

McMillan  
Shakespeare  
Limited

**Annual Report  
2019**



The McMillan Shakespeare Group is a trusted, market-leading provider of salary packaging, novated leasing, asset management and related financial products and services. Through its subsidiaries, it offers a breadth of services and expertise, designed to responsibly deliver superior long-term value to its customers. The Group employs a highly committed team of over 1,300 people across Australia, New Zealand and the United Kingdom and domestically manages programs for some of the largest public, private and charitable organisations.



## Financial Calendar

### 21 August 2019

Announcement of 2019 Annual Results  
Annual Report released

### 28 August 2019

2019 Final Dividend Ex-Date

### 29 August 2019

2019 Final Dividend Record Date

### 11 September 2019

2019 Final Dividend Payment Date

### 22 October 2019

2019 Annual General Meeting

## Annual General Meeting

The Annual General Meeting of the members of McMillan Shakespeare Limited A.B.N. 74 107 233 983 will be held on 22 October 2019 at 10:00 am at the State Library of Victoria, Ground Floor, 328 Swanston Street, Melbourne, in the Theatre.

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## Chairman's Report



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The McMillan Shakespeare (MMS) Group performed soundly during the 2019 financial year, delivering revenue of \$549.7 million and underlying net profit after tax and amortisation (UNPATA) of \$88.7 million.

While more modest than FY18, this result reflects a period punctuated by difficult trading conditions, increased competition and a changing regulatory environment.

Despite these challenges, I am pleased to report that the Group has been proactive during the year, as we work toward building a sustainable platform for future growth through leveraging the scale we have built over recent periods and pursuing our strategic growth priorities.

We achieved several significant milestones, including the retention of major clients for the long term in our core Group Remuneration Services (GRS) business, as well as securing substantial new contracts in this segment. Additionally, our commitment to create a more efficient operation through increased investment in digital innovation progressed well.

For FY19, we were pleased to deliver a fully franked dividend of 74.0 cents per share, a 1.4% increase on the prior year.

## Operating Market

Group revenue for FY19 of \$549.7 million was in line with \$545.4 million in FY18. This result is considerable in the context of one of the more challenging periods the industry has faced.

The Australian new car sales market has been in steady decline for the past 15 consecutive months with new car registrations declining by 7.8% for the twelve months to 30 June 2019 compared with the previous period, while in the United Kingdom (UK) new car registrations declined by 3.4% during the second half of the period compared with the second half of FY18, continuing a downward trend in that market. Low wage growth and a housing market downturn have contributed to these conditions in Australia, while uncertainty as Brexit negotiations draw out, along with regulatory changes to new car emissions standards have dampened demand in the UK.

In this context our achievements for the year are a positive reflection of the Group's resilience, and the quality of our businesses.

The strong growth we've experienced over recent periods has been a product of the market leading position we have worked hard to establish, particularly with respect to our core business. As difficult trading conditions continue, maintaining that position will be critically important. Ensuring our offering remains compelling has been an overarching priority, driving much of the work done this year. Accordingly, your Board is confident that we are well positioned for FY20 and beyond.

As the regulatory environment continues to undergo substantial change we remain vigilant in ensuring we meet our responsibilities to both our customers and the communities in which we operate.

Additionally, as a result of our ongoing commitment to increase Principal and Agency (P&A) funding, specifically in our Asset Management business, and our conservative approach to gearing and strong operating cash flow, the Group currently has surplus capital and excess franking credits.

## Group Performance

While UNPATA declined by 5.1% to \$88.7 million, our respective business units performed well operationally during the year.

The GRS segment delivered a pleasing operational performance, with revenue increasing to \$221.9 million up 6.8% from \$207.8 million in FY18. Our focus on customer engagement and technological innovation helped deliver record numbers of salary packages and novated leases.

The operational performance provided evidence that our investment in technology – our Beyond 2020 program - is improving the way we operate. We expect that Beyond 2020 will continue to deliver improved performance, by improving the way we engage with our customers, whilst systematically lowering our cost to serve.

The retention of our larger clients for extended periods was a major highlight during the year, along with several significant new contract wins, in both the corporate and public sectors. These wins are an excellent reflection of the strength of our offering, and our capability to consistently deliver customer value in a highly competitive market.

These highlights are particularly encouraging for the future.

Asset Management (AM) in Australia and New Zealand (AU/NZ) recorded a decrease in UNPATA of 11.4% to \$14.0 million. Pleasingly, new business opportunities in the Group's core not-for-profit customer base were identified, which leverage existing strong relationships held by our GRS and Plan Partners businesses. These clients are well suited to our offering and present good potential for organic growth.

## Chairman's Report

The strategy for our UK asset management and broking businesses remains to create a substantial, profitable business, and pleasingly we are now established as one of the top five providers of asset finance in the local market. Assets under management increased, whilst as a result of a strategic program to improve return on capital, we disposed of a number of assets over the period. However, uncertainty with respect to the political and economical environment, a significant reduction in asset finance growth in the broader market and historically low interest rates, along with a reduction in new vehicle supply as a result of changes to European vehicle emission standards have contributed to the reduction in UNPATA to \$3.2 million for the period.

In our Retail Financial Services (RFS) segment, the finance broker aggregation business again performed well, recording an increase in finance volume of 5.1% to \$1,018.2 million, while our retail business was impacted by the downturn in the motor vehicle retail sales market and ongoing regulatory uncertainty. However, we were pleased to introduce a redesigned suite of warranty and insurance products to market during the period.

This process is continuing and we are proactively working to create further enhancements to the design and distribution of these products. However, given the inherent uncertainty associated with the current regulatory and market environment, we decided to write-off the remaining goodwill and other intangible assets of \$18.3 million associated with the warranty business in our FY19 financial results.

The segment is also subject to the outcome of a class action claim brought against our warranty business. The claim concerns the Davantage Group Pty Ltd (a subsidiary of Presidian Holdings Pty Ltd which was acquired by the MMS Group in 2015) and relates to allegations concerning warranty products sold by Davantage Group (trading as NWC) between 1 July 2013 and 28 May 2015. The proceedings are being vigorously defended.

Our Plan Partners business delivered an encouraging performance, recording its inaugural positive profit contribution. This result demonstrates an increasing awareness of the value of plan management services to individuals living with disability, and an accordant recognition of our offering.

We remain optimistic about the future growth and contribution of Plan Partners to the Group, and the value the private sector can provide to the National Disability Insurance Scheme (NDIS) and its participants.

### Mergers and Acquisitions

In terms of non-organic growth, acquisitions have been a key part of delivering shareholder value since inception. During the year, the Group entered into a Scheme of Arrangement for the acquisition of Eclipx Group Limited (ASX:ECX) - a provider of, inter alia, fleet vehicle leasing and management services. With market consolidation expected to drive shareholder value, we identified a sound industrial logic in coming together with Eclipx, including a range of material synergies. However, in April we agreed with Eclipx to terminate the scheme.

Whilst this acquisition did not proceed, we will continue to explore opportunities to inorganically add value, create further scale and enhance our market position.

## Trading and Regulatory Environment

At the time of writing, recommendations from the Royal Commission into Misconduct in the Banking, Superannuation and Financial Services Industry (Royal Commission) have yet to be implemented.

What is clear is that responsible lending practices and responsible product distribution is now more of a focus than it has been in the past.

Ensuring that our products and services remain market leading while also maintaining our responsibility to customers has been a priority for the Group for some time, well before this climate of heightened regulatory scrutiny. In FY19 we introduced several refined products into our RFS business and we expect more to follow in FY20, with a view to setting a market-leading benchmark for delivering customer value.

We will continue to review our operations, and our products, and duly engage with regulators where appropriate, to ensure that the needs of our customers remains at the centre of our offering.

## Environment, Sustainability and Governance

An important initiative undertaken during the year was the establishment of our dedicated Environment, Social and Governance (ESG) steering committee.

While for several years we have taken a formal approach to our social, environmental and economic responsibilities, the formation of this committee is designed to provide strategic direction and a sharp oversight to our sustainability commitments. It will also ensure we maintain appropriate disclosure of initiatives designed to meet these responsibilities.

While our annual Sustainability Report provides a comprehensive review of these activities, this Annual Report will also provide you with an update as to various initiatives, programs and indicators that are geared toward ensuring we meet our obligations to our people, our customers, the environment, and the community more broadly.

## Priorities and Outlook

In the face of the challenges presented during FY19 we are committed to ensuring our value proposition remains compelling. Much of the hard work undertaken by our teams in FY19 has been done with that overriding priority in mind.

Strategic priorities for the period ahead include:

- For our GRS business, we will continue to invest in our Beyond 2020 program as a central pillar of the transformation of our core business into a digitally driven, highly efficient, customer focused operation. We expect the program to continue to deliver improved performance, whilst systematically lowering our cost to serve.
- We will also place continued priority on client retention and increasing engagement in order to drive further organic growth.
- In our AM business, diversifying our client base will remain a priority, while we will also continue to leverage synergies with the GRS segment. Increasing return on capital employed through an increased share of principal and agency funding will remain a focus – this approach to capital management will deliver further benefits as the business grows.
- In the UK, we will continue to assess the current economic and market conditions as part of an ongoing strategic review.
- The RFS businesses will maintain vigilance with respect to changes to the regulatory landscape and continue work to ensure our products are market leading while maintaining a very compliant, customer-centric focus.
- In our newest business Plan Partners, building scale and delivering growth through our leading value proposition in a developing market will remain the highest priority.

I would like to acknowledge and thank Chief Executive Mike Salisbury, the Executive and the wider MMS team for their hard work in what has been a challenging year. To achieve all they have in FY19 is a credit to them. That hard work is particularly important this year given our dedicated focus on equipping the Group for a bright future.



**Tim Poole**  
Chairman

## Chief Executive Officer's Report



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I'm pleased to report that the MMS Group's performance in FY19 is a good reflection of the strength of our core offering during a year in which we encountered a number of headwinds.

Strong organic growth in key revenue driving channels, the retention of major clients, and an increase in assets under management were particularly pleasing milestones for the year. Our newest business, Plan Partners, delivered its first profitable period, while our transformational Beyond 2020 program began to deliver a return on investment and drive a reduction in our cost base.

Group UNPATA was \$88.7 million, and while lower than the prior year, it is nonetheless encouraging in the context of these headwinds, which included economic, regulatory and political factors. While our marketplace will always be competitive, we are confident that our achievements this year leave us well placed for FY20 and beyond.

The performance of our core GRS segment was pleasing from an operational perspective, particularly as the Australian new car market continued to underperform.

Both salary packages and novated leases grew notably during the year, by 2.5% and 7.4% respectively. The increase in salary packages reflected our commitment to value-added customer engagement, lifting participation rates and attracting new customers, while novated lease growth was in part attributable to the Beyond 2020 program, primarily driven through the commitment, focus and execution of our people.



In our AM segment, we continued our disciplined approach to capital management, increasing our off balance sheet funding to 18.0% of our overall portfolio, which drove further improvement in our return on capital employed. The written down value of assets under management across Australia and New Zealand remained stable during the period.

In the UK, economic and market uncertainty has impacted business and consumer confidence which has in turn created soft trading conditions and led to a segment UNPATA of \$3.2 million, down from \$5.7 million for the previous period. In these market conditions there has been a fall in business confidence and an increase in the number of insolvencies. Regrettably, we have experienced this first hand through the failure of Axis Fleet Management, which went into receivership in the second half of FY19, resulting in a write down of \$3.7 million in our Net Profit After Tax (NPAT).

Regulatory change in our RFS segment has been a constant for the past few years. Whilst this was again the case in FY19, the under-performing car sales market was an additional headwind for the business. Our aggregation businesses nevertheless performed well, delivering a 16.4% improvement in profit after tax. This is a quality performance given the transition to the new 'flex commissions' environment in November 2018, demonstrating the strength of the relationships with our brokers and the importance of a diversified lender panel.

Overall the RFS segment UNPATA was down 26% following the closure of the Money Now retail finance businesses at the end of FY18 and a continued lift in claim ratios in our risk business as a result of proactive changes to product design, including our dealer warranty product, underpinning an increase in the level of net warranty claims paid during FY19.

Our newest business, Plan Partners, delivered a profit in its first full year trading as a national organisation. We have established a market leading position in what remains a steadily growing market, while we have also created a strong capacity for scale as the NDIS is rolled out.

The Group's performance in the context of these market factors is underpinned by our core strengths and our commitment to customer service. Market-leading customer service is, and will continue to be, an essential differentiator as price-driven competition increases. In that sense, I thank all our people for their continued hard work and dedication.

## Segment performance

Against the backdrop of a highly competitive environment, our GRS business performed well. Salary package and novated lease units both increased, and a high client retention rate and a series of new business wins were pleasing highlights that leave us well positioned for FY20 and beyond.

Increased levels of customer salary package participation were primarily driven by our customer engagement initiatives, such as 21,627 on-site client education sessions delivered by our teams over the course of the year. These sessions not only drive increased participation but are a proven point of competitive advantage.

A further focus during the period was to develop a better understanding of customer needs and preferences in order to deliver improved outcomes. This focus on an improved value proposition allows us to tailor novated lease and salary packaging benefits solutions to a customer's specific circumstances, which has played an important role in uplifting sales conversions and customer growth.

The positive influence of these initiatives is reflected in our Net Promoter Score, which increased to 52.9 on monthly average (up from 49.1 in FY18), a world class result and well above the sector benchmark. Customer satisfaction is also reflected in improved Product Review ratings (on social media platforms) for both Maxxia and RemServ at 4.3 and 4.4 respectively.

Segment performance was also supported by ongoing investment in, and development of the Beyond 2020 program.

Mobile applications for both Maxxia and RemServ were substantially enhanced during the period, primarily to increase functionality and usability via this platform. This aligns with our core goal of enabling customers to self-serve via the means of their choice, at their own convenience. This medium is a key plank of our focus on enhancing our offering and maintaining a market-leading level of customer service as a distinct point of competitive difference.

## Chief Executive Officer's Report

Our AM business, in Australia and New Zealand, reported a UNPATA result of \$14.0 million, down from \$15.8 million in FY18, together with a 5.5% decrease in total asset units under management. It is worth noting the FY18 performance was bolstered by early termination profits and therefore is not an accurate reflection of the year-on-year performance. The FY19 result does reflect the highly competitive market place and the lack of business confidence and commitment to invest in new assets, the combination of which has led to an increase in the number of vehicles in inertia. This results in a further aging of our fleet and a delay in realising end of lease profits from the sale of these assets.

We also continued to focus on leveraging synergies with the GRS business through a trade-in program, which provides novated lease customers with the option of returning their end-of-lease vehicles to the AM business for remarketing through the Just Honk retail car channel. This has the benefit of providing a pipeline of quality stock to Just Honk, which provides a customer focused end-of-lease solution that also delivers a new revenue stream for the Group. The business also undertook a refresh of digital systems and processes aimed at improved customer service and process efficiencies.

Our commitment to increase the off-balance sheet funding to around 30% of our assets continues, with \$68.6 million now funded through P&A arrangements, representing 18.0% of our book.

Our UK business has experienced a unique set of factors including economic uncertainty and increased market competition which impacted on market growth and margins.

The RFS segment operated in an environment influenced by a soft retail vehicle market and ongoing regulatory change. The aggregation businesses nevertheless performed well. This was particularly pleasing given it followed significant regulatory change – the removal of flex commissions in November 2018. The result was driven by a strategic focus on diversification of the lender panel and a growing presence in the commercial asset market.

The declining retail car sales market presented a challenge for our warranty and insurance businesses. The full extent of implications arising from the Royal Commission and an Australian Securities and Investment Commission (ASIC) review into these products are still unclear. Nevertheless, the business has taken proactive steps to further enhance its offering through refreshed products and an increased focus on sales penetration through franchise dealerships.

Pleasingly, our Plan Partners business delivered solid growth in FY19 underpinned by significant expansion of our customer base, resulting in an increase in the total value of client plans under our administration, from \$86.3 million in FY18 to \$268.9 million at year end.

The NDIS sector is still growing and the introduction of our expertise in high volume transactions and funding allocation administration has been critical to growth. Our investment in technology, creating a more transparent and user-friendly experience for participants and a more efficient experience for providers, was also a strong driver of performance and this focus will continue in FY20 and beyond. We have established a market-leading position in this growing sector, aiming to create scale and generate growth as we help empower people with disabilities.

## Beyond 2020 update

In FY18 we were pleased to announce the launch of the Beyond 2020 program, as well as further investment in our core business technology platforms.

With a multi-purpose aim of reducing cost and improving sales conversion, whilst delivering an improved customer experience, the program began to deliver results in FY19.

A significant achievement for the program in FY19 was the successful implementation of a dedicated Motor Dealer Portal, which was rolled out to over 540 preferred dealers nationwide. This enables us to better track the performance of our preferred dealer network, monitoring turnaround, pricing, and win rate, allowing us to better understand and leverage our network, ensuring both competitive pricing and faster delivery timeframes. This initiative has contributed to the increase in novated lease units for both Maxxia and RemServ.

Additionally, part of the aim of the Beyond 2020 program is to deliver internal efficiencies through improved communications, and a reduction in customer contact points through process optimisation and the removal of manual tasks as appropriate.

During the year we introduced several robotic functions to manage repetitive, high volume tasks, which to date have completed over 150,000 requests, saving over 19,000 hours of manual processing. These enhancements, whilst allowing us to redirect team members into other valuable customer engagement initiatives, have delivered productivity improvements to the business that have enabled us to reduce the cost to serve.

Beyond 2020 is a three-year transformational program that continues in FY20.

In conclusion, I would like to thank the Board for its commitment and to acknowledge the hard work and dedication of the MMS team, across all our locations in what has been a difficult, but at the same time encouraging year. While the market continues to present numerous challenges, our teams are hard at work as we prepare the Group for a profitable future.



**Mike Salisbury**  
Managing Director and Chief Executive Officer

## McMillan Shakespeare – Driven by our people

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The McMillan Shakespeare Group is made up of a highly diverse and committed workforce of more than 1,300 people across Australia, New Zealand and the United Kingdom.

The Group's growth in recent years is a direct reflection of the hard work and talent of our people, and importantly their drive to succeed. As we continue to grow as a business, our ongoing investment in the development, growth and wellbeing of our people remains critical. We cannot achieve one without the other.

This investment forms part of our focus on the environment in which we operate, the sustainability of our products and services and ensuring appropriate levels of governance are embedded across the organisation. We recognise the responsibility we have to the communities in which we operate, and ensuring MMS is a healthy and positive place to work. Our priority is to cultivate an environment in which our team members are engaged, empowered and given every opportunity to be the very best they can be.

