note 30. Related party transactions (continued)

Transactions with related parties

The following transactions occurred with related parties:

	Consolidated	
	2018	2017
	\$	\$
Sale of goods and services:		
Sales to TZ Limited (director-related entity of Mark Bouris) - Accounting and secretarial services	9,349	56,096
Sales to TZ Limited (director-related entity of Mark Bouris) - Insurance services	13,436	12,645
Sales to TZ Limited (director-related entity of Mark Bouris) - Rent and administration services	171,960	171,960
Sales to State Capital Property Ltd (director-related entity of Mark Bouris) - Insurance services	13,290	11,310
Sales to parties related to Adrian Bouris for insurance services	1,200	1,200
Sales to Macquarie Bank (shareholder - related entity) for commissions - Administration and brokerage services	15,906,474	16,094,804
Payment for goods and services:		
Payment for consultancy services from Golden Wealth Holdings Pty Ltd (director-related entity of Mark Bouris)	712,500	1,125,000
Purchases of services from Chifley Travel (director-related entity of Adrian Bouris)	29,742	24,958
Purchases of services from BBB Capital Pty Limited (director-related entity of Adrian Bouris) - Corporate finance services	52,600	144,000
Purchases for marketing services related to Nine Entertainment Group (shareholder-related entity) (refer Note a)	1,151,989	1,148,881

Other transactions:

On 29 August 2014 the consolidated entity issued GWH, a company controlled by Mark Bouris, 6,000,000 shares and 10,000,000 performance rights, at a fair value of \$4,200,000 and \$1,475,000 respectively as consideration of certain lock-in/lock-out and long term incentive arrangements with GWH and Mark Bouris. The fair value of the performance rights will be recognised as an expense over five years. The amount expensed for the financial year 30 June 2018 amounted to \$184,583 (2017: \$320,000). As at 30 June 2018, 5,000,000 of the 10,000,000 performance rights have lapsed, with no benefit to GWH. The remaining 5,000,000 performance rights will not vest unless the Company's share price exceeds a range of \$1.21 to \$1.74 per share.

Yellow Brick Road Holdings Limited
Notes to the financial statements
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Note 30. Related party transactions (continued)

Receivable from and payable to related parties

The following balances are outstanding at the reporting date in relation to transactions with related parties:

	Consolidated	
	2018	2017
	\$	\$
Current receivables:		
Trade receivables from TZ Limited (director-related entity of Mark Bouris)	144,569	41,810
Prepayment from the Nine Entertainment Group (shareholder-related entity) (refer Note a)	-	1,244,852
Commissions from Macquarie Bank (shareholder - related entity)	4,578,804	4,232,396
Non-current receivables:		
Commissions from Macquarie Bank (shareholder - related entity)	15,193,716	14,779,465
Prepayment from the Nine Entertainment Group (shareholder-related entity) (refer Note a)	1,244,852	-
Current payables:		
Marketing and interest expenses payable to Nine Entertainment Group (shareholder-related entity)	-	3,185,390
Non-current payables:		
Marketing and interest expenses payable to Nine Entertainment Group (shareholder-related entity)	4,452,578	-

Note a:

Nine Entertainment Group ('Nine') provided the consolidated entity \$6,490,000 in contra advertising in 2012 as part settlement for shares Nine acquired in the company. Advertising of \$nil (2017: \$3,630) was used during the year ended 30 June 2018, leaving an unused balance of non-current prepayment of \$1,244,852 (2017: current prepayment of \$1,244,852). The consolidated entity does not expect to realise this asset within 12 months of reporting date and hence it has been reclassified as a non-current asset.

Loans to/from related parties

The following balances are outstanding at the reporting date in relation to loans with related parties:

	Consolidated	
	2018	2017
	\$	\$
Non-current receivables:		
Loan to Smarter Money Investments Pty Ltd (a joint venture entity)	150,249	143,021

Terms and conditions

All transactions were made on normal commercial terms and conditions and at market rates.