The Group had a very positive year in FY19 in terms of staff engagement and empowerment. Our challenge remains to continue to focus on the development, enablement and wellbeing of our team as they lead us forward in future years.

### Learning and Development

During FY19 part of our investment in people was reflected in the implementation of a new Learning Management System (LMS), which enables us to develop tailored professional development opportunities to the needs of our employees and leaders.

Our people participated in more than 43,000 hours of specialised learning and development programs during the period, a record number for the Group. This included 177 leaders completing one or more leadership development related programs.

Pleasingly, the number of employees who experienced a new internal role/career opportunity as a result of promotion, secondment, appointment or transfer, totalled 280 during the year, 56% of whom were female, representing 21% of the Group's workforce. This result stands testament to the quality of our people and strength of our learning programs.

## Employee Engagement

During FY19 we conducted our biennial Employee Engagement Survey, which showed a significant improvement across all aspects of the employee experience. Our Sustainable Engagement score of 79% represented a 3% increase on our 2017 result, and most pleasingly represents an employee experience that is more positive than for employees in other Australian and Global Financial Services companies in most areas.

This upward trend was consistent across all business units, demonstrating that our people feel involved, engaged and well supported, which positions us well to achieve even better business and customer outcomes.

Also pleasing was that we achieved a very high level of participation, with 86% of our employees completing the survey, demonstrating their level of engagement and trust in the organisation to ultimately act on the feedback provided.

Key survey findings included:

- Our people are inspired, feel connected to the purpose of the Group, and are optimistic about their roles and the future of the business;
- Our people feel they are working in a constructive environment where they are valued and given the opportunity to excel and develop at both a personal and professional level; and
- The Group improved in areas that we know matter to high performance, such as values, positive working relationships, and a connection to leaders across the company who are focused and caring.

The survey also identified areas for improvement which will be a focus for the Group in FY20 and beyond.

## Empowerment

Other people-focused initiatives and policies that progressed in FY19 included:

- **WorkDay and LearnLab** – the introduction of intuitive, cloud-based systems which enable team members to manage their own working experience, including applying for and reviewing leave, applying for internal job opportunities, communicating with other employees and managers, and accessing a broad suite of learning programs.
- **Workplace volunteering** – our teams are encouraged to contribute to charitable causes through our workplace volunteering program. In FY19 our teams provided volunteer support to a range of causes, including Greenfleet tree-planting in northern Sydney, assistance to the Royal Flying Doctors service in Queensland and support of the Salvation Army in Western Australia.

## Driving What's Possible Hero Awards

Driving What's Possible, launched in 2015, is the Group's 'Why', the reason why the organisation exists for its customers and people. It provides the Group with a long term vision, purpose, position and values, supporting day-to-day actions and decision making, ultimately providing a platform to drive future engagement, growth and value.

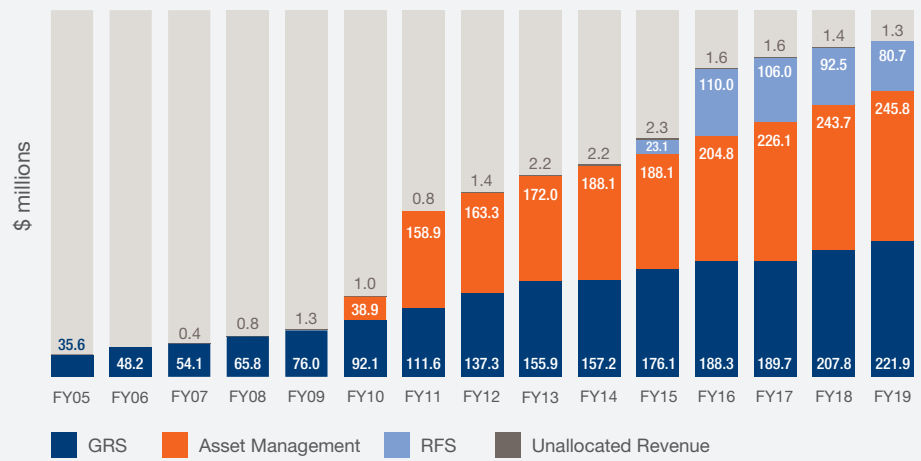
Each year, employees are given the opportunity to recognise and reward colleagues who embody the Group's values and go above and beyond in their contribution to the Group.

Providing opportunities for peer recognition allows team members to show support for each other and celebrate the pride in putting the customer at the heart of all that we do which is central to our positive culture and fostering a workplace where people can thrive.

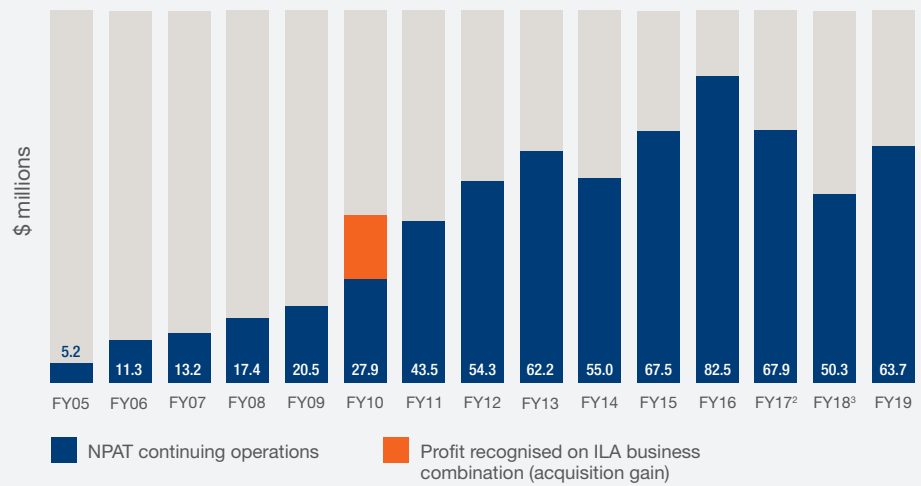
Across the period, the Group received a record 101 nominations from team members, with four employees receiving a Hero Award for their contribution and commitment.

# Financial History

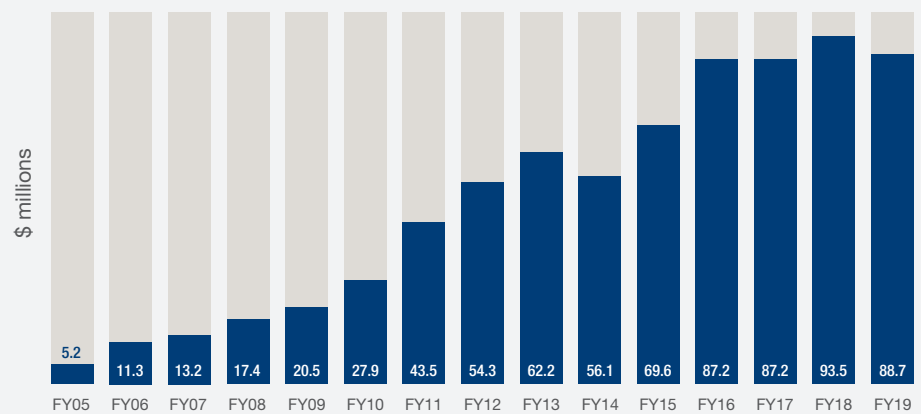
## Revenue performance



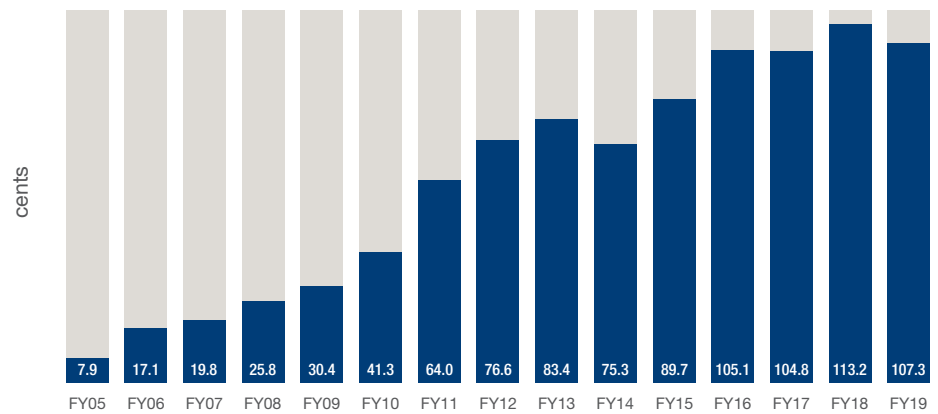
## NPAT performance<sup>1</sup>



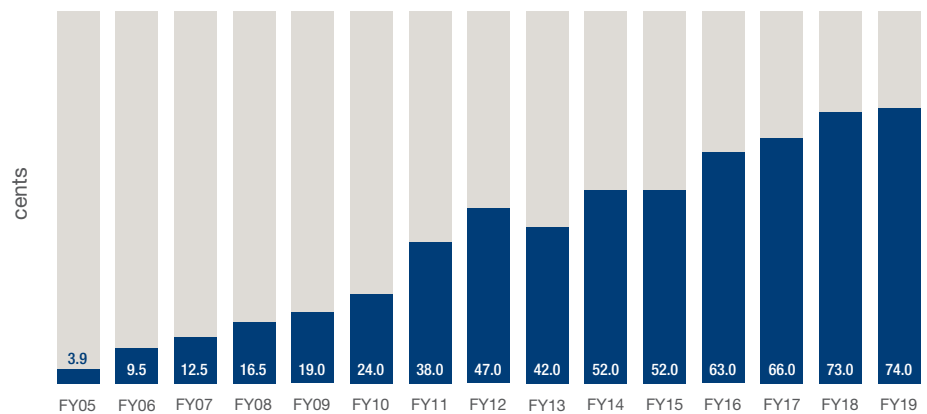
## UNPATA performance<sup>4</sup>



## Underlying earnings per share<sup>5</sup>



## Dividends per share



- 1 NPAT is normalised to exclude the profit recognised on acquisition of Interleasing (Australia) Limited in FY10 (\$17m profit after tax).
- 2 Includes asset impairment of \$15.3 million (after-tax) for the warranty and insurance business.
- 3 Includes asset impairment and closure of Money Now of \$6.9 million and impairment of \$38.0 million after-tax.
- 4 UNPATA is calculated as NPAT before the after-tax impact of acquisition related items (including impairment charge for intangible assets, acquisition expenses, amortisation of acquired intangible assets and deferred consideration items) and disposal of business. FY19 UNPATA excludes one-off provision for a UK contract of \$3.7m (post tax).
- 5 Underlying EPS is UNPATA divided by the weighted average number of MMS shares in the respective year.

## Key Metrics

### Our Customers



**343,100**  
Salary packages  
Up 2.5%



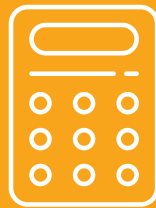
**68,000**  
Novated leases  
Up 7.4%



**45,100**  
Asset pool (units)  
Up 5.4%



**\$500m**  
Assets managed (WDV)<sup>1</sup>  
Down 3.9%



**\$2,950m**  
Net amount financed  
Up 3.5%



**\$269m**  
Plan partners client funds  
under administration  
Up over 100%



**52.9**  
Industry leading Net  
Promoter Score (NPS)  
Average monthly score during FY19



**99%**  
Customer  
complaints resolved  
By MMS and our Customer  
Advocate without referral to  
an external complaints authority



**86%**  
Online claims take up rate  
At 30 June 2019



Our People

Our Environment<sup>2</sup>



**1,334.7**  
 Employees (FTE) MMS Group  
 At 30 June 2019



**3.2%**  
 % reduction in greenhouse emissions  
 from the Company's car fleet  
 (YOY reduction)



**79**  
 Employee Engagement Score. High  
 performance work environment ranking  
 2019 survey result (survey biennial)



**7.9%**  
 % reduction in greenhouse emissions  
 from electricity  
 (YOY reduction) (tonnes CO2 per FTE)



**43,049**  
 Staff training & development hours



**Carbon Neutral**  
 Carbon neutrality  
 (net zero carbon footprint)  
 Achieved from the offset of 100% of CO2 emissions  
 caused by the production of printed material

1 Written Down Value (WDV) inclusive of on and off balance sheet funding  
 2 Australian operations  
 Note: Movements compared to prior corresponding period

## Directors' Report

The Directors of McMillan Shakespeare Limited (Company or MMS) present this report on the consolidated entity, consisting of the Company and the entities that it controlled at the end of, and during, the financial year ended 30 June 2019 (Group or MMSG).

### Directors

The Directors during the whole of the financial year and up to the date of this report (Directors) are as follows:

**Mr Tim Poole** (Independent Non-Executive Director)

**Mr John Bennetts** (Non-Executive Director)

**Mr Ross Chessari** (Non-Executive Director)

**Mr Ian Elliot** (Independent Non-Executive Director)

**Mr Mike Salisbury** (Managing Director and CEO)

**Ms Sue Dahn** retired as Independent Non-Executive Director on 30 September 2018

**Ms Helen Kurincic** was appointed to the position of Independent Non-Executive Director effective 15 September 2018.

Details of the qualifications, experience and special responsibilities of the Directors at the date of this Annual Report are set out on pages 28 and 29.

The Directors that are noted above as independent Directors, as determined in accordance with the Company's definition of independence, have been independent at all times throughout the period that they held office during the financial year ended 30 June 2019.

### Directors' meetings

The number of meetings held by the board of Directors (Board) (including meetings of committees of the Board) and the number of meetings attended by each of the Directors during the financial year ended 30 June 2019 were as indicated in the table to the right.

### Principal activities

The principal activities of the Company and its controlled entities during the course of the financial year ended 30 June 2019 were the provision of salary packaging, novated leasing, asset management and related financial products and services.

In the opinion of the Directors, there were no significant changes in the nature of the activities of the Company and its controlled entities during the course of the financial year ended 30 June 2019 that are not otherwise disclosed in this Annual Report.

## Directors' meetings

Director	Board Meetings		Audit, Risk & Compliance Committee Meetings		Remuneration & Nomination Committee Meetings	
	Eligible to Attend	Attended	Eligible to Attend	Attended	Eligible to Attend	Attended
Mr T Poole (Chairman)	34	34	10	10	6	6
Mr M. Salisbury (Managing Director and CEO)	34	34				
Mr J. Bennetts	34	30	10	8		
Mr R. Chessari	34	33			6	6
Mr I. Elliot	34	31			6	6
Ms S. Dahn	5	4	3	3		
Ms H. Kurincic	30	29	7	7	5	5

## Results

Details of the results for the financial year ended 30 June 2019 are as follows:

Results	2019	2018
Net profit after income tax (NPAT) attributable to owners of the Company	\$63,672,478	\$50,302,815
Underlying Net profit after income tax (UNPATA) <sup>1</sup>	\$88,696,719	\$93,518,774
Basic earnings per share (EPS)	77.0 cents	60.9 cents
Underlying earnings per share	107.3 cents	113.2 cents
Earnings per share on a diluted basis (DPS)	76.4 cents	60.6 cents

<sup>1</sup> UNPATA is calculated as NPAT before the after-tax impact of acquisition related items (including impairment charge for intangible assets acquisition expenses, amortisation of acquired intangible assets and deferred consideration items) and disposal of business. FY19 UNPATA excludes one-off provision for a UK contract of \$3.7m (post tax).

## Dividends

Details of dividends paid by the Company during the financial year ended 30 June 2019 are as follows:

Dividends	2019	2018
Final dividend for the financial year ended 30 June 2018 of 40.0 cents (2017: 35.0 cents) per ordinary share paid on 28 September 2018 fully franked at the tax rate of 30% (2017: 30%).	\$33,066,636	\$28,938,343
Interim dividend for the financial year ended 30 June 2019 of 34.0 cents (2018: 33.0 cents) per ordinary share paid on 22 March 2019 fully franked at the tax rate of 30% (2018: 30%).	\$28,106,641	\$27,278,654
<b>Total</b>	<b>\$61,173,277</b>	<b>\$56,216,997</b>

Subsequent to the financial year ended 30 June 2019, the Directors declared a final dividend of 40.0 cents per ordinary share (fully franked at the tax rate of 30%) to be paid on 11 September 2019, bringing the total dividend to be paid for the financial year ended 30 June 2019 to 74.0 cents per ordinary share.

## Directors' Report

### Review of operations – Group

The MMS Group delivered a sound performance in FY19, pleasing in the context of a challenging operating environment, punctuated by difficult trading conditions and a highly competitive market place more broadly.

Across the Group, we continued to focus on enhancing our value proposition, leveraging scale and pursuing our strategic growth priorities with a view to creating a sustainable platform for future growth.

Return on equity (ROE) was 23.3% and ROCE was 21.2%.

In the GRS business, we achieved record sales results for both salary packaging and novated leases, reflecting the impact of both the Beyond 2020 program and our continued focus on targeted customer engagement.

Earnings before interest, tax, depreciation and amortisation (EBITDA) increased to \$102.6 million, up 5.8%. This in part reflected an accelerated operational expenditure of \$3.1 million during the period in the Beyond 2020 program, which has begun to deliver a return on investment, in terms of cost efficiencies, enhanced customer service and revenue generation.

One of the Beyond 2020 program's most significant influences, with respect to operational efficiency during the year, was the introduction of a dedicated Dealer Portal. This enables us to better track the performance of our preferred dealer network, tracking turnaround, pricing and win rate, thereby ensuring both competitive pricing and faster delivery timeframes. This initiative has contributed to the increase in novated lease units for both Maxxia and RemServ.

In the AM AU/NZ business, P&A funding increased during the period by 69.4% to \$68.6 million, as our disciplined approach to capital management continued. Segment UNPATA reduced to \$14.0 million, which again reflected the competitive market place and the soft vehicle market more broadly. The performance of our vehicle remarketing team was pleasing with average returns at or ahead of budget, the only limitation being the increase in vehicle inertia from clients electing to extend existing leases over replacing with new assets.

In the UK, despite recording organic growth through new client wins, segment UNPATA for the period was \$3.2 million, reflecting the struggling domestic new car sales market and reduced business confidence.

The RFS segment was led by another strong performance from our aggregation business which has adapted well following the implementation of the new flex commission regulations.

The retail business focused on the redesign and redistribution of warranty and insurance products with an increased emphasis on penetration through franchise dealerships. This initiative was supported by the launch of a dedicated Presidian retail brand in order to create distinct market differentiation between the two warranty and insurance product offerings. Enhancements to our warranty and add-on insurance products were introduced during the period, with further new products expected to be introduced in FY20.



## Key highlights and activities

The segment continued to operate against a backdrop of regulatory uncertainty, with implications from the Royal Commission still not fully understood at the time of writing. UNPATA was \$6.4 million, a reduction from FY18, which reflected weak conditions in the retail car market.

Our Plan Partners business delivered its first profitable period. The result was driven by significant growth of our customer base, and the expansion of our provider network. Building scale in the still developing NDIS market is a priority and the introduction of new technology to increase efficiency has contributed to the establishment of our market leading position. Awareness within the sector of the value of plan management services is still relatively low, presenting an opportunity to grow market share through sector education and marketing initiatives that support our value proposition.

### State of affairs

There were no other significant changes in the state of affairs of the Company and its controlled entities during the financial year ended 30 June 2019 that are not otherwise disclosed in this Annual Report.



**\$549.7m**  
Group revenue

- Group revenue of \$549.7 million, an increase of 0.8%
- Group FY19 UNPATA of \$88.7 million
- Group vehicle assets under management including novated totalled 113,100 units as at 30 June 2019
- Strong organic growth rates in salary packaging and novated leasing
- Plan Partners recorded its first profitable year

# Directors' Report

## Outlook

Ongoing investments in the upgrade of core technology platforms and the Beyond 2020 program (FY19 to FY21), will continue in FY20 and are expected to further reduce costs and increase sales outcomes, beyond what the program delivered in FY19. We expect organic growth opportunities to present, following a series of new client wins during the second half of FY19, which will be well supported by ongoing implementation of the Beyond 2020 program.

In the AM business, retaining our existing customers and further diversification of our customer base will remain a key focus, with an emphasis on leveraging existing relationships held by the broader Group. Improving our return on capital through increased share of P&A funding will continue.

A strategic review of the UK business is underway to determine whether our existing strategy continues to best address this opportunity.

In the RFS segment, we continue to focus on improved product design. As various proposed regulatory reforms remain pending, we continue to actively engage with regulators. Increasing penetration of both warranty and insurance products through franchise dealerships will continue as an important initiative.

In the finance aggregation business, we will focus on further developing relationships with lenders and broker partners and explore opportunities to add further diversity to our lender panel.

The focus for Plan Partners is to continue to build scale and profit growth through our investment in digital enhancements to create a market-leading customer experience, and strategic marketing initiatives aimed at increasing referrals and raising awareness of the value of private sector plan management services.

## Strategy and prospects

The Group's strategic direction remains focused on systematically reducing our cost to serve while simultaneously growing revenue. Additionally, reviewing our products and practices to ensure they remain compelling and market leading is an important priority, particularly as the regulatory environment in which we operate continues to evolve at speed.

This includes continuing our program of digital innovations and long-term investment in technology across core sales and operating platforms in the GRS business, driving organic growth from new and existing clients. In the AM business, continued disciplined balance sheet management, the diversification of our customer base and an increase in remarketing activity will remain key priorities.

For Plan Partners, we will continue to focus on growing our market share and increasing profitability as the leading service provider in plan management.

Our disciplined approach to capital management has resulted in surplus capital and excess franking credits. The MMS Board will consider the best uses for this capital, including further acquisitions and other capital management initiatives.

## Events subsequent to balance date

On 21 August 2019 MMS announced its intention to return around \$80 million to shareholders through an off-market ordinary share buy-back (Buy-Back). The Buy-Back will be funded from existing cash. MMS will maintain a strong balance sheet following the Buy-Back.

Details about the Buy-Back will be contained in a Buy-Back booklet, including shareholders' eligibility and the tender process. The booklet is expected to be released on 28 August 2019 and will be sent to shareholders shortly after that date. The Record Date will be Thursday, 29 August 2019.

## Likely developments

Other than information disclosed in this Annual Report, there are no other material likely developments affecting the operations of the Group.

# Group Remuneration Services



## Group Remuneration Services

The GRS business performed well in the face of a challenging operating environment in FY19, with revenue of \$221.9 million representing an increase of 6.8% from FY18, while UNPATA increased by 3.1% to \$66.1 million.

New client wins and a strong client retention rate were significant highlights for the year, and are central to the establishment of a platform for future growth.

This financial performance is pleasing, given weak consumer sentiment in the domestic economy has driven a steady decline in new car registrations in Australia over the past 15 months, in a market characterised by traditionally high levels of competition.

While revenue growth was lower than expected, the segment delivered a strong operational performance, reflecting our ongoing focus on improving the customer experience and creating operational efficiencies. Increased participation rates, driven by focused customer engagement activities, contributed to the salary package growth, while an increase in novated lease conversions was attributable to our investment in enhanced digital platforms and the expertise and commitment of our people.

With respect to client retention, both Maxxia and RemServ successfully renewed key contracts with several major public and private clients, for extended periods.

These renewals also complemented several mid-sized client wins.

We were very pleased to kickstart our FY20 with a significant new contract win in Victoria, signing Melbourne Health – a major new cornerstone client in the public healthcare sector. This client will add more than 7,500 salary packages to Maxxia from 1 July 2019, with scope for further organic growth. In New South Wales (NSW), Maxxia retained several key private sector clients, and was also appointed to the NSW Health Novated Lease Panel, offering access to more than 130,000 public sector staff.

In Queensland, RemServ delivered strong year-on-year growth, and successfully renewed both the Queensland Government salary packaging and novated leasing contracts for a further two years.

Western Australia, South Australia and Tasmania all recorded valuable new business wins.

Our commercial capability and solid industry reputation for delivering realised value to clients were key contributing factors to the strong retention rate, the increased participation rate, and the new contracts wins.

This strong operational performance, combined with our continuing investment in enhancing our digital capability and improving the customer experience, helped to consolidate our market-leading position. The focus continued to be on creating a strong point of product value and differentiation, and a sound platform for sustainable and flexible future growth in a competitive marketplace punctuated by challenging trading conditions.

## Beyond 2020 update – Accelerated investment driving performance improvements

As indicated in FY18, Beyond 2020 is one of the largest transformation programs the Group has undertaken.

The program aims to deliver a two-fold impact - reduce operational costs through enhancing the customer and employee experience, while at the same time improving our sales performance. It is also designed to create a sales environment that allows us to nimbly meet future technological change and build scale into our operations.

During FY19, this program started to provide efficiencies with regard to segment operating cost while delivering increases in efficiency through enhanced digital capabilities.

This was reflected in further increases to the take-up of online claims (for both salary packages and novated leases), with Maxxia reaching 92%, up from 90% in FY18, while RemServ increased to 74%, up from 68% on the previous year.

Cost reduction initiatives included the implementation of automated processes and robotics to handle more than ten high volume, repetitive, rules-based processes and administration tasks that were previously performed manually. This enables our teams to focus on more value-added customer engagement activities. Performance figures to date demonstrate that the robotic functions perform these tasks up to three times faster and with 100% accuracy.

## Group Remuneration Services



Both the Maxxia and RemServ mobile applications were enhanced during the period. The upgrade provides customers with additional functionality and information to self-serve their accounts, while improvements to activity reporting were also enabled. This has the dual benefit of an improved customer experience and a further reduction in manual handling. As of June 2019, app users for both Maxxia and RemServ totalled more than 130,000.

The impact of these improved customer experience initiatives is reflected in our Net Promoter Score, which increased to a monthly average of 52.9, up from 49.1 in FY18, which is well above the industry benchmark. Customer satisfaction is also reflected in increased social media ratings.

Other implementation highlights for FY19 included the introduction of Interactive Voice Response (IVR) technology to the Maxxia switchboard, delivering a more efficient customer experience through automation.

These elements of the program are designed solely to increase flexibility for customers and allow them to self-serve through the platform of their choice, at their own convenience.

Ultimately, while this performance from an operational perspective was robust, competition has placed downward pressure on margins. As such our investment in technology in order to reduce costs and increase efficiency remains critically important, aligned with adopting a customer-centric approach to all our activity.

These strategic priorities will enable further enhancements to the way we operate and continually improve the customer experience. In an increasingly competitive marketplace, delivering realised client value and maintaining a high level of customer service remain central to future growth.

In terms of segment outlook, progression of the Beyond 2020 program will remain a priority for FY20, with a focus on cost reduction and efficiency improvements. Increasing participation among existing clients while targeting new business opportunities will also remain a key focus.

### Plan Partners

Our newest business, Plan Partners, delivered its first profitable period in FY19.

Formed in 2016, Plan Partners leverages existing competencies of the GRS segment – including management of large volumes of financial transactions, and existing relationships in the disability and not-for-profit sector – to provide plan management and support coordination services to participants of the NDIS.

The achievement of the business' inaugural profit is particularly pleasing, delivered in what is still an emerging market as the NDIS rollout progresses and reflects the emphasis the business has placed on building scale and creating a market-leading value proposition.

The MMS Board has maintained the view that NDIS participants should be given every opportunity to extract full value from their plan entitlement, and creating a service that delivers that outcome has been a key priority.

The FY19 performance was driven in part by the completion of our national expansion, following receipt of our NDIS registration in Western Australia.

Central to the business' capacity for scale and the creation of a market-leading value proposition has been an investment in technology that significantly improves the level of customer experience the sector had traditionally been accustomed to.

Implementation of these systems progressed well in FY19 and pursuing further enhancements and improving customer experience remain key priorities as we aim to deliver further efficiencies, improve the customer value proposition, and build further scale.





## Key highlights and activities

These technological enhancements involved the implementation of a range of self-service tools in our Customer and Service Provider Self-Service Dashboards - designed to improve both ease of access to, and the quality of, user information. This ultimately provides a greater degree of transparency for our customers, empowering them with a greater degree of choice and control of their plan management finances.

Additionally, these tools create a more efficient experience for providers and drive operational efficiencies through a reduction in manual processing workloads.

Raising awareness of the value of private sector involvement in plan management services for NDIS participants is equally important in driving further business growth, with strategic marketing and sector education initiatives undertaken during the year.

In terms of outlook, the focus for FY20 will be to drive further growth through scale and increase efficiency through ongoing development of digital systems in order to create profit and deliver shareholder return.

The business will also actively explore opportunities to accelerate growth through market consolidation in FY20-21.



**343,100**  
Salary packages



**68,000**  
Novated leases

### Group Remuneration Services

- Increased salary packaging units to 343,100 and novated leases to 68,000
- Contract renewal of several major clients for extended periods, and the signing of Melbourne Health, a significant new public healthcare client
- Strong organic growth via improved customer engagement rates



**\$268.9m**  
Client plans  
under administration

### Plan Partners

- Inaugural profit achieved during the period; recording UNPATA of \$0.58 million
- National expansion completed with significant new client growth and our provider network increasing to above 10,000 providers
- Increase in the value of client plans under administration to \$268.9 million

# Asset Management



## Asset Management – AU/NZ

The total written down value (WDV) of assets increased by 0.9% to \$380.2 million during the period, whilst the number of units under management decreased by 5.5% to 20,600 units. Segment UNPATA of \$14.0 million represented a decrease on FY18 (which was bolstered by early termination profits). The FY19 result reflects a highly competitive marketplace, a fall in business confidence driving an increase in contract extensions, resulting in delayed end of contract income.

ROCE improved as a result of increased principal and agency funding – a capital management approach which commenced during FY17.

In the face of an ongoing competitive marketplace, diversifying our customer base became an increasing strategic priority for the year. Encouragingly, this led to an increase in new business from the previous period, including several new client wins within the Group's core customer segment, which leverage existing relationships held by the GRS and Plan Partners businesses. These clients have volume requirements that are well suited to our core capability. Promoting the strength of our product offering in this sector will remain a focus for the business.

Several technological enhancements were implemented during the period in order to create a more efficient customer experience. These included a new Trade-In Platform that allows novated lease consultants to assist GRS customers to quickly organise a trade in value on their vehicle. This strengthens cross-sell opportunities with our GRS business and creates a platform for further scale.

Additionally, technological enhancements designed to improve operational efficiency were introduced during the period. These included an upgrade to our operating system and the implementation of an 'In-Life Services Dashboard', which provides 'real-time' data to customers, enabling more efficient fleet management. These enhancements also help to create operational efficiencies for our team members by reducing processing workloads.

Our NZ business performed strongly in FY19 achieving a 40.0% increase in total fleet size by maintaining its strong new business focus in the small-to-medium enterprise market. A new operating system is being implemented, which provides additional sales force effectiveness to sustain a growth outlook for FY20.

A second Just Honk retail car yard was opened on the NSW Central Coast during the year. Despite a soft used vehicle sales market, this channel has performed soundly, representing strong cross-sell and remarketing synergies with the GRS business through our trade-in program offered to novated lease customers. The returned end-of-lease vehicles are then remarketed through the Just Honk retail channel, providing a consistent pipeline of quality stock to the dealership, additional to the return of assets from our fleet management business.

The equipment finance business within the segment had another strong year, with solid organic growth, particularly in the wheeled equipment sector, delivering pleasing new business.

In terms of outlook, our focus for FY20 will be to maintain momentum in winning new clients with requirement for fleet management services and pursuing further cross-sell opportunities within the GRS business. Increasing ROCE through an increased share of P&A funding will remain a key priority.



## Key highlights and activities

### Asset Management and Finance Broking – UK

While the foundational platform established in the UK over the past few years has the business well positioned as a top five provider of asset finance and saw the business experience a 4.1% uplift in revenue during the year to \$63.9 million, FY19's performance was impacted by a combination of external factors which placed further pressure on margins.

Consumer sentiment in the UK new car market remained subdued, impacting business investment appetite, and subsequently, our volumes during the period, with fleet registrations more heavily impacted than the wider consumer market.

Ultimately these factors affected our ability to achieve the asset finance volumes expected, and together with an increased investment in people in order to further expand our broking network across new regions, impacted overall profitability.

We were pleased during the year to introduce into the business a new customer relationship management platform, enabling facilitation of a more structured customer contact program using a combination of resources (people) and communication tools, and providing for enhanced data analytics and customer segmentation.

A portfolio sell down of \$165.8 million during the year in order to release capital led to an 18.0% decrease in the written down value of assets under management to \$118.1 million as at 30 June 2019, while pleasingly net amount financed increased to \$986.9 million from \$886.5 million in FY18.



**\$500.0m**  
Fleet asset (WDV)

### Asset Management – AU/NZ

- Fleet asset WDV stable of \$380.2 million as at 30 June 2019
- Continued progression towards off balance sheet funding, accounting for 18.0% of the total asset value, increasing by 81% during the period
- Diversification of customer base led to new client wins in the not-for-profit sector
- Equipment finance opportunities gaining momentum



**11.3%**  
NAF increase

### Asset Management – UK

- Fleet asset WDV of \$118.1 million as at 30 June 2019
- FY19 UNPATA of \$3.2 million
- Challenging UK market conditions
- Achieved strong NAF increase of 11.3% over the prior period to \$986.9 million

## Retail Financial Services



### Retail Financial Services

Both the retail and aggregation businesses focused on enhancing their value proposition and product offering during the year, in the face of softer economic conditions and regulatory challenges.

#### Retail/Risk

The risk product business operated in a difficult trading environment, as the downturn in the motor vehicle industry impacted on volumes, and a combination of regulatory and economic factors created headwinds.

In the context of a changing regulatory environment, the business implemented further enhancements to the design and distribution of a number of its products during the year.

Operationally, a focus on increasing sales penetration through franchise dealerships was a priority during the period, with these channels representing a greater volume of stock, and potential for improved margins, in the current trading environment. This will remain a focus in FY20.

In November 2018, the business launched a new Presidian retail brand designed to create a clearer brand differentiation between franchise and independent used vehicle dealerships.

Introduction of the new brand coincided with the appointment by the business of a new underwriter offering enhanced value. From a regulatory perspective, the business will continue to monitor and actively prepare for several potential reforms following the Royal Commission. These include a proposed deferred sales model, and the removal of the Point of Sale Exemption for car dealers.

Additionally, ASIC launched a review of point-of-sale add-on products during the year, the outcomes of which are not known in the short term. As part of our focus on enhancing our product offering, we have been actively engaged with ASIC, as we look to drive positive change in the sector and maintain our commitment to delivering market-leading products.

To this end, the redesign of our risk products during the year including of our dealer warranty product, underpinned an 18.0% increase to \$13.1 million in the level of net warranty claims paid during FY19.

The segment is also subject to the outcome of a class action claim brought against our warranty business. The claim concerns the Davantage Group Pty Ltd (a subsidiary of Presidian Holdings Pty Ltd which was acquired by the MMS Group in 2015) and relates to allegations concerning warranty products sold by Davantage Group (trading as NWC) between 1 July 2013 and 28 May 2015. The proceedings are being vigorously defended.

### Aggregation

The aggregation business delivered a strong performance in FY19, delivering increases in NAF of 5.1% and UNPATA of 16.4% above the previous year.

During the period our two aggregation brands - National Finance Choice (NFC) and United Financial Services (UFS) - updated their look and identity under new branding, now presenting as NFC Aggregation and UFS Aggregation.

This change aligns NFC and UFS in the way the business presents the aggregation business to brokers, lenders and the wider market. To support and promote these changes, the NFC Aggregation digital presence was updated, ushering in a new phase for NFC online, with mobile friendly navigation, search engine optimisation, an updated visual identity, and a significantly improved user experience.



## Key highlights and activities

The business performance during the year was particularly pleasing, given it was delivered following one of the most significant changes in the asset finance industry in the last decade, with the removal of flex commissions from November 2018. Uncertainty resulting from the Royal Commission also affected sentiment in the finance broker segment and the period saw the withdrawal from the broker market of a large traditional lender.

Strategic management of, and continuing strong partnership-based relationships with, our large and diverse panel of lenders continued to be a foundation of the business' result for the period. A number of new lenders joined our panel in the period, providing our brokers with an even greater breadth and depth of secured and unsecured lending products for both consumers and commercial entities. With the increased focus on diversification by our brokers, we saw continued growth in commercial loans introduced by our broker network.

During the period, a significant number of finance brokers also chose to join the NFC-UFS Aggregation community - a pleasing result given the relative high levels of competition in the aggregation market, particularly in the second half of the period.

### Regulatory update

The business awaits further details on how and when recommendations from the Royal Commission will be implemented. Recommendations that may have relevance to the aggregation business include the proposed removal of the NCCP Point of Sale Exemption, and any changes which may flow from ASIC's review of Responsible Lending (RG209).