Note 31. Parent entity information

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

Statement of profit or loss and other comprehensive income

	Parent	
	2018	2017
	\$'000	\$'000
Profit after income tax	1,337	16
Total comprehensive income	1,337	16

Yellow Brick Road Holdings Limited
Notes to the financial statements
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Note 31. Parent entity information (continued)

Statement of financial position

	Parent	
	2018	2017
	\$'000	\$'000
Total current assets	51,852	53,130
Total assets	92,242	91,939
Total current liabilities	378	638
Total liabilities	7,578	8,958
Equity		
Issued capital	105,669	105,498
Share-based payments reserve	1,397	1,222
Available-for-sale assets revaluation reserve	1,009	1,009
Accumulated losses	(23,411)	(24,748)
Total equity	<u>84,664</u>	<u>82,981</u>

Contingent liabilities

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

Capital commitments - Property, plant and equipment

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

Significant accounting policies

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

- Investments in subsidiaries and joint ventures are accounted for at cost, less any impairment, in the parent entity.
- Dividends received from subsidiaries are recognised as other income by the parent entity and its receipt may be an indicator of an impairment of the investment.

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Note 32. Interests in subsidiaries

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

Name	Principal place of business / Country of incorporation	Ownership interest	
		2018 %	2017 %
Yellow Brick Road Group Pty Ltd	Australia	100.00%	100.00%
Skasgard Pty Ltd	Australia	100.00%	100.00%
Gessle Pty Ltd	Australia	100.00%	100.00%
Carithas Pty Ltd	Australia	100.00%	100.00%
Boreanaz Pty Ltd	Australia	100.00%	100.00%
Yellow Brick Road Investment Partners Pty Ltd	Australia	100.00%	100.00%
Yellow Brick Road Investment Services Pty Ltd	Australia	100.00%	100.00%
Yellow Brick Road Services Pty Ltd	Australia	100.00%	100.00%
Yellow Brick Road Accounting and Wealth Management Pty Ltd	Australia	100.00%	100.00%
Yellow Brick Road Financial Planners Pty Ltd	Australia	100.00%	100.00%
Resi Wholesale Funding Pty Limited (formerly known as Yellow Brick Road Real Estate Pty Ltd)	Australia	100.00%	100.00%
Yellow Brick Road Finance Pty Ltd	Australia	100.00%	100.00%
Yellow Brick Road Accounting and Taxation Services Pty Ltd	Australia	100.00%	100.00%
Yellow Brick Road Wealth Management Pty Ltd	Australia	100.00%	100.00%
YBR Lawyers Pty Ltd	Australia	100.00%	100.00%
Resi Mortgage Corporation Pty Limited	Australia	100.00%	100.00%
Vow Financial Holding Pty Limited	Australia	100.00%	100.00%
Vow Financial Group Pty Ltd	Australia	100.00%	100.00%
The Mortgage Professionals Pty Ltd	Australia	100.00%	100.00%
Vow Financial Pty Ltd	Australia	100.00%	100.00%
The Money Factory Pty Ltd	Australia	100.00%	100.00%
NBG Holdings Pty Ltd	Australia	100.00%	100.00%
Vow Wealth Management Pty Ltd	Australia	100.00%	100.00%
The Mortgage Architects Pty Ltd	Australia	100.00%	100.00%
The Wealth Architects Pty Ltd	Australia	100.00%	100.00%
Ironbark Mortgage Solutions Pty Ltd	Australia	100.00%	100.00%
NBG Pty Ltd	Australia	100.00%	100.00%
FASA Pty Ltd	Australia	100.00%	100.00%
Australian Property Finance Pty Ltd	Australia	100.00%	100.00%
NBG Leasing Pty Ltd	Australia	100.00%	100.00%
Select Mortgage Finance Pty Ltd	Australia	100.00%	100.00%
Vow Financial Planning Pty Ltd	Australia	100.00%	100.00%
Loan Avenue Holdings Pty Ltd	Australia	100.00%	100.00%
Money Management Pty Ltd	Australia	100.00%	100.00%

Note 33. Interests in joint ventures

Interests in joint ventures are accounted for using the equity method of accounting. Information relating to joint ventures that are material to the consolidated entity are set out below:

Name	Principal place of business / Country of incorporation	Ownership interest	
		2018 %	2017 %
Smarter Money Investments Pty Ltd	Funds management	50.00%	50.00%

Yellow Brick Road Holdings Limited
Notes to the financial statements
30 June 2018

Note 33. Interests in joint ventures (continued)