This evolving regulatory environment will continue to be monitored closely to ensure that the business is able to respond appropriately during FY20 and beyond. As part of this approach, the business is actively involved as a member of The Australian Finance Industry Association (AFIA), the Finance Brokers' Association (FBAA) and the Commercial and Asset Finance Brokers' Association (CAFBA).



**\$1,033m**  
Net amount financed

- FY19 UNPATA of \$6.4 million, down from the previous year's \$8.6 million
- Segment continues to operate with market and regulatory uncertainty
- Aggregation business performed well despite challenging conditions
- Net amount financed of \$1,033.2 million in FY19, a decrease of 2.7% from \$1,061.5 million in FY18
- Net claims paid increased 18% to \$13.1 million

## Directors' Experience and Special Responsibilities



### Tim Poole B Com

#### Appointed

17 December 2013  
(Non-Executive Director),  
28 October 2015 (Chairman)

#### Positions

Chairman of the Board  
Acting Chairman of the Audit,  
Risk & Compliance Committee  
Member of the Remuneration  
& Nomination Committee

Mr Poole is currently Chairman of Aurizon Holdings Limited and a Non-Executive Director of Reece Limited. Mr Poole was previously an executive of the unlisted infrastructure and private equity manager, Hastings Funds Management (1995 to 2007), including being the Managing Director from 2005. He was formerly a Non-Executive Director of Lifestyle Communities Limited, Newcrest Mining Limited and Japara Healthcare Limited. Mr Poole is considered an independent director under the Company's definition of independence.



### Mike Salisbury MBA

#### Appointed

1 October 2014  
(as Chief Executive Officer),  
5 February 2015  
(as Managing Director)

#### Positions

Managing Director &  
Chief Executive Officer

Mr Salisbury joined MMS as Managing Director of RemServ in April 2008 and was appointed to the position of Chief Executive Officer in October 2014. Before joining the company in April 2008, Mr Salisbury was a member of the senior management team at AAMI. Mr Salisbury held a variety of management positions within the organisation, including a number of state management roles and the position of Product Manager for Compulsory Third Party Insurance. Mr Salisbury is a member of the Australian Institute of Company Directors, and is a Director of the National Automotive Leasing & Salary Packaging Association. Mr Salisbury is a graduate of the Advanced Management Program at Harvard Business School.



### John Bennetts B Ec, LLB

#### Appointed

1 December 2003

#### Positions

Non-Executive Director  
Member of the Audit,  
Risk & Compliance Committee

Mr Bennetts is an experienced investor and has been the founder and director of many successful Australian companies with businesses in technology, finance and manufacturing. Mr Bennetts is a Non-Executive Director of Sacred Heart Mission and also of Culture is Life. He was a founder of Cellestis Limited and private equity investment firm, Mooroolbark Investments Pty Limited (M-Group). He has also previously provided advisory services to a range of companies in Australia and Asia. Prior to the establishment of the M-Group, he was a member of the senior executive of the pioneering Australian multinational IT company, Datacraft Limited.



### Ross Chessari LLB, M Tax

#### Appointed

1 December 2003

#### Positions

Non-Executive Director  
Member of the Remuneration  
& Nomination Committee

Mr Chessari is a founder and director of the investment manager, SciVentures Investments Pty Limited (SciVentures). Prior to founding SciVentures, Mr Chessari was the Managing Director of ANZ Asset Management and the General Manager of ANZ Trustees.



### Ian Elliot

**Appointed**  
27 May 2014

**Positions**  
Non-Executive Director  
Chairman of the Remuneration  
& Nomination Committee

Mr Elliot is Chairman of the Dry July Foundation. Formerly, Mr Elliot was Non-Executive Chairman of Impelus Limited (2017-2018) and Non-Executive Director of Salmat Limited (2005-2016), Hills Industries Limited (2003-2016) and the Australian Rugby League Commission (2012-2016). Mr Elliot was previously Chairman and CEO at Australia's largest advertising agency George Patterson Bates, is a Fellow of the Australian Institute of Company Directors and a graduate of the Advanced Management Program at Harvard Business School. Mr Elliot is considered an independent director under the Company's definition of independence.



### Helen Kurincic

MBA, FAICD

**Appointed**  
15 September 2018

**Positions**  
Non-Executive Director  
Member of the Audit,  
Risk & Compliance Committee  
Member of the Remuneration  
& Nomination Committee

Ms Kurincic is Non-Executive Chair of Integral Diagnostics Limited, Non-Executive Director of Estia Health Limited and HBF Health Limited. Formerly, Ms Kurincic was the Chief Operating Officer and Director of Genesis Care from its earliest inception, creating and developing the first and largest radiation oncology and cardiology business across Australia. She has also formerly held Board roles across the publicly listed, private, not-for-profit and government sectors as well as being the former CEO of Benetas and Heart Care Victoria. Ms Kurincic is a Fellow of the Australian Institute of Company Directors. Ms Kurincic is considered an independent director under the Company's definition of independence.



### Mark Blackburn

Dip Bus (Acct), CPA, GAICD

**Appointed**  
26 October 2011

**Positions**  
Chief Financial Officer  
& Company Secretary

Mr Blackburn has over 30 years' experience in finance, working across a broad range of industries for companies such as WMC, Ausdoc, Laminex Industries, Westpac, AAMI/Promina and Olex Cables. In particular, he has public company experience in financial management and advice, management of financial risks, management of key strategic projects, acquisitions and establishing joint ventures. Prior to his employment with MMS, Mr Blackburn was Chief Financial Officer of IOOF Holdings Ltd and iSelect Pty Ltd.

# Remuneration Report (Audited)

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The Remuneration and Nomination Committee (RNC) of McMillan Shakespeare Limited (the Company or MMS) is pleased to present the 2019 Remuneration Report (Report).

## Executive Summary

At MMS, we are committed to achieving long-term, sustainable returns for our shareholders by leveraging scale, introducing new technology and pursuing value-accretive, strategic growth opportunities to cement our leading market position in a rapidly changing landscape.

The RNC and Board of the Company are committed to ensuring our executive remuneration framework remains fit-for-purpose going forward. As disclosed in last year's Remuneration Report, the RNC undertook a comprehensive review of our executive remuneration framework during FY17.

As a result of this review, we ceased paying short-term incentives to our Executive KMP from FY18, with variable reward delivered wholly under our long term incentive program (LTIP) comprising annual grants of performance tested equity. We also introduced a minimum shareholding requirement for all KMP to provide additional alignment with shareholders.

The Board is satisfied our current structure (detailed throughout this Report) is market competitive and encourages our Executives to focus on long term sustainable performance and health of business in the interests of our shareholders and other key stakeholders including our customers and people.

During FY19, the Company was pleased to announce the appointment of a new Non-Executive Director of the Company, Ms Helen Kurincic. Ms Kurincic is a highly experienced executive and Director of both ASX listed and unlisted companies and brings a deep understanding of the health, government and not-for-profit sectors to our Board.

Finally, in response to stakeholder feedback, we have sought to simplify how we explain our executive remuneration framework and practices in this year's Report.

We welcome your feedback.



## Alignment Between Performance and Remuneration

### What did the Company achieve?

FY18 Grants - 2 and 3 Year Performance LTIP Metric	Minimum Vesting Target	FY17 <sup>1</sup>	FY18	FY19	Metric Achieved	Vesting Target Met
Average ROCE in the period FY18 and FY19 (inclusive)	20.6%					
ROCE - excluding impairment charges and FY19 UK contract loss		N/A	20.0%	21.2%	20.6%	Yes
ROCE - including impairment charges and FY19 UK contract loss		N/A	13.6%	17.7%	15.7%	No
Underlying EPS CAGR in the period FY18 and FY19	6.0%					
Underlying EPS - excluding impairment charges and FY19 UK contract loss		104.8	113.2	107.3	1.2%	No
Underlying EPS - including impairment charges and FY19 UK contract loss		86.3	61.6	80.8	(3.2%)	No

<sup>1</sup> FY17 is the base year for Underlying EPS metric calculation only and does not apply to the ROCE calculation.

The LTIP metrics for vesting of options and rights is based on performance including impairment charges and FY19 UK contract loss. Accordingly, the performance hurdles have not been satisfied and no performance options or rights are likely to vest in respect of the FY18 two year LTIP. In respect of the FY18 three year LTIP, based on performance for the two years ended FY19, it is unlikely that the performance hurdles will be satisfied and any of the performance options or rights will vest.

### What did Executives receive?

- The Company does not pay short-term incentives to its KMP and no LTIP grants vested with Executive KMP during FY19.
- As disclosed in last year's Report, 55% of the legacy FY15 LTIP options (tested against underlying EPS targets) vested in FY18. These options came off a holding lock and became exercisable on 31 August 2018, subject to payment of a strike price of \$10.18 (refer section 4(d) for further detail). No FY15 Performance Options were exercised by KMP during FY19 (refer section 7 for further detail).

### Other remuneration changes

- Fixed annual remuneration increases of 2.5% were made in FY19 for the Executive KMP. Opportunity levels under our LTIP were also increased by 2.5% to aid market competitiveness. We note our fixed pay (and total remuneration) levels remain conservative relative to peers (refer section 4 for further detail).
- Our approach to Board Committee fees was also revised in FY19 for consistency with market practice, to ensure we remain competitive with comparable companies and to continue to attract and retain the best talent (refer section 5(b) for further detail).
- The Company will ask shareholders at the upcoming AGM to approve a FY20 LTIP for the Managing Director that includes both financial and strategic objectives.

# Remuneration Report (Audited)

## 1. Contents

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## 2. Who does this Report cover?

This Report outlines the remuneration arrangements in place for the Key Management Personnel (KMP) of the Company, which comprises all Non-Executive Directors and those senior employees who have authority and responsibility for planning, directing and controlling the activities of the Company.

The table below sets out the Company's Executive KMP and Non-Executive Directors during the 2019 Financial Year.

### Executive KMP

Name	Position
Mr M. Salisbury	Chief Executive Officer (CEO) and Managing Director
Mr M Blackburn	Group Chief Financial Officer (CFO) and Company Secretary
Mr G Kruyt	Managing Director, Maxxia UK
Mr A. Tomas <sup>1</sup> (former)	Managing Director, Fleet and Financial Products

### Non-Executive Directors

Name	Position
Mr T. Poole	Non-Executive Chairman
Mr J. Bennetts	Non-Executive Director
Mr R. Chessari	Non-Executive Director
Mr I. Elliot	Non-Executive Director
Ms H. Kurincic <sup>2</sup>	Non-Executive Director
Ms S. Dahn <sup>3</sup> (former)	Non-Executive Director

<sup>1</sup> Mr A. Tomas has resigned and his last day of service was 13 July 2018.

<sup>2</sup> Ms H Kurincic was appointed as a Non-Executive Director of the Company with effect from 15 September 2018.

<sup>3</sup> Ms S Dahn retired as a Non-Executive Director of the Company and ceased being a KMP with effect from 30 September 2018.

### 3. Executive remuneration framework and policy – overview

#### Our Strategic Pillars

##### Winning in the Core

- New business wins & retention
- Industry leading product & service delivery
- Improved productivity

##### Brave New World

- Acquisitions
- New markets
- New customer segments

##### One Business

- Group-wide business collaboration
- Business synergies
- Integration of new business
- Aligned strategies

##### Telling Our Story

- Internal staff communications strategy
- Branding & marketing
- B2B client development events

Customer  
Centricity

Our People

Technology  
Platforms

#### Our Executive Remuneration Strategy and Policy

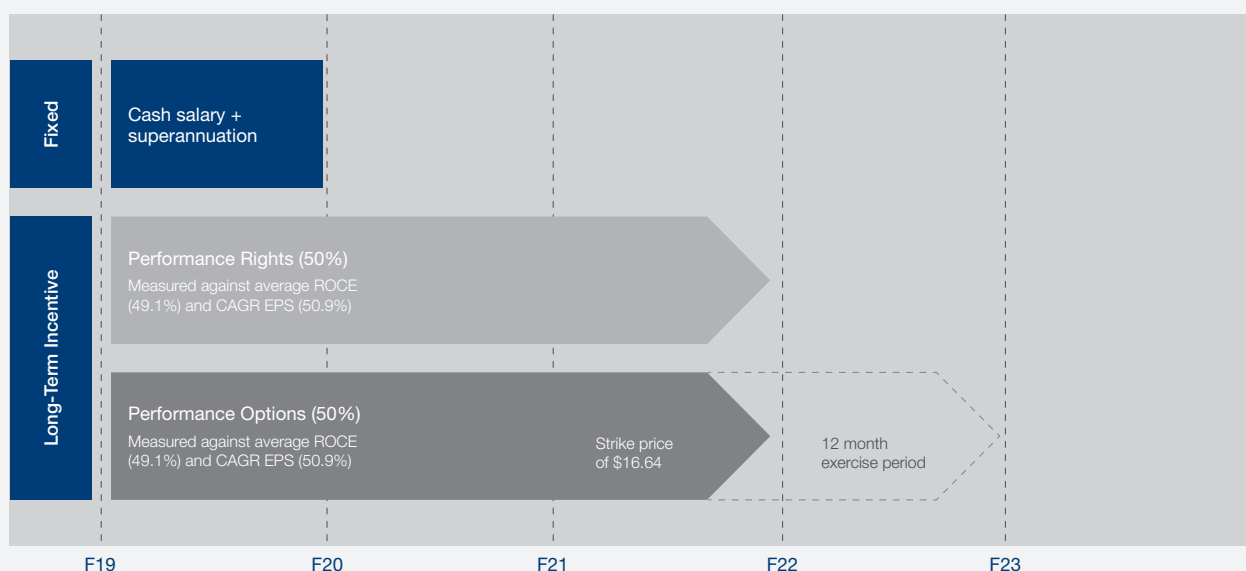
MMS' executive remuneration strategy and policies support our strategic pillars. Our executive remuneration policy is designed to align the interests of executives and shareholders, while attracting and retaining key executive talent who are critical to the growth and success of the Company.

#### Design Principles

- **Attraction and retention of key talent** through market competitive fixed remuneration for the role.
- **Aligning reward with the creation of sustainable, long-term value for the Company's shareholders.** As of FY18, our executives do not receive short-term incentives (only LTIPs delivered wholly in equity), and a minimum shareholding requirement has been introduced.
- **Incentivise high performance** through stretching LTIP performance measures aligned with the Company's strategy.
- **Retention of key talent.** Vesting of our long-term incentives are subject to executives' continued employment with the Company.

# Remuneration Report (Audited)

## Our Executive Remuneration Framework (Snapshot)



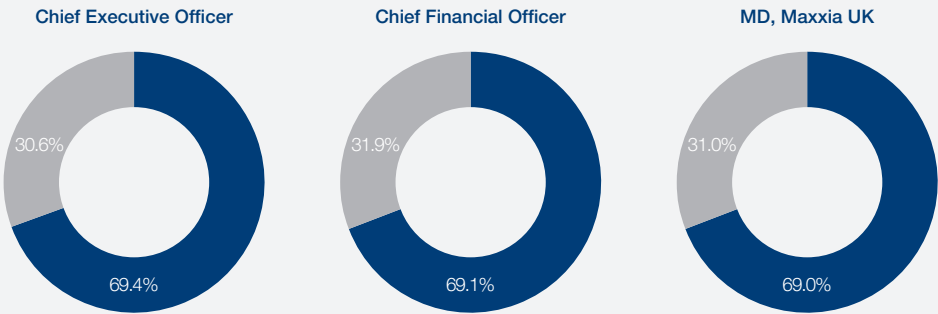
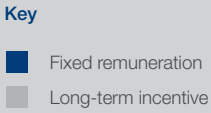
## Our Executive Remuneration Framework

Element	Description	Strategic link
Fixed remuneration	<p>Fixed remuneration comprises base salary and superannuation (and, in some cases, non-cash benefits such as motor vehicle lease payments and car parking benefits).</p> <p>Fixed remuneration is determined on an individual basis having regard to:</p> <ul style="list-style-type: none"> <li>– The individual’s role, duties and responsibilities and performance levels;</li> <li>– General market conditions; and</li> <li>– Remuneration offered to comparable roles within related industries.</li> </ul> <p><i>Refer section 4(b) for further detail</i></p>	<p>Fixed remuneration of the Executive KMP is set to attract and retain the calibre of talent required to drive outcomes for the Company’s shareholders and deliver on the Company’s strategy.</p> <p>The RNC reviews fixed remuneration annually (or on promotion) to ensure fixed remuneration levels remain appropriate and market competitive.</p>

<p><b>Long-term incentive</b></p>	<p>Incentives are delivered wholly in an all-equity LTIP.</p> <ul style="list-style-type: none"> <li>– <b>Instrument:</b> 50% Performance Rights (granted at face value) and 50% Performance Options</li> <li>– <b>Performance measures:</b> absolute average Return on Capital Employed (49.1%) and the Company’s CAGR in underlying Earnings Per Share (50.9%)</li> <li>– <b>Other conditions:</b> vesting of the LTIP is subject to continued employment with the Company</li> <li>– <b>Performance period:</b> 3 years</li> <li>– <b>Exercise period:</b> Options have a strike price of \$16.64 and can be exercised in the one-year period following vesting.</li> </ul> <p><i>Refer section 4c for further detail on 2019 LTIP grants</i></p>	<p>By delivering variable reward wholly in long-term performance tested equity (with no STI or cash component), our framework encourages sustainable decision making and a focus on the long-term health of business (including the interests of customers), to drive long term value for shareholders.</p> <p>Vesting of the LTIP is subject to the achievement of challenging performance hurdles to drive a high-performance culture amongst our Executive Team.</p> <p>The ROCE and EPS hurdles are aligned with our strategic pillars and our focus on both earnings and capital optimisation.</p> <p>All Performance Options issued also have an exercise price (or strike price) which ensures executives are only rewarded if the share price improves and value is delivered to shareholders.</p>
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## Reward Mix

We set out below the mix between fixed remuneration and LTIP at maximum for current Executive KMP. The Board believes this is an appropriate mix to ensure that Executives are focussed on generating value for shareholders over the long term (based on targeted financial metrics). Fixed pay levels remain conservative relative to peers.



# Remuneration Report (Audited)

## 4. Executive remuneration framework – 2019 outcomes

### (a) Overview of company performance

The table below sets out the Company's performance over the past five years in respect of key financial and non-financial indicators.