Summarised financial information

	2018	2017
	\$'000	\$'000
<i>Summarised statement of financial position</i>		
Cash and cash equivalents	247	143
Trade and other receivables	362	536
Total assets	609	679
Trade and other payables	244	255
Other liabilities	365	424
Total liabilities	609	679
Net assets	-	-
<i>Summarised statement of profit or loss and other comprehensive income</i>		
Revenue	4,929	2,557
Expenses	(2,876)	(1,230)
Profit before income tax	2,053	1,327
Other comprehensive income	-	-
Total comprehensive income	2,053	1,327

Note 34. Reconciliation of (loss)/profit after income tax to net cash from/(used in) operating activities

	Consolidated	
	2018	2017
	\$'000	\$'000
(Loss)/profit after income tax benefit/(expense) for the year	(658)	1,035
Adjustments for:		
Depreciation and amortisation	2,670	2,694
Share-based payments	347	349
Net change on the present value of trail commissions	(407)	(6,536)
Interest received non-cash	-	(11)
Interest paid non-cash	97	138
Gain on sale of business	(270)	-
Change in operating assets and liabilities:		
Decrease/(increase) in trade and other receivables	528	(931)
Decrease/(increase) in prepayments	(289)	19
Decrease/(increase) in other operating assets	(7)	12
Increase in trade and other payables	387	701
Increase/(decrease) in deferred tax liabilities	(596)	973
Decrease in employee benefits	(267)	(45)
Increase/(decrease) in other operating liabilities	912	(722)
Net cash from/(used in) operating activities	2,447	(2,324)

Yellow Brick Road Holdings Limited
Notes to the financial statements
30 June 2018

Note 35. Earnings per share

	Consolidated	
	2018	2017
	\$'000	\$'000
<i>Earnings per share for profit/(loss) from continuing operations</i>		
(Loss)/profit after income tax attributable to the owners of Yellow Brick Road Holdings Limited	<u>(658)</u>	<u>1,246</u>
	Number	Number
Weighted average number of ordinary shares used in calculating basic earnings per share	281,971,386	281,192,868
Adjustments for calculation of diluted earnings per share:		
Performance rights over ordinary shares	<u>894,026</u>	<u>963,454</u>
Weighted average number of ordinary shares used in calculating diluted earnings per share	<u>282,865,412</u>	<u>282,156,322</u>
	Cents	Cents
Basic earnings per share	(0.23)	0.44
Diluted earnings per share	(0.23)	0.44
	Consolidated	
	2018	2017
	\$'000	\$'000
<i>Earnings per share for loss from discontinued operations</i>		
Loss after income tax attributable to the owners of Yellow Brick Road Holdings Limited	<u>-</u>	<u>(211)</u>
	Number	Number
Weighted average number of ordinary shares used in calculating basic earnings per share	-	281,192,868
Adjustments for calculation of diluted earnings per share:		
Performance rights over ordinary shares	<u>-</u>	<u>963,454</u>
Weighted average number of ordinary shares used in calculating diluted earnings per share	<u>-</u>	<u>282,156,322</u>
	Cents	Cents
Basic earnings per share	-	(0.08)
Diluted earnings per share	-	(0.08)
	Consolidated	
	2018	2017
	\$'000	\$'000
<i>Earnings per share for profit/(loss)</i>		
(Loss)/profit after income tax attributable to the owners of Yellow Brick Road Holdings Limited	<u>(658)</u>	<u>1,035</u>
	Number	Number
Weighted average number of ordinary shares used in calculating basic earnings per share	281,971,386	281,192,868
Adjustments for calculation of diluted earnings per share:		
Performance rights over ordinary shares	<u>894,026</u>	<u>963,454</u>
Weighted average number of ordinary shares used in calculating diluted earnings per share	<u>282,865,412</u>	<u>282,156,322</u>

Yellow Brick Road Holdings Limited
Notes to the financial statements
30 June 2018

Note 35. Earnings per share (continued)

	Cents	Cents
Basic earnings per share	(0.23)	0.37
Diluted earnings per share	(0.23)	0.37

The options granted to Golden Wealth Holdings Pty Ltd. (GWH) are not included in the calculation of diluted earnings per share because they are antidilutive for the year ended 30 June 2018. These options could potentially dilute basic earnings per share in the future.