Indices	FY19	FY18	FY17	FY16	FY15
Net profit attributable to Company members	\$63,672,478	\$50,302,815	\$67,901,770	\$82,469,341	\$67,486,611
Underlying net profit after income tax (UNPATA) <sup>1</sup>	\$88,696,719	\$93,518,774	\$87,166,863	\$87,172,942	\$69,570,837
NPAT growth	26.6%	(25.9%)	(17.7%)	22.2%	22.8%
UNPATA growth	(5.1%)	7.3%	-	25.3%	24.1%
Dividends paid	\$61,173,277	\$56,216,997	\$54,076,388	\$46,588,889	\$43,912,091
Dividend payout ratio <sup>2</sup>	69.0%	64.5%	63.0%	60.1%	61.4%
Share price as at 30 June	\$12.21	\$16.00	\$13.40	\$13.68	\$12.09
Market capitalisation (A\$m)	1,016.0	1,331.3	1,210.0	1,138.1	973.9
Earnings per share	77.0 cents	60.9 cents	81.6 cents	99.4 cents	87.0 cents
Underlying earnings per share <sup>3</sup>	107.3 cents	113.2 cents	104.8 cents	105.1 cents	89.7 cents
ROCE (%) <sup>4</sup>	21	20	20	21	20

1 UNPATA is calculated as NPAT before the after-tax impact of acquisition related items (including impairment charge for intangible assets, acquisition expenses, amortisation of acquired intangible assets and deferred consideration items) and disposal of business. FY19 UNPATA excludes one-off provision for a UK contract of \$3.7m (post tax).

2 Dividend payout ratio is calculated as total dividend for the financial year divided by UNPATA for the financial year.

3 Underlying earnings per share is based on UNPATA.

4 Return on capital employed (ROCE) is adjusted to reflect twelve months trading for acquisitions made in the financial year and excludes one-off payments in relation to transaction costs incurred in the acquisitions, amortisation of acquisition intangibles, one-off closure costs and impairment of acquired intangible assets.

**(b) Fixed annual remuneration**

Fixed remuneration of the Executive KMP is reviewed by the RNC annually (or on promotion) to determine whether changes are appropriate in order to remain market competitive and attract and retain the talent required to drive outcomes for the Company's shareholders.

In considering fixed remuneration changes, the RNC has regard to external benchmarking and generally positions fixed remuneration at the market median of comparable roles within comparator companies (taking into account revenue, employee numbers and market capitalisation).

Fixed annual remuneration increases of 2.5% were made in FY19 (effective from 1 July 2018) for the Executive KMP. Overall fixed pay (and total remuneration) levels remain conservative relative to peers.

**(c) LTIP awarded in 2019 – further detail**

In FY19, the Executive KMP were granted an LTIP in equal parts performance options (50%) (Performance Options) and performance rights (50%) (Performance Rights) as part of the Company's annual LTIP program.

As noted in the FY18 Remuneration Report, rolling annual grants will be made under the Company's LTIP going forward (as against larger amounts which vest every three years) to align with market practice.

Specific details on the Performance Rights and Performance Options granted to Executive KMP during FY19 are provided in section 7 of the Report.

## Detailed summary – FY19 LTIP grant

Element	Description
Opportunity levels (% of fixed remuneration)	<p>The opportunity levels offered to the Executive KMP in FY19 were increased by 2.5% to:</p> <ul style="list-style-type: none"> <li>– 44% of fixed remuneration for the CEO;</li> <li>– 44.7% of fixed remuneration for the CFO; and</li> <li>– 44.8% of fixed remuneration for the MD, Maxxia UK.</li> </ul> <p>The Board determined that an increase in LTIP opportunities was appropriate having regard to the incentive opportunity levels offered to comparable roles within comparator companies. Incentive opportunities (and total remuneration) remains conservative relative to peers.</p>
Consideration/ exercise price	<p><b>Performance Options:</b> Options are granted for nil consideration. However, participants are required to pay an exercise (or 'strike') price to exercise them and receive the shares. The exercise price in respect of the Performance Options is the 10 day Volume Weighted Average Price (VWAP) of Shares traded in the period immediately before 2 July 2018, being \$16.64.</p> <p><b>Performance Rights:</b> No amount is payable upon grant of the Performance Rights or upon vesting.</p>
Allocation methodology	<p><b>Performance Options:</b> The number of Options allocated is determined using an option pricing model. The valuation used is not reduced to account for performance hurdles.</p> <p><b>Performance Rights:</b> Rights are allocated on a face value basis. That is, the number of Performance Rights granted is calculated by dividing each participant's opportunity by the market price of the Company's shares.</p>
Performance period	3 years in respect of both the Performance Rights and Performance Options

# Remuneration Report (Audited)

## Detailed summary – FY19 LTIP grant

Element	Description																				
Performance hurdles	<p>Subject to the Executive remaining employed for the performance period, vesting of the Performance Options and Performance Rights is subject to the achievement of two performance hurdles:</p> <ul style="list-style-type: none"> <li>– <b>the Company's CAGR in underlying EPS</b> which applies to 50.9% of the Performance Options and Performance Rights respectively; and</li> <li>– <b>absolute average ROCE over the performance period</b> which applies to 49.1% of the Performance Options and Performance Rights respectively.</li> </ul> <p>The following vesting schedules apply to both the Performance Options and Rights respectively (with vesting on a straight-line basis between each level of performance).</p> <table border="1"> <thead> <tr> <th colspan="2">Underlying EPS (CAGR) (period FY19, FY20, FY21 inclusive)</th> <th colspan="2">Average ROCE (period FY19, FY20, FY21 inclusive)</th> </tr> <tr> <th>Level of performance (%)</th> <th>Percentage of awards vesting</th> <th>Level of performance (%)</th> <th>Percentage of awards vesting</th> </tr> </thead> <tbody> <tr> <td>6%</td> <td>41.66%</td> <td>22.25%</td> <td>50%</td> </tr> <tr> <td>10%</td> <td>83.34%</td> <td>23.25%</td> <td>75%</td> </tr> <tr> <td>14%</td> <td>100%</td> <td>24.25%</td> <td>100%</td> </tr> </tbody> </table> <p>Calculation of Underlying EPS (CAGR) shall be based on comparing the underlying EPS results in the final year of the performance period to the Underlying EPS results for FY18 as the base year.</p> <p>The ROCE performance condition is based on the Company's average ROCE over the performance period.</p>	Underlying EPS (CAGR) (period FY19, FY20, FY21 inclusive)		Average ROCE (period FY19, FY20, FY21 inclusive)		Level of performance (%)	Percentage of awards vesting	Level of performance (%)	Percentage of awards vesting	6%	41.66%	22.25%	50%	10%	83.34%	23.25%	75%	14%	100%	24.25%	100%
Underlying EPS (CAGR) (period FY19, FY20, FY21 inclusive)		Average ROCE (period FY19, FY20, FY21 inclusive)																			
Level of performance (%)	Percentage of awards vesting	Level of performance (%)	Percentage of awards vesting																		
6%	41.66%	22.25%	50%																		
10%	83.34%	23.25%	75%																		
14%	100%	24.25%	100%																		
Process for assessing performance conditions	<p>To determine the extent to which the performance hurdles are satisfied, the RNC relies on audited financial results and vesting is determined in accordance with the LTIP Rules.</p> <p>The RNC believes this method of assessment provides an appropriate and objective assessment of performance. The RNC will take account of capital raisings and acquisitions where necessary or appropriate to do so.</p> <p>In the event that the Executive takes unpaid leave for a period exceeding three months during FY19, FY20 or FY21, the vesting criteria outlined above with respect to the performance hurdles and the executive's continued employment will be deemed on a pro-rata basis to reflect the period of continuous service during the relevant financial year, unless the Board in its discretion determines otherwise.</p>																				



## Detailed summary – FY19 LTIP grant

Element	Description
Exercise period on Performance Options	Performance Options must be exercised by the Executive within the 12 months following lodgement of the Company's financial statements for the year ended 30 June 2021.
Voting and dividend entitlements	No voting rights or dividend entitlements attach to the Performance Options or Performance Rights.
Malus (i.e. forfeiture of awards)	Where a participant has committed an act of fraud, defalcation or gross misconduct in relation to the affairs of the Company, Performance Options and Performance Rights will be lapsed.
Treatment upon cessation of employment	If the Executive leaves employment with the Company within the 3 year performance period, both the Performance Options and Performance Rights will lapse (with no payment to the participant).
Change of control	On a change of control, the Board has discretion to waive the performance conditions attached to the Performance Options and Performance Rights, and the exercise conditions attached to the Performance Options.
Hedging	No Executive can enter into a transaction that is designed or intended to hedge the Executive's exposure to any unvested option or right. Executives are required to provide declarations to the Board on their compliance with this policy from time to time.

**(d) Legacy LTIP vesting in 2019 – further detail**

No legacy LTIP grants vested with Executive KMP during FY19.

However, as disclosed in the FY17 and FY18 Remuneration Reports, legacy options granted to KMP in August 2014 (FY15 Performance Options) were eligible to vest in 31 August 2017, subject to the achievement of underlying EPS targets and continued employment with the Company (refer p 28 and 30 of the FY17 Remuneration Report for further detail on performance hurdles).

As disclosed in the FY18 Remuneration Report, total vesting for the FY15 LTIPs (across the three years) was 55% and were exercisable subject to a strike price of \$10.18. KMP were a subject to a 12-month holding lock applied from the date of vesting until 31 August 2018, during which any shares acquired by exercising vested Options could not be sold. None of the FY15 Performance Options were exercised by KMP during FY19 as set out in section 7 of this Report.

In FY18, the Company granted LTIP Options and Rights under its new annual LTIP program (as noted above) which potentially vest in FY20 and FY21. Based on the Company's performance against the EPS and ROCE performance targets to date, these Options or Rights may not vest.

# Remuneration Report (Audited)

## (e) Executive KMP remuneration – statutory disclosures

The following table sets out the executive remuneration for FY19 in accordance with the requirements of the Accounting Standards and *Corporations Act 2001 (Cth)*.

		Cash salary/ fees	Annual leave entitlements	Other Benefits <sup>1</sup>	Super- annuation	Long Service Leave	Options and Rights <sup>2,3,4</sup>	Total remuneration	Percentage of remuneration as options and rights	Total value of remuneration received <sup>4,5</sup>
Executive KMP		\$	\$	\$	\$	\$	\$	\$	%	\$
Mr M. Salisbury (CEO and Managing Director)	FY19	861,426	14,660	29,448	25,018	18,925	(161,603)	787,874	n/a	915,892
	FY18	797,700	23,472	70,328	24,989	21,920	288,956	1,227,365	24%	893,017
Mr G. Kruyt (Managing Director Maxia UK)	FY19	680,617	(25,488)	261,601	93,272	(4,937)	(93,099)	911,966	n/a	1,035,490
	FY18	642,255	56,845	129,872	23,659	24,615	194,099	1,071,345	18%	795,786
Mr M. Blackburn (Group CFO and Company Secretary)	FY19	638,101	52,727	8,095	25,000	12,807	(93,311)	643,419	n/a	671,196
	FY18	613,271	20,238	16,254	24,989	13,450	195,544	883,746	22%	654,514
Mr A. Tomas <sup>6</sup> (Managing Director, Fleet and Financial Products)	FY19	11,712	-	6,062	1,528	-	-	19,302	n/a	19,302
	FY18	437,559	20,145	113,964	24,989	11,363	-	608,020	-	576,512
Total Remuneration	FY19	2,191,856	41,899	305,206	144,818	26,795	(348,013)	2,362,561		2,641,880
	FY18	2,490,785	120,700	330,418	98,626	71,348	678,599	3,790,476		2,919,829

- 1 Other benefits reflect motor vehicle packaging payments, travel benefits, housing allowance and car parking benefits.
- 2 The equity value comprises the value of Performance Options issued. No shares were issued to any Non-Executive Director (and no Performance Options were granted to any Non-Executive Director) during the financial years ended 30 June 2018 and 30 June 2019. The value of Performance Options issued to Executive KMP (as disclosed above) are the assessed fair values (less any payments for the options) at the date that the Performance Options were granted to the Executives, allocated equally over the period from when the services are provided to vesting date. Fair values at grant date are determined using a binomial option pricing model that takes into account the exercise price, the expected term of the option, the share price at grant date, the expected price volatility of the underlying share, the expected dividend yield and the risk-free interest rate for the term of the option.
- 3 Performance Rights were granted to Executive KMP during the financial years ended 30 June 2018 and 30 June 2019 (as disclosed in this Report). The value of Performance Rights issued to Executive KMP are the assessed fair values at the date that the Performance Rights were granted to the Executives, allocated equally over the period from when the services are provided to vesting date. Fair values at grant date are determined using the share price of the Company at the date of grant and discounting it by the dividend yield of the Company.
- 4 The expense in FY19 comprises the fair value expense of Performance Options and Rights granted in FY19 and the reversal of Performance Options and Rights granted in FY18 with vesting periods in FY20 and FY21 which may not vest based on the Company's performance against the EPS and ROCE performance targets to date.
- 5 Value of remuneration received comprises salary, benefits and superannuation salary packaged, annual and long service leave used and bonuses paid in the year.
- 6 Mr A. Tomas resigned and ended service on 13 July 2018.

## 5. Non-Executive Director remuneration

### (a) Remuneration policy and arrangements

The Board sets the fees for the Chairman and the other Non-Executive Directors. The Board's policy is to remunerate the Chairman and Non-Executive Directors:

- **at market competitive rates**, having regard to the fees paid for comparable companies, the need to attract Directors of the requisite calibre and expertise and their workloads (taking into account the size and complexity of the Company's operations and their responsibility for the stewardship of the Company); and
- **in a manner which preserves and safeguards their independence**. Neither the Chairman nor the other Non-Executive Directors are entitled to any performance-related pay. The primary focus of the Board is on the long term strategic direction of the Company.

The Non-Executive Directors are remunerated for their services from the maximum annual aggregate amount approved by the shareholders of the Company on 29 October 2014 (currently \$900,000 per annum).

### (b) Fees and other benefits

During FY19, the Board reviewed its approach to its Non-Executive Director fees (particularly Committee fees) and determined that it was appropriate to pay separate fees in respect of Committee membership, as consistent with market practice.

The table below sets out the annual fees payable (inclusive of superannuation) to the directors of MMS (effective from 1 October 2018). The fee schedule has been determined having regard to fees paid to comparable roles within MMS' peers.

Fees / benefits	Description	FY19 (\$) <i>Effective 1 October 2018</i>
Director's Fees	Chairman	\$210,125
	Director (base fee) – all Non-Executive Directors	\$115,000
	Audit, Risk and Compliance Committee – Chair	\$25,000
	Audit, Risk and Compliance Committee – Membership	\$12,500
	Remuneration and Nomination Committee – Chair	\$20,000
	Remuneration and Nomination Committee – Membership	\$10,000
Superannuation contributions	Contributions required under legislation are made by the Company on behalf of Non-Executive Directors.	
Retirement benefits	There is no scheme for the payment of retirement benefits or termination payments (other than payments relating to accrued superannuation entitlements).	

# Remuneration Report (Audited)

## (c) Non-Executive Director remuneration – statutory disclosure

The fees paid or payable to the directors of the Company in respect of the 2019 financial year are set out below.

Non-Executive Directors		Cash salary/ fees <sup>1</sup>	Other Benefits <sup>2</sup>	Super- annuation	Total value of remuneration received	Total remuneration
		\$	\$	\$	\$	\$
Mr T. Poole (Non-Executive Chairman)	FY19	190,725	-	18,119	208,844	208,844
	FY18	187,215	-	17,785	205,000	205,000
Mr J. Bennetts (Non-Executive Director)	FY19	113,585	-	10,790	124,375	124,375
	FY18	105,023	-	9,977	115,000	115,000
Mr R. Chessari (Non-Executive Director)	FY19	94,142	17,730	10,628	122,500	122,500
	FY18	86,130	18,893	9,977	115,000	115,000
Mr I. Elliot (Non-Executive Director)	FY19	122,146	-	11,604	133,750	133,750
	FY18	118,722	-	11,278	130,000	130,000
Ms H Kurincic <sup>3</sup> (Non-Executive Director)	FY19	99,410	-	9,444	108,854	108,854
	FY18	-	-	-	-	-
Ms S. Dahn <sup>4</sup> (Non- Executive Director) – former	FY19	34,247	-	3,253	37,500	37,500
	FY18	136,986	-	13,014	150,000	150,000
Total remuneration	FY19	654,255	17,730	63,838	735,823	735,823
	FY18	634,076	18,893	62,031	715,000	715,000

1 The amounts shown reflect directors' fees only.

2 Other benefits comprise salary packaging.

3 Ms H Kurincic was appointed as a Non-Executive Director of the Company with effect from 15 September 2018.

4 Ms S Dahn retired as a Non-Executive Director of the Company and ceased being a KMP with effect from 30 September 2018.

## 6. Remuneration governance

### (a) Responsibility for setting remuneration

Responsibility for setting a remuneration policy and determining Executive and Non-Executive Director remuneration rests with the Board.

The Board has established the RNC whose objectives are to oversee the formulation and implementation of remuneration policy and make recommendations to the Board on remuneration policies and packages applicable to the Directors and Executives. For further details of the composition and responsibilities of the RNC, please refer to the Corporate Governance Statement on our website ([www.mmsg.com.au/overview/#governance](http://www.mmsg.com.au/overview/#governance)).

The RNC obtains external independent advice from remuneration consultants when required, and will use it to guide and inform their decision-making. During FY19, no remuneration recommendations (as defined in the *Corporations Act 2001* (Cth)) were received.

### (b) Details of executive service agreements

The table below sets out key information in respect of the service agreements of the CEO and other Executive KMP.

Element	Description
Duration	Ongoing
Periods of notice required to terminate	<ul style="list-style-type: none"> <li>– <b>CEO:</b> 9 months' written notice by the Company or CEO. The agreement may, however, be terminated by the Company for cause without notice or any payment.</li> <li>– <b>Executive KMP:</b> 6 months' written notice by the Company or the Executive KMP. The agreement may, however, be terminated by the Company for cause without notice or any payment.</li> </ul>
Termination payments	<p>The Company has discretion to make a payment in lieu of notice in respect of the above notice periods.</p> <p>No contracted retirement benefits are in place with any of the Company's Executives.</p>
Restraint of trade	The Company can elect to invoke a restraint period not exceeding 6 months.

### (c) Minimum shareholding requirements

In FY18, the Company introduced minimum shareholding requirements for its Executive KMP and Non-Executive Directors to facilitate share ownership and encourage an 'ownership' mindset (refer section 6(d) for further detail on current senior executive and director share ownership).