Note 36. Share-based payments

8,564,930 options were granted to a subsidiary of the Nine Entertainment Group, Pink Platypus Pty Ltd ('Nine'), in 2011. During the year, the balance of 3,425,972 performance options granted to Nine Entertainment Group (Nine) and held by Pink Platypus Pty Ltd were not exercised by it and expired on 30 September 2017.

The vesting conditions were as follows; one fifth of the options may vest each year based on specific Brand Performance hurdles being achieved. Exercise price is the greater of \$0.40 or 75% of the average yearly Volume-Weighted Average Prices ('VWAP') for each year since the year in which the relevant options were issued. No options vested or were exercised in the year ended 30 June 2018.

Set out below are summaries of options granted to Nine:

2018							
Grant date	Expiry date	Exercise price	Balance at the start of the year	Granted	Exercised	Expired/ forfeited/ other	Balance at the end of the year
07/09/2011	30/09/2017	\$0.00	3,425,972	-	-	(3,425,972)	-
			<u>3,425,972</u>	<u>-</u>	<u>-</u>	<u>(3,425,972)</u>	<u>-</u>
2017							
Grant date	Expiry date	Exercise price	Balance at the start of the year	Granted	Exercised	Expired/ forfeited/ other	Balance at the end of the year
07/09/2011	30/09/2017	\$0.00	5,138,958	-	-	(1,712,986)	3,425,972
			<u>5,138,958</u>	<u>-</u>	<u>-</u>	<u>(1,712,986)</u>	<u>3,425,972</u>

The weighted average share price during the financial year was \$0.12 (2017: \$0.15).

The amount expensed in the financial year ended 30 June 2018 amounted to \$Nil (2017: \$Nil).

Yellow Brick Road Holdings Limited
Notes to the financial statements
30 June 2018

Note 36. Share-based payments (continued)

Set out below details of the performance rights granted to directors and external parties:

2018							
Grant date	Expiry date	Fair value at granted date	Balance at the start of the year	Granted	Exercised	Expired/ forfeited/ other	Balance at the end of the year
29/08/2014	31/07/2019	\$0.15	2,500,000	-	-	(2,500,000)	-
29/08/2014	31/07/2019	\$0.15	2,500,000	-	-	-	2,500,000
29/08/2014	31/07/2019	\$0.14	2,500,000	-	-	-	2,500,000
29/07/2015	27/09/2017	\$0.23	168,268	-	(132,211)	-	36,057*
29/07/2015	31/10/2017	\$0.23	144,230	-	(144,230)	-	-
29/07/2015	07/02/2018	\$0.21	38,461	-	(38,461)	-	-
29/07/2015	31/03/2018	\$0.21	38,461	-	-	(38,461)	-
29/07/2015	30/11/2019	\$0.21	92,307	-	-	-	92,307
20/07/2015	27/09/2020	\$0.18	168,268	-	-	-	168,268
20/07/2015	31/10/2020	\$0.18	144,230	-	-	-	144,230
20/07/2015	07/02/2021	\$0.18	38,461	-	-	-	38,461
20/07/2015	31/03/2021	\$0.18	38,461	-	-	(38,461)	-
20/07/2015	30/11/2022	\$0.18	92,307	-	-	-	92,307
			<u>8,463,454</u>	<u>-</u>	<u>(314,902)</u>	<u>(2,576,922)</u>	<u>5,571,630</u>

* Shares against the performance rights were due during the year ended 30 June 2018 but will be issued in the upcoming year.

The weighted average remaining contractual life of performance rights issued in August 2014, and outstanding at the end of the financial year was two years and one month.

The weighted average remaining contractual life of other performance rights issued, and outstanding at the end of the financial year was four years.

2017							
Grant date	Expiry date	Exercise price	Balance at the start of the year	Granted	Exercised	Expired/ forfeited/ other	Balance at the end of the year
29/08/2014	31/07/2019	\$0.15	2,500,000	-	-	(2,500,000)	-
29/08/2014	31/07/2019	\$0.15	2,500,000	-	-	-	2,500,000
29/08/2014	31/07/2019	\$0.15	2,500,000	-	-	-	2,500,000
29/08/2014	31/07/2019	\$0.14	2,500,000	-	-	-	2,500,000
29/07/2015	27/09/2017	\$0.23	168,268	-	-	-	168,268
29/07/2015	31/10/2017	\$0.23	144,230	-	-	-	144,230
29/07/2015	07/02/2018	\$0.21	38,461	-	-	-	38,461
29/07/2015	31/03/2018	\$0.21	38,461	-	-	-	38,461
29/07/2015	30/11/2019	\$0.21	92,307	-	-	-	92,307
20/07/2015	27/09/2020	\$0.18	168,268	-	-	-	168,268
20/07/2015	31/10/2020	\$0.18	144,230	-	-	-	144,230
20/07/2015	07/02/2021	\$0.18	38,461	-	-	-	38,461
20/07/2015	31/03/2021	\$0.18	38,461	-	-	-	38,461
20/07/2015	30/11/2022	\$0.18	92,307	-	-	-	92,307
			<u>10,963,454</u>	<u>-</u>	<u>-</u>	<u>(2,500,000)</u>	<u>8,463,454</u>