The table below sets out key information in respect of this Policy. Please refer to the 'Share Ownership and Retention Policy' on the Company's website for further detail ([www.mmsg.com.au/overview/#governance](http://www.mmsg.com.au/overview/#governance)).

Directors and officers	Description	Effective 1 October 2018
Executive KMP	50% of one year's fixed remuneration	<p>The later of:</p> <ul style="list-style-type: none"> <li>– 5 years from September 2017; or</li> <li>– 5 years from date of commencement as Executive KMP</li> </ul>
Non-Executive Directors	50% of one year's director fees	<p>The later of:</p> <ul style="list-style-type: none"> <li>– 5 years from September 2017; or</li> <li>– 5 years from date of commencement as Non-Executive Director</li> </ul>

# Remuneration Report (Audited)

## (d) Executive KMP and Director share ownership

The following table sets out the number of shares held directly, indirectly or beneficially by Directors and Executive KMP (including their related parties).

	Balance at the start of the year	Shares acquired through option exercise	Other changes during the year	Balance at the end of the year
<b>Non-Executive Directors (\$)</b>				
Mr T. Poole	19,000	-	11,000	30,000
Mr J. Bennetts	3,343,025	-	-	3,343,025
Mr R. Chessari	6,050,941	-	-	6,050,941
Mr I. Elliot	-	-	-	-
Ms H. Kurincic <sup>1</sup>	-	-	11,000	11,000
Ms S Dahn (former) <sup>2</sup>	4,000	-	-	N/A
<b>Executive KMP</b>				
Mr M. Salisbury	10,276	-	-	10,276
Mr G. Kruyt	-	-	-	-
Mr M. Blackburn	3,000	-	-	3,000
Mr A. Tomas <sup>3</sup>	-	-	-	-

1 Ms H Kurincic was appointed with effect from 15 September 2018.

2 Ms S Dahn retired with effect from 30 September 2018.

3 Mr A Tomas resigned, his last day of service was 13 July 2018.

## 7. Other remuneration information

### (a) Detail of LTIP securities

The terms and conditions of each grant of Performance Options and Performance Rights to Executive KMP affecting their remuneration in FY19 and each relevant future financial year are set out below.

Grant Date	Type of LTI securities	Expiry Date	Share price at valuation date	Exercise Price	Value per option at grant date <sup>1</sup>	Date Exercisable
19/08/14	FY15 Performance Options	24 months following the 3 Year Lodgement Date.	\$10.18	\$10.18	\$3.01	3 Year Lodgement Date (September 2017) <sup>2</sup>
03/07/17	2 Year Performance Options	12 months following the 2 Year Lodgement Date.	\$13.45	\$13.45	\$2.97	2 Year Lodgement Date (expected to be September 2019)
03/07/17	2 Year Performance Rights	12 months following the 2 Year Lodgement Date.	\$13.45	-	\$11.83	2 Year Lodgement Date (expected to be September 2019)
24/10/17 <sup>3</sup>	2 Year Performance Options	12 months following the 2 Year Lodgement Date.	\$15.23	\$13.45	\$3.17	2 Year Lodgement Date (expected to be September 2019)
24/10/17 <sup>3</sup>	2 Year Performance Rights	12 months following the 2 Year Lodgement Date.	\$15.23	-	\$13.92	2 Year Lodgement Date (expected to be September 2019)
03/07/17	3 Year Performance Options	12 months following the 3 Year Lodgement Date.	\$13.45	\$13.45	\$3.20	3 Year Lodgement Date (expected to be September 2020)
03/07/17	3 Year Performance Rights	12 months following the 3 Year Lodgement Date.	\$13.45	-	\$11.23	3 Year Lodgement Date (expected to be September 2020)
24/10/17 <sup>3</sup>	3 Year Performance Options	12 months following the 3 Year Lodgement Date.	\$13.45	\$13.45	\$3.20	3 Year Lodgement Date (expected to be September 2020)
24/10/17 <sup>3</sup>	3 Year Performance Rights	12 months following the 3 Year Lodgement Date.	\$15.23	-	\$13.29	3 Year Lodgement Date (expected to be September 2020)
02/07/18	3 Year Performance Options	12 months following the 3 Year Lodgement Date.	\$16.14	\$16.64	\$2.54	3 Year Lodgement Date (expected to be September 2021)
02/07/18	3 Year Performance Rights	12 months following the 3 Year Lodgement Date.	\$16.14	-	\$14.12	3 Year Lodgement Date (expected to be September 2021)
23/10/18 <sup>4</sup>	3 Year Performance Options	12 months following the 3 Year Lodgement Date.	\$15.90	\$16.64	\$2.25	3 Year Lodgement Date (expected to be September 2021)
23/10/18 <sup>4</sup>	3 Year Performance Rights	12 months following the 3 Year Lodgement Date.	\$15.90	-	\$13.95	3 Year Lodgement Date (expected to be September 2021)

1 Reflects the fair value at grant date for options granted as part of remuneration, calculated in accordance with AASB2 Share Based Payment expensed.

2 Subject to a 12 month holding lock from the date of vesting until 31 August 2018, during which any shares acquired by exercising vested Options could not be sold.

3 The issue to Mr Mike Salisbury occurred on 24 October 2017, after shareholder approval at the Company's AGM.

4 The issue to Mr Mike Salisbury occurred on 23 October 2018, after shareholder approval at the Company's AGM.

# Remuneration Report (Audited)

Details of the LTIP securities over ordinary shares in the Company provided as remuneration to each Executive KMP are set out below.

Name	Date of grant	Type of LTI securities	Number of securities granted	Value of securities granted during the year \$	Number of securities vested during year	Vested %	Number of securities forfeited/ lapsed during the year	Forfeited or lapsed %	Year in which securities may vest	Maximum value of securities yet to vest <sup>1</sup> \$
Mr M. Salisbury	24/10/17	2 Year Performance Options	71,140	-	-	-	-	-	FY20	222,668
	24/10/17	2 Year Performance Rights	17,860	-	-	-	-	-	FY20	248,611
	24/10/17	3 Year Performance Options	66,027	-	-	-	-	-	FY21	211,286
	24/10/17	3 Year Performance Rights	18,814	-	-	-	-	-	FY21	250,038
	23/10/18	3 Year Performance Options	105,272	2.25	-	-	-	-	FY22	176,561
	23/10/18	3 Year Performance Rights	18,937	13.95	-	-	-	-	FY22	196,676
Mr G. Kruyt	03/07/17	2 Year Performance Options	52,846	-	-	-	-	-	FY20	156,953
	03/07/17	2 Year Performance Rights	13,266	-	-	-	-	-	FY20	156,937
	03/07/17	3 Year Performance Options	49,047	-	-	-	-	-	FY21	156,950
	03/07/17	3 Year Performance Rights	13,975	-	-	-	-	-	FY21	156,939
	02/07/18	3 Year Performance Options	78,201	2.54	-	-	-	-	FY22	148,128
	02/07/18	3 Year Performance Rights	14,067	14.12	-	-	-	-	FY22	148,114
Mr M. Blackburn	03/07/17	2 Year Performance Options	52,965	-	-	-	-	-	FY20	157,306
	03/07/17	2 Year Performance Rights	13,297	-	-	-	-	-	FY20	157,304
	03/07/17	3 Year Performance Options	49,159	-	-	-	-	-	FY21	157,309
	03/07/17	3 Year Performance Rights	14,007	-	-	-	-	-	FY21	157,299
	02/07/18	3 Year Performance Options	78,377	2.54	-	-	-	-	FY22	148,461
	02/07/18	3 Year Performance Rights	14,100	14.12	-	-	-	-	FY22	148,461

<sup>1</sup> There is no minimum value attached to the securities at the vesting date. Maximum value is defined as the fair value at grant less amount expensed.



**(b) Movement of LTIP securities granted**

The table below reconciles the Performance Options and Performance Rights held by each Executive KMP from the beginning to the end of FY19.

Name	LTI Securities	Balance at the start of the year	Number Granted during year <sup>1</sup>	Vested during the year	Exercised during the year	Forfeited during year	Other changes during the year	Vested and exercisable at the end of the year	Unvested at the end of the year
Mr M. Salisbury	Performance Options	303,354	105,272	-	-	-	-	166,187	242,439
	Performance Rights	36,674	18,937	-	-	-	-	-	55,611
Mr G. Kruyt	Performance Options	220,598	78,201	-	-	-	-	118,705	180,094
	Performance Rights	27,241	14,067	-	-	-	-	-	41,308
Mr M. Blackburn	Performance Options	243,060	78,377	-	-	-	-	140,936	180,501
	Performance Rights	27,304	14,100	-	-	-	-	-	41,404
Mr A. Tomas <sup>2</sup>	Performance Options	112,301	-	-	-	-	-	112,301	-

<sup>1</sup> Granted pursuant the Company's LTIP (refer 4(c)).

<sup>2</sup> Mr A Tomas resigned, his last day of service was 13 July 2018.

**(c) Shares issued on Performance Options**

No ordinary shares in the Company were issued following the exercise of Performance Options by Executive KMP during FY19. Any shares issued on exercise of options were acquired on market under the terms of the Company's Share Trust Plan.

**(d) Other transactions and balances with KMP**

There were no loans made during the year, or remaining unsettled at 30 June 2019, between the Company and its KMP and/or their related parties.

End of the audited Remuneration Report

## Directors' Report

### Unissued shares

At the date of this Annual Report, unissued ordinary shares of the Company under option are:

Option class	No. of unissued ordinary shares	Exercise price	Expiry date
Performance Options	538,129	\$10.18	30 September 2019
Performance Options	403,321	\$13.45	30 September 2020
Performance Options	17,340	\$14.97	30 September 2020
Performance Options	374,515	\$13.45	30 September 2021
Performance Options	15,920	\$14.97	30 September 2021
Performance Options	681,525	\$16.64	30 September 2022
Performance Rights	105,654	-	30 September 2020
Performance Rights	111,295	-	30 September 2021
Performance Rights	122,585	-	30 September 2022
Voluntary Options	8,979	\$13.45	30 September 2020
Voluntary Options	12,500	\$13.45	30 September 2021

No options were granted to the Directors or any of the five highest remunerated officers of the Company since the end of the financial year.

### Directors' interests

At the date of this Annual Report, the relevant interest of each Director in the securities issued by the Company and its controlled entities, as notified by the Directors to the Australian Stock Exchange Limited (ASX) in accordance with section 205G(1) of the *Corporations Act 2001* (Cth), is as follows:

Director	Rights	Options	Ordinary shares
Mr. T Poole (Chairman)	-	-	30,000
Mr M. Salisbury (Managing Director)	55,611	408,626	10,276
Mr J. Bennetts	-	-	3,343,025
Mr R. Chessari	-	-	6,050,941
Mr I Elliot	-	-	-
Ms H Kurincic	-	-	11,000

No Director during FY19, became entitled to receive any benefit (other than a benefit included in the aggregate amount of remuneration received or due and receivable by the Directors shown in the Remuneration Report or the fixed salary of a full time employee of the Company) by reason of a contract made by the Company or a controlled entity with the Director or an entity in which the Director has a substantial financial interest or a firm in which the Director is a member, other than for payment of \$35,000 for the provision of IT services on arms' length terms by Mailguard Pty Ltd, of which John Bennetts is a substantial shareholder.

## Environmental regulations

The Directors believe that the Company and its controlled entities have adequate systems in place for the management of relevant environmental requirements and are not aware of any breach of those environmental requirements as they apply to the Company and its controlled entities.

## Indemnification and insurance

Under the Company's Constitution, the Company indemnifies the Directors and officers of the Company and its wholly-owned subsidiaries to the full extent permitted by law against any liability and all legal costs in connection with proceedings incurred by them in their respective capacities.

The Company has also entered into a Deed of Access, Indemnity and Insurance with each Director, each Company Secretary, and each responsible manager under the licenses which the Company holds (Deed), which protects individuals acting as officeholders during their term of office and after their resignation. Under the Deed, the Company also indemnifies each officeholder to the full extent permitted by law.

The Company has a Directors & Officers Liability Insurance policy in place for all current and former officers of the Company and its controlled entities. The policy affords cover for loss in respect of liabilities incurred by Directors and officers where the Company is unable to indemnify them and covers the Company for indemnities provided to its Directors and officers. This does not include liabilities that arise from conduct involving dishonesty. The Directors have not included the details of the premium paid with respect to this policy as this information is confidential under the terms of the policy.

## Non-audit services

Details of the amounts paid or payable to the auditor of the Company, Grant Thornton Audit Pty Ltd and its related practices, for non-audit services provided, during FY19, are disclosed in Note 32 to the Financial Statements.

The Company's policy is that the external auditor is not to provide non-audit services unless the Audit, Risk and Compliance Committee (ARCC) has approved that work in advance, as appropriate.

The ARCC has reviewed a summary of non-audit services provided during the financial year ended 30 June 2019 by Grant Thornton Audit Pty Ltd. Given that the only non-audit services related to client contract audits and review of banking covenant and trust account compliance, the ARCC has confirmed that the provision of non-audit services is compatible with the general standard of independence for auditors imposed by the *Corporations Act 2001* (Cth). This has been formally advised to the Board. Consequently, the Directors are satisfied that the provision of non-audit services during the year by the auditor and its related practices did not compromise the auditor independence requirements of the *Corporations Act 2001* (Cth).

## Corporate governance practices

Our full corporate governance statement is available on our website at [www.mmsg.com.au/overview/#governance](http://www.mmsg.com.au/overview/#governance)

## Auditor's independence declaration

A copy of the auditor's independence declaration, as required under section 307C of the *Corporations Act 2001* (Cth), is set out on page 124 of this Annual Report.

## Directors' declaration

The Directors have received and considered written representations from the Chief Executive Officer and the Chief Financial Officer in accordance with the ASX Principles. The written representations confirmed that:

- The financial reports are complete and present a true and fair view, in all material respects, of the financial condition and operating results of the Company and its controlled entities and are in accordance with all relevant accounting standards; and
- The above statement is founded on a sound system of risk management and internal compliance and control that implements the policies adopted by the Board and that compliance and control is operating efficiently and effectively in all material respects.

Signed in accordance with a resolution of the Directors.



**Tim Poole**  
Chairman



**Mike Salisbury**  
Managing Director

21 August 2019  
Melbourne, Australia

## Five year summary

Five-Year Summary 2015 – 2019	2019	2018	2017	2016	2015
<b>Financial Performance</b>					
Group					
Revenue (\$m)	549.7	545.4	523.4	504.7	389.6
NPAT (\$m)	63.7	50.3	67.9	82.5	67.5
UNPATA (\$m) <sup>1</sup>	88.7	93.5	87.2	87.2	69.6
Group Remuneration Services segment					
Segment revenue (\$m)	221.9	207.7	189.7	188.3	176.1
Segment NPAT (\$m)	66.1	64.1	58.3	58.7	54.3
Segment UNPATA (\$m)	66.1	64.1	58.3	58.7	54.3
Asset Management segment					
Segment revenue (\$m) <sup>2</sup>	245.8	243.7	226.1	204.8	188.1
Segment NPAT (\$m)	12.4	25.5	16.6	14.6	11.3
Segment UNPATA (\$m)	17.2	21.6	17.5	15.3	11.6
Retail Financial Services segment					
Segment revenue (\$m)	80.7	92.5	106.0	110.0	23.1
Segment NPAT (\$m)	(14.0)	(38.5)	(5.0)	11.8	3.0
Segment UNPATA (\$m)	6.4	8.6	12.4	14.0	3.3
<b>Shareholder Value</b>					
Dividends per share (cps)	74.0	73.0	66.0	63.0	52.0
Dividend payout ratio (%) <sup>3</sup>	69	65	63	60	58
Basic earnings per share (cps)	77.0	60.9	81.6	99.4	87.0
Return on equity (%) <sup>4</sup>	23	24	24	26	26
Underlying earnings per share (cps) <sup>5</sup>	107.3	113.2	104.8	105.1	89.7
Return on capital employed (%) <sup>4</sup>	21	20	20	21	20
<b>Other</b>					
Employees (FTE) <sup>6</sup>	1,334	1,283	1,195	1,124	1,087
Employee engagement score (%) <sup>7</sup>	79	No survey	76	No survey	81

1 UNPATA is calculated as NPAT before the after-tax impact of acquisition related items (including impairment charge for intangible assets, acquisition expenses, amortisation of acquired intangible assets and deferred consideration items) and disposal of business. FY19 UNPATA excludes one-off provision for a UK contract of \$3.7m (post tax).

2 Revenue in 2017 has been re-stated to recognise the proceeds from the sale of motor vehicles as revenue to replace profit from the sale of motor vehicles.

3 Dividend payout ratio is calculated as total dividend for the financial year divided by UNPATA for the financial year.

4 Prior period comparatives have been restated to measure ROE and ROCE, which are based on UNPATA and underlying EBIT respectively, to exclude one-off acquisition related expenses, the amortisation of acquisition intangibles and the impairment of acquired intangible assets. Equity and capital employed used in the calculations includes the add back of impairment of acquired intangible asset charges incurred in the respective financial period.

5 Underlying earnings per share is based on UNPATA.

6 As at 30 June.

7 Employee engagement survey conducted biennially.

# Financial Report 2019





# Statements of Profit or Loss and Other Comprehensive Income

For the year ended 30 June 2019

	Note	Consolidated Group		Parent Entity	
		2019 \$'000	2018 \$'000	2019 \$'000	2018 \$'000
Revenue from contracts with customers	7	547,894	543,806	-	-
Interest income	8	1,781	1,598	776	43
Other		-	-	265	-
Dividends received	8	-	-	189,173	56,406
<b>Revenue from continuing operations</b>		<b>549,675</b>	<b>545,404</b>	<b>190,214</b>	<b>56,449</b>
<b>Expenses</b>					
Employee benefit expense		(138,774)	(132,096)	(1,093)	(962)
Leasing and vehicle management expenses		(100,355)	(92,894)	-	-
Brokerage commissions and incentives		(36,478)	(42,018)	-	-
Depreciation and amortisation expenses	9(d)	(81,108)	(86,036)	-	-
Net claims incurred		(13,097)	(11,103)	-	-
Other operating expenses	9(c)	(46,881)	(42,718)	(539)	(537)
Impairment losses	9(a)	(23,940)	(39,388)	-	(44,587)
Loss on disposal of business	9(b)	-	(8,559)	-	-
Contingent consideration fair valuation	23	1,168	5,348	-	-
Finance costs		(10,514)	(9,644)	(817)	(1,154)
Share of equity accounted joint venture loss	17	-	(1,365)	-	-
<b>Total expenses</b>		<b>(449,979)</b>	<b>(460,473)</b>	<b>(2,449)</b>	<b>(47,240)</b>
<b>Profit before income tax</b>		<b>99,696</b>	<b>84,931</b>	<b>187,765</b>	<b>9,209</b>
Income tax (expense) / benefit	10(a)	(35,879)	(35,097)	424	783
<b>Net profit for the year</b>		<b>63,817</b>	<b>49,834</b>	<b>188,189</b>	<b>9,992</b>
<b>Profit is attributable to:</b>					
Owners of the Company		63,672	50,303	188,189	9,992
Non-controlling interest		145	(469)	-	-
		<b>63,817</b>	<b>49,834</b>	<b>188,189</b>	<b>9,992</b>
<b>Other comprehensive income</b>					
<i>Items that may be re-classified subsequently to profit or loss:</i>					
Changes in fair value of cash flow hedges		(1,194)	169	157	(68)
Exchange differences on translating foreign operations		1,036	3,457	-	-
Income tax on other comprehensive income		279	(37)	(47)	20
<b>Other comprehensive income / (loss) for the year</b>		<b>121</b>	<b>3,589</b>	<b>110</b>	<b>(48)</b>
<b>Total comprehensive income for the year</b>		<b>63,938</b>	<b>53,423</b>	<b>188,299</b>	<b>9,944</b>
<b>Total comprehensive income for the year is attributable to:</b>					
Owners of the Company		63,793	53,892	188,299	9,944
Non-controlling interest		145	(469)	-	-
<b>Total comprehensive income for the year</b>		<b>63,938</b>	<b>53,423</b>	<b>188,299</b>	<b>9,944</b>
Basic earnings per share (cents)	11	77.0	60.9		
Diluted earnings per share (cents)	11	76.4	60.6		

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

# Statements of Financial Position

As at 30 June 2019

	Note	Consolidated Group		Parent Entity	
		2019 \$'000	2018 \$'000	2019 \$'000	2018 \$'000
<b>Current assets</b>					
Cash and cash equivalents	13	137,762	99,667	9,044	3,991
Trade and other receivables	14	61,028	52,402	49,350	7,258
Finance lease receivables	15	57,412	71,137	-	-
Assets under operating lease	18	74,030	70,910	-	-
Inventory		12,310	10,896	-	-
Prepayments		6,076	5,449	21	-
Deferred acquisition costs		2,859	2,385	-	-
Derivative financial instruments		-	37	88	-
<b>Total current assets</b>		<b>351,477</b>	<b>312,883</b>	<b>58,503</b>	<b>11,249</b>
<b>Non current assets</b>					
Property, plant and equipment	18	214,102	238,461	-	-
Finance lease receivables	15	80,654	100,495	-	-
Intangible assets	6	191,328	205,939	-	-
Other financial assets	16(b), 16(a)	-	1,169	286,243	282,246
Deferred acquisition costs		2,929	2,226	-	-
Deferred tax assets	10(c)	13,008	729	-	-
<b>Total non current assets</b>		<b>502,021</b>	<b>549,019</b>	<b>286,243</b>	<b>282,246</b>
<b>TOTAL ASSETS</b>		<b>853,498</b>	<b>861,902</b>	<b>344,746</b>	<b>293,495</b>
<b>Current liabilities</b>					
Trade and other payables	19	94,588	95,267	87,150	150,099
Other liabilities	20	8,847	9,075	-	-
Contract liabilities	20	6,051	8,955	-	-
Provisions	21	11,088	10,197	-	-
Unearned premium liability		9,075	7,566	-	-
Current tax liability		2,490	2,812	4,775	6,535
Borrowings	4, 22	8,779	14,505	5,761	11,500
Contingent consideration	23	-	1,756	-	-
Derivative financial instruments		1,157	-	-	68
<b>Total current liabilities</b>		<b>142,075</b>	<b>150,133</b>	<b>97,686</b>	<b>168,202</b>
<b>Non current liabilities</b>					
Borrowings	4, 22	319,520	323,371	13,585	18,583
Contingent consideration	23	1,374	4,402	-	-
Unearned premium liability		8,116	6,359	-	-
Provisions	21	1,365	2,327	-	-
Deferred tax liabilities	10(c)	9,677	3,933	947	558
<b>Total non current liabilities</b>		<b>340,052</b>	<b>340,392</b>	<b>14,532</b>	<b>19,141</b>
<b>TOTAL LIABILITIES</b>		<b>482,127</b>	<b>490,525</b>	<b>112,218</b>	<b>187,343</b>
<b>NET ASSETS</b>		<b>371,371</b>	<b>371,377</b>	<b>232,528</b>	<b>106,152</b>
<b>Equity</b>					
Issued capital	24(a)	135,868	135,868	135,868	135,868
Reserves		(4,760)	5,568	934	11,543
Retained earnings		240,263	229,941	95,726	(41,259)
<b>TOTAL EQUITY</b>		<b>371,371</b>	<b>371,377</b>	<b>232,528</b>	<b>106,152</b>

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



# Statements of Changes in Equity

For the year ended 30 June 2019

		Consolidated Group						
2019	Note	Issued capital \$'000	Retained Earnings \$'000	Option Reserve \$'000	Cash flow Hedge Reserve \$'000	Foreign Currency Translation Reserve \$'000	Non-Controlling Interest \$'000	Total \$'000
Equity as at beginning of year as originally reported	24	135,868	229,941	11,591	37	(5,596)	(464)	371,377
Change in accounting policies (note 2(e))		-	(2,146)	-	-	-	-	(2,146)
Re-stated equity as at the beginning of period		135,868	227,795	11,591	37	(5,596)	(464)	369,231
Profit attributable to members of the parent entity		-	63,672	-	-	-	145	63,817
Other comprehensive income after tax		-	-	-	(915)	1,036	-	121
<b>Total comprehensive income for the period</b>		-	63,672	-	(915)	1,036	145	63,938
<i>Transactions with owners in their capacity as owners:</i>								
Share-based expense		-	-	(750)	-	-	-	(750)
Dividends paid	12	-	(61,173)	-	-	-	-	(61,173)
Equity contribution		-	-	-	-	-	125	125
Intra-equity transfer	25(a)	-	9,969	(9,969)	-	-	-	-
<b>Equity as at 30 June 2019</b>		<b>135,868</b>	<b>240,263</b>	<b>872</b>	<b>(878)</b>	<b>(4,560)</b>	<b>(194)</b>	<b>371,371</b>

		Consolidated Group						
2018	Note	Issued capital \$'000	Retained Earnings \$'000	Option Reserve \$'000	Cash flow Hedge Reserve \$'000	Foreign Currency Translation Reserve \$'000	Non-Controlling Interest \$'000	Total \$'000
Equity as at beginning of year	24	141,088	235,855	10,092	(95)	(9,053)	-	370,995
Profit attributable to members of the parent entity		-	50,303	-	-	-	(469)	49,834
Other comprehensive income after tax		-	-	-	132	3,457	-	3,589
<b>Total comprehensive income for the period</b>		-	50,303	-	132	3,457	(469)	53,423
<i>Transactions with owners in their capacity as owners:</i>								
Share-based expense		-	-	1,499	-	-	-	1,499
Exercise of employee options		4,477	-	-	-	-	-	4,477
Premium from grant of options		50	-	-	-	-	-	50
Treasury shares	24(c)	(9,747)	-	-	-	-	-	(2,855)
Dividends paid	12	-	(56,217)	-	-	-	-	(56,217)
Equity Contribution		-	-	-	-	-	5	5
<b>Equity as at 30 June 2018</b>		<b>135,868</b>	<b>229,941</b>	<b>11,591</b>	<b>37</b>	<b>(5,596)</b>	<b>(464)</b>	<b>371,377</b>

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

# Statements of Changes in Equity

For the year ended 30 June 2019

		Parent Entity				
		Issued Capital	Retained Earnings	Option Reserve	Cash flow Hedge Reserve	Total
		\$'000	\$'000	\$'000	\$'000	\$'000
<b>2019</b>	<b>Note</b>					
Equity as at beginning of year	24	135,868	(41,259)	11,591	(48)	106,152
Profit attributable to members of the parent entity		-	188,189	-	-	188,189
Other comprehensive income after tax		-	-	-	110	110
<b>Total comprehensive income for the year</b>		-	188,189	-	110	188,299
<i>Transactions with owners in their capacity as owners:</i>						
Share-based expense		-	-	(750)	-	(750)
Dividends paid	12	-	(61,173)	-	-	(61,173)
Intra-equity transfer	25(a)	-	9,969	(9,969)	-	-
<b>Equity as 30 June 2019</b>		<b>135,868</b>	<b>95,726</b>	<b>872</b>	<b>62</b>	<b>232,528</b>

		Parent Entity					
		Issued Capital	Treasury Reserve	Retained Earnings	Option Reserve	Cash flow Hedge Reserve	Total
		\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
<b>2018</b>	<b>Note</b>						
Equity as at beginning of year	24	141,088	(6,892)	4,966	10,092	-	149,254
Profit attributable to members of the parent entity		-	-	9,992	-	-	9,992
Other comprehensive income after tax		-	-	-	-	(48)	(48)
<b>Total comprehensive income for the year</b>		-	-	9,992	-	(48)	9,944
<i>Transactions with owners in their capacity as owners:</i>							
Share-based expense		-	-	-	1,499	-	1,499
Exercise of employee options		4,477	-	-	-	-	4,477
Premium from grant of options		50	-	-	-	-	50
Treasury Shares	24(c)	(9,747)	6,892	-	-	-	(2,855)
Dividends paid	12	-	-	(56,217)	-	-	(56,217)
<b>Equity as 30 June 2018</b>		<b>135,868</b>	<b>-</b>	<b>(41,259)</b>	<b>11,591</b>	<b>(48)</b>	<b>106,152</b>

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

# Statements of Cash Flows

For the year ended 30 June 2019

	Note	Consolidated Group		Parent Entity	
		2019 \$'000	2018 \$'000	2019 \$'000	2018 \$'000
<b>Cash flows from operating activities</b>					
Receipts from customers		574,529	586,545	-	-
Payments to suppliers and employees		(338,662)	(257,172)	-	(1,463)
Proceeds from sale of assets under lease		90,239	86,036	-	-
Proceeds from sale of lease portfolio	27(b)	182,000	91,601	-	-
Payments for assets under lease		(318,756)	(336,694)	-	-
Interest received		1,781	1,598	776	43
Interest paid		(9,541)	(11,217)	(791)	(1,134)
Dividends received		-	-	189,173	56,406
Income taxes paid		(48,702)	(43,037)	-	-
Other		-	-	-	-
<b>Net cash from operating activities</b>	27(a)	<b>132,888</b>	<b>117,660</b>	<b>189,158</b>	<b>53,852</b>
<b>Cash flows from investing activities</b>					
Payments for capitalised software	6(c)	(15,197)	(11,095)	-	-
Payments for plant and equipment		(4,184)	(3,081)	-	-
Net reimbursement for acquisition costs		1,113	-	-	-
Payments for subsidiary investments (net of cash acquired)		-	-	(4,641)	(4,929)
Payments for contingent consideration		(3,741)	-	-	-
Payments for joint venture subordinated loans		(812)	(868)	-	-
<b>Net cash used in investing activities</b>		<b>(22,821)</b>	<b>(15,044)</b>	<b>(4,641)</b>	<b>(4,929)</b>
<b>Cash flows from financing activities</b>					
Proceeds from borrowings	27(c)	148,278	133,231	-	-
Repayment of borrowings	27(c)	(159,244)	(141,408)	(10,762)	(11,500)
Payments for treasury shares		-	(2,855)	-	(2,489)
Proceeds from exercise of share options		-	4,527	-	4,161
Dividends paid by parent entity	12	(61,173)	(56,217)	(61,173)	(56,217)
Other		125	-	-	-
Repayments and loans to / from controlled entities		-	-	(107,529)	15,278
<b>Net cash used in financing activities</b>		<b>(72,014)</b>	<b>(62,722)</b>	<b>(179,464)</b>	<b>(50,767)</b>
Effect of exchange changes on cash and cash equivalents		42	357	-	-
<b>Net increase / (decrease) in cash and cash equivalents</b>		<b>38,095</b>	<b>40,251</b>	<b>5,053</b>	<b>(1,844)</b>
Cash and cash equivalents at beginning of year		99,667	59,416	3,991	5,835
<b>Cash and cash equivalents at end of year</b>	13	<b>137,762</b>	<b>99,667</b>	<b>9,044</b>	<b>3,991</b>

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

# Notes to the Financial Statements

For the year ended 30 June 2019

## 1 General information

The financial report of McMillan Shakespeare Limited and its subsidiaries for the year ended 30 June 2019 was authorised for issue in accordance with a resolution of the directors on 21 August 2019 and covers McMillan Shakespeare Limited ('the Company' or the 'parent entity') as an individual entity as well as 'the Group', consisting of McMillan Shakespeare Limited and its subsidiaries ('the Group') as required by the *Corporations Act 2001*.

The financial report is presented in Australian dollars, which is the Group's functional and presentation currency.

McMillan Shakespeare Limited is a company limited by shares and domiciled in Australia, whose shares are publicly traded on the Australian Stock Exchange.

## 2 Significant accounting policies

### (a) Basis of preparation

The financial report is a general purpose financial report which has been prepared in accordance with Australian Accounting Standards and Interpretations of the Australian Accounting Standards Board (AASB), and the *Corporations Act 2001* (Cth). McMillan Shakespeare Limited is a for-profit entity for the purpose of preparing the financial statements. Material accounting policies adopted in the preparation of these financial statements are presented below and have been applied consistently unless stated otherwise.

Except for cash flow information, the financial statements have been prepared on an accruals basis and are based on historical costs, modified, where applicable, by the measurement at fair value of selected non-current assets, financial assets and financial liabilities.

### Compliance with IFRS

Australian Accounting Standards incorporate International Financial Reporting Standards (IFRSs) as issued by the International Accounting Standards Board. Compliance with Australian Accounting Standards ensures that the financial statements and notes also comply with IFRSs.

### (b) Rounding of amounts

The Company is of a kind referred to in ASIC Corporations (Rounding in Financials/Directors' Reports) Instrument 2016/191, issued by the Australian Securities and Investments Commission, relating to the "rounding off" of amounts in the financial report. Amounts in the financial report have been rounded off in accordance with that Class Order to the nearest thousand dollars, or in certain cases, the nearest dollar.

### (c) New accounting standards and interpretations adopted during the year

New accounting standards and amendments have been applied for the first time for annual reporting period commencing 1 July 2018 as follows:

- AASB 9 *Financial Instruments*
- AASB 15 *Revenue from Contracts with Customers*
- *Classification and Measurement Share-based payment Transactions – Amendment to AASB 2*
- *Annual Improvements 2015-2017 cycle*
- *Transfers to Investment Property – Amendments to AASB 140*
- *Interpretation 22 Foreign Currency Transactions and Advance Consideration*

The Group's accounting policies have been amended to adopt AASB 9 and AASB 15 and make certain retrospective adjustments as a consequence and these are disclosed in note 2(e). The other amendments above did not have any significant impact on the amounts recognised in prior periods and are not expected to significantly affect current or future periods.

# Notes to the Financial Statements

For the year ended 30 June 2019

## (d) New accounting standards and interpretations not yet adopted

A new accounting standard AASB 16 *Leases* has been issued but not mandatory for adoption in the year ended 30 June 2019. The Group has not adopted this standard early and the extent of the impact has been determined as noted below subject to the finalisation of some minor items which are not expected to have a significant impact. This standard is first applicable to the Group for financial periods beginning 1 July 2019.

AASB 16 introduces a single comprehensive on-balance sheet accounting model for lease arrangements that apply to lessors and lessees. This effectively removes the distinction between operating leases (off-balance sheet) and finance leases (on-balance sheet) with the exception for short term leases and leases of low value assets. Lessees will now have to bring leases previously accounted for as operating leases onto the balance sheet and recognise a right-of-use asset (ROU) being the asset that is leased and a corresponding lease liability for the amount used to finance the ROU. Committed payments that are now recognised as rental expense will be replaced by the depreciation of ROU and the interest expense from the lease liability.

The date of initial application of AASB 16 by the Group is 1 July 2019.

The Group has reviewed its financing arrangements with respect to the lease accounting rules in AASB 16. The new standard will affect primarily the Group's non-cancellable operating lease commitments. The Group plans to use the modified retrospective method for the transition to AASB 16 and consequently, will not re-state comparative information. Under the modified retrospective method, ROU will be determined on a fully retrospective basis and apply the Group's incremental borrowing rate at the date of transition as a practical expedient and lease liability will be determined using the effective interest basis. The resulting difference on transition will be transferred to equity.

### Accounting for the Group's operating lease assets as lessor

The Group's accounting as lessor is substantially unchanged under AASB 16. The Asset Management segment provides operating leasing finance to its customers and the investment in the assets for this business is recognised as assets under operating lease as disclosed in note 18 to the financial statements. Income from the leasing of these assets is disclosed in lease rental service revenue (note 7).

### Accounting for the Group's operating lease commitments as lessee

Under the current accounting standard AASB 117, the Group's operating lease commitments are not recognised on the balance sheet and rental payments under the leases were expensed when incurred. From the impact assessment of the new standard completed to date on all of the Group's existing leasing arrangements except for some minor arrangements, the following is a summary of the effect on the financial statements on transition at 1 July 2019.

Impact on the Statement of Financial Position	30 June 2019 \$'000
<b>Assets</b>	
Right-of-use asset	32,107
Deferred tax asset	2,892
<b>Liabilities</b>	
Lease liabilities	50,317
Unearned property incentives reduced	8,572
<b>Equity</b>	<b>(6,746)</b>

From the adoption of AASB 16, the Group's financial statements will change for the following.

- Rental expenses currently recognised will be replaced by the depreciation of the ROU and the interest expense on the lease liability. This will consequently, increase EBITDA and EBIT respectively.
- Interest cover ratio will improve and the lease liability will add to the total borrowings and consequently, affects the borrowing ratio. From the current assessment, the lease liability is expected to be accommodated in the significant headroom in the Group's bank borrowing leverage ratio.
- The consolidated statement of cash flows will recognise changes to the lease liability and interest in the period as financing activities in contrast to rental expenses currently recognised as operating activity.

# Notes to the Financial Statements

For the year ended 30 June 2019

## (e) Changes in accounting policies

Two new accounting standards were adopted at the beginning of the financial year in AASB 9: Financial Instruments and AASB 15: *Revenue from Contracts with Customers*, that affected the Group's accounting policies. These are discussed below together with the impact on the financial statements.