Note 37. Events after the reporting period

On 20 August 2018, the consolidated entity received a Bidder's Statement issued by Mercantile OFM Pty Ltd (Bidder), a wholly-owned subsidiary of Mercantile Investment Company Ltd (ASX:MVT) (MVT), regarding an off-market takeover offer by the Bidder to acquire all of the ordinary shares in YBR ('YBR Shares') at a price of A\$0.09 in cash for each YBR Share (Takeover Bid). The company will respond formally to the Takeover Bid in its Target's Statement to be released after the date of this report, but in the interim the YBR Directors have advised YBR shareholders not to take any action whatsoever regarding their YBR Shares in response to the Takeover Bid.

On 25 June 2018, Yellow Brick Road Holdings Limited announced that wholly-owned subsidiaries Yellow Brick Road Investment Services Pty Ltd and Yellow Brick Road Wealth Management Pty Ltd had entered into a Book Sale and Purchase Agreement whereby INPRO Australia Pty Ltd, a professional financial advisory company will acquire service relationships, records and recurring revenues from approximately 150 private clients and their related wealth portfolio. This transaction is expected to complete by 31 August 2018.

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

For personal use

Yellow Brick Road Holdings Limited
Directors' declaration
30 June 2018

In the directors' opinion:

- the attached financial statements and notes comply with the Corporations Act 2001, the Accounting Standards, the Corporations Regulations 2001 and other mandatory professional reporting requirements;
- the attached financial statements and notes comply with International Financial Reporting Standards as issued by the International Accounting Standards Board as described in note 1 to the financial statements;
- the attached financial statements and notes give a true and fair view of the consolidated entity's financial position as at 30 June 2018 and of its performance for the financial year ended on that date; and
- there are reasonable grounds to believe that the company will be able to pay its debts as and when they become due and payable.

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

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

On behalf of the directors



Mark Bouris
Executive Chairman

29 August 2018
Sydney

Independent Auditor's Report

To the Members of Yellow Brick Road Holdings Limited

Report on the audit of the financial report

Opinion

We have audited the financial report of Yellow Brick Road Holdings Limited (the Company) and its subsidiaries (the Group), which comprises the consolidated statement of financial position as at 30 June 2018, the consolidated statement of profit or loss and other comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies, and the directors' declaration.

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

- a giving a true and fair view of the Group's financial position as at 30 June 2018 and of its performance for the year ended on that date; and
- b complying with Australian Accounting Standards and the *Corporations Regulations 2001*.

Basis for opinion

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

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

Key audit matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the financial report of the current period. These matters were addressed in the context of our audit of the financial report as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Key audit matter	How our audit addressed the key audit matter
------------------	--

Goodwill impairment (Note 14)

At 30 June 2018, the carrying value of goodwill was \$23.55 million. AASB 136 *Impairment of Assets* requires that, for the purpose of impairment testing, goodwill acquired in a business combination be allocated to each of the Group's cash-generating units ("CGUs"). Each CGU to which goodwill has been allocated must be tested for impairment annually.

Management have assessed that the group has two CGUs, and have allocated the goodwill and other intangible assets to these CGUs.

Management have tested the CGUs for impairment by comparing their carrying amounts with their recoverable amounts. The recoverable amounts were determined using value-in-use model.

We have determined this is a key audit matter due to the judgements and estimates required in determining the appropriate CGU's and calculating the recoverable amount.

Our procedures included, amongst others:

- reviewing management's assessment of the impairment indicators ascribed to the relevant CGUs and corroborating their findings to historical performance;
- evaluating the value in use model for each CGU against the requirements of AASB 136 *Impairment of Assets*, including consultation with our Valuation Specialists;
- with the assistance of our Valuation Specialists, reviewing management's value-in-use models to critically assess inputs and assumptions applied, including:
 - evaluating management's ability to perform accurate estimates by comparing historical forecasting to actual results;
 - challenging the associated underlying forecast cash flows and comparing key assumptions to historical results, business trends, economic and industry forecasts; and
 - agreeing discount rates applied to forecast future cash flows; and
- testing the mathematical accuracy of the calculation;
- performing sensitivity analysis on the significant inputs and assumptions made by management in preparing its calculation; and
- assessing the adequacy of financial report disclosures.

Capitalised intangible assets (Note 14)

At 30 June 2018, the carrying value of the Group's capitalised intangible assets was \$6.5 million relating to software and development projects.

In accordance with AASB 138 *Intangible Assets* internally generated assets are recognised if it can be demonstrated that it is identifiable, able to be controlled, and will provide future economic benefits to the Group.

This is a key audit matter due to the judgments and estimates required in determining whether the requirements of AASB 138 are satisfied.

Our procedures included, amongst others:

- understanding and documenting management's process to capitalise intangible assets by obtaining their position papers and assessment of recognition in accordance with the company's accounting policy with the requirements of AASB 138;
- testing a sample of underlying addition to documentation for existence and accuracy and appropriateness of capitalisation;
- reviewing management's cash flow forecasts, including the evaluation of assumptions, supporting the generation of future economic benefits from the capitalised costs;
- for all completed projects, reviewing whether management has commenced amortisation of all intangibles available for use; and
- assessing the adequacy of the related disclosures in the financial statements.

Long-term Trail Commission (Note 9 and Note 15)

The Group recognised a net trail commission receivable asset of \$50.26 million at 30 June 2018. The value of the asset is based on an external expert valuation.

The valuation of the net trail commission balance is considered to be a key audit matter because of judgement applied in respect to key inputs, including run off rate, as well as the valuation methodology.

Our procedures included, amongst others:

- obtaining and assessing findings of external expert valuation report including assessing the completeness and accuracy of the data used to develop the report;
- evaluating of the qualifications and expertise of management's valuation expert in order to assess their professional competence and capabilities as they relate to the work undertaken;
- assessing the reasonableness of key assumptions in the model by comparing to historical internal information and available market data;
- performing a sensitivity analysis on the key assumptions; and
- assessing the adequacy of the related disclosures in the financial statements.

Revenue Recognition (Note 4)

Revenue from continuing operations totalled \$227.3 million for the year ending 30 June 2018, and is the largest item in the Statement of Profit or Loss.

This is a key audit matter given the significance of the balance, volume of transactions and complexity of revenue streams.

Our procedures included, amongst others:

- evaluating and performing a walkthrough of management's processes and internal controls regarding the recognition of revenue;
- testing a sample of transactions recognised in the general ledger to supporting documentation, including cash receipts per the bank statements;
- agreeing a sample of recorded fees and commission transactions to invoices and bank statements;
- assessing the revenue recognition policies for appropriateness and compliance with AASB 118 *Revenues*, as well as reviewing consistency with the prior year;
- testing a sample of revenue transactions back to source documents to assess recognition criteria in line with the requirements of AASB 118 *Revenues*; and
- assessing the adequacy of the related disclosures in the financial statements.

Information other than the financial report and auditor's report thereon

The Directors are responsible for the other information. The other information comprises the information included in the Group's annual report for the year ended 30 June 2018, but does not include the financial report and our auditor's report thereon.

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

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

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

Responsibilities of the Directors' for the financial report

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

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

Auditor's responsibilities for the audit of the financial report

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

A further description of our responsibilities for the audit of the financial report is located at the Auditing and Assurance Standards Board website at: http://www.auasb.gov.au/auditors_responsibilities/ar1.pdf. This description forms part of our auditor's report.

Report on the remuneration report

Opinion on the remuneration report

We have audited the Remuneration Report included in pages 6 to 11 of the directors' report for the year ended 30 June 2018

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

Responsibilities

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



Grant Thornton Audit Pty Ltd
Chartered Accountants



Madeleine Mattera
Partner – Audit & Assurance

Sydney, 29 August 2018