### (i) AASB 9: Financial Instruments

AASB 9 replaces the provisions of AASB 139 relating to the recognition and de-recognition, classification and measurement of financial assets and financial liabilities, impairment of financial assets and hedge accounting.

The Group has applied AASB 9 prospectively with an initial application date of 1 July 2018. The impact from changes has not been re-stated in the comparative information and the differences have been recognised directly in retained earnings and other components in equity.

The classification under AASB 9 did not have a significant impact on the Group.

Subsequent measurement depends on the Group's business model for managing the asset and the cash flow characteristics of the asset.

#### Classification and measurement

##### Amortised cost

These are assets that are held solely to collect contractual cash flows that represent principal and interest. Changes to the carrying value of these instruments are recognised in the statement of profit or loss.

##### Fair value through Other Comprehensive Income (FVOCI)

These are assets held to collect contractual cash flows (principal and interest) and for selling the assets and where the movement in the carrying value of the assets are taken through OCI, except for impairment gains and losses and interest and foreign exchange differences. When the asset is de-recognised the cumulative balance is transferred from equity to profit or loss.

##### Fair value to profit or loss (FVPL)

Assets that do not meet the above criteria are measured and any changes in value are included in profit or loss.

The adoption of AASB 9 from 1 July 2018 has resulted in changes to accounting policies and adjustments to the financial statements as follows.

	As originally reported \$'000	AASB 9 transition \$'000	Re-stated \$'000
Cash and cash equivalents	99,667	-	99,667
Trade receivables	28,747	-	28,747
Other receivables	23,655	-	23,655
Finance lease receivables (current and non-current)	171,632	(1,223)	170,409
Derivative financial instruments	37	-	37
Subordinated loan receivable	1,169	(1,169)	-
Investment in Joint Venture	-	-	-
Trade and other payables	(95,267)	-	(95,267)
Receivables in advance	(3,498)	-	(3,498)
Other liabilities - Maintenance fees received in advance	(3,746)	3,746	-
Provisions - Rebates and cancellations	(5,209)	5,209	-
Contract liabilities	-	(8,955)	(8,955)
Other provisions (current and non-current)	(12,524)	-	(12,524)
Borrowings (current and non-current)	339,604	-	339,604

# Notes to the Financial Statements

For the year ended 30 June 2019

## Impairment

The measurement of debt instruments carried at amortised cost and FVOCI now include a forward looking assessment of the expected credit losses associated with the debt instrument. The Group has three types of assets that are subject to the new expected credit loss model in finance lease receivables and trade receivables. The accounting policies for these assets have been revised accordingly, and the impact is as follows.

### Finance lease receivables

The Group uses the AASB 9 simplified approach to measure the expected credit losses. This model uses an expected lifetime expected loss allowance for finance lease receivables.

Expected credit losses are calculated on finance lease receivables that are grouped at a practical level based on substantially shared credit risk characteristics and using criteria from the Group's credit management system. The Group's credit management system utilises a default probability that is based on each customer's credit rating and residual lease duration. The loss allowance includes the expected recovery rate from the discharge of collateralised assets and potential impact from sensitivity assessments. On this basis, the credit loss allowance as at 1 July 2018 was determined as follows.

Expected loss rate	0.71%
Gross carrying amount	\$171,632,000
Credit loss allowance	\$1,223,000

In accordance with the transitional provisions in AASB 9, the credit loss allowance of \$1,223,000 has been recognised in retained earnings as at 1 July 2018 and comparative figures have not been re-stated. The impact to the financial statements is as follows.

	As originally reported \$'000	AASB 9 transition \$'000	Re-stated \$'000
Finance lease receivables	171,632	(1,223)	170,409
Deferred tax assets	729	246	975
Total assets	861,902	(977)	860,925
Retained earnings	229,941	(977)	228,964
Equity/net assets	371,377	(977)	370,400

## Trade receivables

Group applies the simplified approach set out in AASB 9 to measure expected credit losses which uses a lifetime expected credit loss allowance for all trade receivables. The credit loss allowance is determined from the Group's historical default rates and considers the potential impact of forward-looking factors. Historically, approximately 70% of trade receivables are outstanding within 30 days and not past due with agreed contractual settlement terms and more than 90% of total receivables are not outstanding beyond 90 days of invoice date. At transition date of 1 July 2018, the re-calculated credit loss allowance under AASB 9 simplified approach was substantially similar to the provision for doubtful debts of \$714,000 that was reported against gross carrying receivables of \$29,461,000.

### Subordinated loan receivable

The Group applies the simplified approach set out in AASB 9 to measure expected credit losses for its subordinated loan to Maxxia Ltd in the UK to which the Group has a 50% interest under a joint venture arrangement (JV). The loan is considered to form part of the net investment in the JV, taking into consideration its role in the Group's strategy and operations in the UK. There was no objective evidence of credit default by the JV at the last reporting date and its carrying value of \$1,169,000 which included the equity accounted loss of the JV, was not considered to be impaired. However, on applying the expected credit loss model under AASB 9 and taking into account the Group's review of expected future financial performance and the impact of possible prospective changes to the JV's strategic role, it has been determined to fully provide a loss allowance against the loan.

As the loan receivable has equity accounted the JV's loss of \$6,129,000 cumulatively to 30 June 2018, the carrying value has been re-stated in accordance with AASB 9 (as amended) where the equity accounted loss will be reversed to result in the original amount of loans provided of \$7,298,000. The assessment of the loan on an ECL basis has resulted in a provision for loss allowance of \$7,298,000 that is recognised in retained earnings. The impact from restatement is summarised as follows.

# Notes to the Financial Statements

For the year ended 30 June 2019

	As originally reported \$'000	AASB 9 transition \$'000	Re-stated \$'000
Retained earnings	(6,129)	(1,169)	(7,298)
Other financial assets – Subordinated loan receivable	1,169	(1,169)	-

The impact on retained earnings on 1 July 2019 on transition to AASB 9 is as follows.

	As originally reported \$'000	AASB 9 transition \$'000	Re-stated \$'000
Finance lease receivables	171,632	(1,223)	170,409
Deferred tax asset	729	246	975
Subordinated loan receivable	1,169	(1,169)	-
Retained earnings	229,941	(2,146)	227,795

## Hedging

Hedge accounting under AASB 9 introduces greater flexibility to the type of risk components that can be hedged and introduces a new effectiveness test that includes a qualitative approach to the assessment of the in-principle economic relationship between the hedging instrument and the hedged item.

The Group uses interest rate swaps to manage its exposure to the volatility in interest rates as part of its Asset Management operations. All of the hedge contracts entered into have been designated as hedging instruments and qualify under the new standard and is relatively unchanged.

## (ii) AASB 15: Revenue from Contracts with Customers

The Group adopted AASB 15 from 1 July 2018 which resulted in accounting policy changes affecting the recognition of certain revenue streams. In accordance with the transition provisions in AASB 15, the Group has not retrospectively re-stated the comparatives in the previous corresponding period.

### Impact on accounting policies

#### Remuneration Services

Revenue is recognised for fees received for the provision of salary packaging services over the period the services are completed. Fees for this service are independent of other fees that are collected for other services. Where the administration service includes the procurement of products and services including novated leases, financial services and asset maintenance, the Group acts in the capacity as agent and accordingly, does not recognise the proceeds collected from customers for the cost of procurement as revenue. Only commissions received as agent are recognised as revenue and at the time that customers receive their procured service or product and where there are no remaining performance obligations. The Group also receives volume based incentives and commissions from service providers and revenue is recognised in the period when the measurement criteria are completed and all performance targets are achieved. Remuneration services revenue from contracts with customers is recognised at the point in time that services are provided.

#### Lease rental services

Revenue from rental services relate to fleet management services provided by the Asset Management segment. These services include the provision of asset rental and financing, in-life asset management services, fleet management, finance brokerage through Principle and Agency arrangements (P&A) and motor vehicle disposal. Operating lease rental income is recognised over the period of the lease term on a straight line basis for a constant period of return on the amount invested in the lease asset. Fees from in-life management services are recognised over the term of the contract. The provision of tyre and management services are recognised as revenue over the contract term based on the extent of costs incurred to date over expected total costs. Tyre and management fees received in advance of amounts recognised as revenue are deferred as contract liabilities. Brokerage fees received for the introduction of lease finance for customers to external financiers under a P&A arrangement are recognised as commission revenue when performance obligations are completed and accounted for at a point in time. Proceeds from motor vehicle disposals are recognised as revenue at the point in time the asset is transferred and consideration received with no remaining performance obligations.



# Notes to the Financial Statements

For the year ended 30 June 2019

## *Brokerage commissions and financial services*

The Group's revenue from retail financial services include fees earned from financiers and insurers for the origination of financial products and volume based commissions from service providers. Commission revenue is recognised at a point in time for services rendered and the customer has received the service. The Group acts as agent in this respect. Where there is potential for clawback by the financial services provider or a rebate paid, the amount is recognised as contract liabilities and in revenue as part of variable consideration. Contract liabilities for clawbacks and rebates are measured on an expected basis using historical trends to estimate the potential amount.

Revenue is recognised in the capacity as agent from the third party distribution of insurance products and the administration of risk warranty products. The Group does not carry the risk as underwriter for the sale of warranty products and it is at the Group's discretion to assist dealers to meet the cost of customer claims in relation to dealer warranty products. The Group does not expect to be considered as a provider of insurance to be accounted under AASB 17 Insurance Contracts when it becomes applicable in 2021.

## **Accounting for rebates and commission clawback**

Commissions received for the origination of financial services to a provider is subject to a clawback when the underlying service contracts are terminated by the customer under certain contractual arrangements. The Group previously recognised an expense for the provision for rebates and cancellations based on an expected amount.

There is no material change from the current expected amount basis to that required under AASB 15 in calculating commission clawed back for rebates and cancellations. The net movement in the carrying value of the expected amounts gives rise to variable consideration and is recognised as an adjustment to revenue. The expected amount is disclosed as a contract liability. The impact on the profit or loss for the corresponding period was a reduction of commission revenue in the Asset Management segment of \$2,049,000 with a corresponding reduction expenses. There was no impact to total assets, liabilities, retained earnings or equity.

## **(f) Summary of Other Accounting Policies**

The Group's accounting policies are provided below in addition to specific accounting policies that are applicable to items disclosed in the notes to the financial statements.

### **(i) Principles of consolidation**

#### **Subsidiaries**

The consolidated financial statements comprise the financial statements of the Company and its subsidiaries which are all entities (including structured entities) controlled by the Company as at 30 June each year. Control is achieved when the Group is exposed to, or has rights to, variable returns from its involvement in the entity and has the ability to affect those returns through its power to direct the activities of the entity. In assessing control, the Group considers all relevant facts and circumstances to determine if the Group's voting rights in an investee are sufficient to give it power, including the following:

- The size of the Group's voting rights holding relative to the size and dispersion of holdings of the other vote holders;
- Potential voting rights held by the Group and other holders;
- Rights arising from other contractual arrangements; and
- Facts and circumstances that indicate whether the Group has the ability to direct relevant activities at the time decisions need to be made.

The Group reassess whether the Group has control over an entity when facts and circumstances indicate changes that may affect any of these elements.

Subsidiaries are consolidated from the date control is transferred to the Group and deconsolidated from the Group from the date that control ceases.

The financial statements of subsidiaries are prepared for the same reporting period as the parent entity, using consistent accounting policies.

All inter-company balances and transactions, including unrealised profits arising from intra-group transactions are eliminated. Unrealised losses are also eliminated unless costs cannot be recovered. Investments in subsidiaries are accounted for at cost in the individual financial statements of the parent entity, including the value of options issued by the Company on behalf of its subsidiaries in relation to employee remuneration.

# Notes to the Financial Statements

For the year ended 30 June 2019

## (ii) Business combinations

The acquisition method of accounting is used to account for all business combinations. Cost is measured as the fair value of the assets given, shares issued or liabilities incurred or assumed at the date of exchange. Acquisition related costs are expensed as incurred. Where equity instruments are issued, the value of the equity instruments is their published market price over the period representative of the achievement of control the transfer of the benefits from the achievement of control unless, in rare circumstances, it can be demonstrated that the published price on that day is an unreliable indicator of fair value and that other evidence and valuation methods provide a more reliable measure of fair value. Transaction costs arising on the issue of equity instruments are recognised directly in equity.

Identifiable assets acquired and liabilities and contingent liabilities assumed in business combinations are initially measured at their fair values at acquisition date. The excess of the cost of acquisition over the fair value of the Consolidated Group's share of the identifiable net assets acquired is recorded as goodwill (refer Note 6(b)(i)). If the cost of acquisition is less than the Consolidated Group's share of the fair value of the net assets acquired, the gain is recognised in profit or loss. If the initial accounting for a business combination is incomplete by the time of reporting the period in which the business combination occurred, provisional estimates are used for items for which accounting is incomplete. These provisional estimates are adjusted in a measurement period that is not to exceed one year from the date of acquisition to reflect the information it was seeking about facts and circumstances that existed at the date of acquisition that had they been known would have affected the amounts recognised at that date.

Any contingent consideration to be transferred by the Group will be recognised at fair value at acquisition date. Contingent consideration that includes an asset or liability is classified as an asset or liability and is re-measured for fair value changes. Subsequent changes to the fair value of contingent consideration that qualify as measurement period adjustments are retrospectively adjusted against goodwill. Contingent consideration that is classified as an equity is not remeasured at subsequent reporting dates and its subsequent settlement is accounted for within equity.

## (iii) Current versus non-current classification

The Group presents assets and liabilities in the statements of financial position based on current / non-current classification. An asset is current when it is:

- Expected to be realised or intended to be sold or consumed in the Group's normal operating cycle,
- Held primarily for the purpose of trading,
- Expected to be realised within twelve months after reporting date, or
- Cash or a cash equivalent unless restricted from being exchanged or used to settle a liability for at least twelve months after reporting date.

The Group classifies all other assets as non-current.

A liability is current when:

- It is expected to be settled in the Group's normal operating cycle,
- It is held primarily for the purpose of trading,
- It is due to be settled within twelve months after reporting date, or
- There is an unconditional right to defer the settlement of the liability for at least twelve months after reporting date.

The Group classifies all other liabilities as non-current.

## (iv) Financial instruments

A financial instrument is any contract that gives rise to a financial asset and to the counter-party a financial liability or equity instrument.

### Financial assets

Financial assets are classified at initial recognition and subsequently measured at amortised cost or fair value through profit or loss. The classification into these categories depend on the purpose for which the asset was acquired such as the financial asset's contractual cash flow characteristics and the Group's business model for managing them.

With the exception of trade receivables, the Group initially measures a financial asset at its fair value plus, in the case of a financial asset not at fair value through profit or loss, transaction costs. The Group's trade receivables do not contain a significant financing component or for which the Group has applied the practical expedient, are measured at the transaction price determined under AASB 15.

# Notes to the Financial Statements

For the year ended 30 June 2019

(i) *Financial assets at amortised cost*

Financial assets are assessed for impairment at the end of each reporting period on an expected credit loss (ECL) basis. The ECL method employs the use of estimates and judgement of events and indicators in the foreseeable future that may affect the carrying value at reporting date.

The Group's subordinated loan to a joint venture (JV) partner that is considered to form part of the Group's net investment in the JV is measured at amortised cost (refer note 16(b)).

The parent entity's investments in subsidiaries are carried at cost and less impairment. The cost of investment also includes the contribution to subsidiaries for its distribution of share-based payments in the equity of the Company.

(ii) *Financial assets at fair value through profit or loss*

Financial assets at fair value through profit or loss include financial assets held for trading, financial assets designated upon initial recognition at fair value through profit or loss, or financial assets mandatorily required to be measured at fair value. Changes in the fair value of this category of financial assets is recognised in the statement of profit or loss.

(iii) *De-recognition*

A financial asset or part thereof is de-recognised from the statement of financial position when the rights to the cash flows of the asset have expired or that these rights have been transferred that effectively removes the Group's rights to the risks and rewards of ownership of the financial asset.

**Financial liabilities**

Financial liabilities are classified as financial liabilities at fair value through profit or loss or at amortised cost. All financial liabilities are recognised initially at fair value and in the case of borrowings, net of transactions costs.

(i) *Financial liabilities at fair value through profit or loss*

Financial liabilities at fair value through profit or loss include liabilities held for trading and those liabilities designated upon initial recognition.

(ii) *Amortised cost*

*Borrowings*

The Group's borrowings are interest-bearing and are subsequently measured at amortised cost using the expected interest rate method and the resulting gains or losses recognised in profit or loss.

*Payables*

The Group's payables arise from normal business activities and held for short term and are measured at transactional costs.

(v) **Other employee benefits**

**Superannuation**

The amount charged to the profit or loss in respect of superannuation represents the contributions made by the Group to superannuation funds.

**Bonuses**

A liability for employee benefits in the form of bonuses is recognised in employee benefits. This liability is based upon pre-determined plans tailored for each participating employee and is measured on an ongoing basis during the financial period. The amount of bonuses is dependent on the outcomes for each participating employee. As has been past practice, an additional amount is included where the Board has decided to pay discretionary bonuses for exceptional performance and a provision recognised for this constructive obligation.

(vi) **Goods and services tax**

Revenues, expenses and assets are recognised net of the amount of Goods and Services Tax (GST), except where the amount of GST incurred is not recoverable from the Australian Taxation Office (ATO). In these circumstances the GST is recognised as part of the cost of acquisition of the asset or as part of an item of expense. Receivables and payables in the Statement of Financial Position are shown inclusive of GST. The net amount of GST recoverable from, or payable to, the ATO is included as a current asset or liability in the Statement of Financial Position.

(vii) **Leasing**

Leases are classified as finance leases whenever the terms of the contract transfers substantially all the risk and rewards of ownership to the lessee. All other contracts are classified as operating leases.

**Operating lease portfolio – the Group as lessor**

Lease contracts with customers other than finance leases are recognised as operating leases. The Group's initial investment in the lease is added as a cost to the carrying value of the leased assets and recognised as lease income on a straight line basis over the term of the lease. Operating lease assets are amortised as an expense on a straight line over the term of the lease based on the cost less residual value of the lease.

# Notes to the Financial Statements

For the year ended 30 June 2019

## Operating leases – the Group as lessee

Operating lease payments are recognised as an expense on a straight-line basis over the lease term except where another systematic basis is more representative of the time pattern in which economic benefits from the lease asset are consumed. Where incentives are received to enter into operating leases, such incentives are recognised as a liability. The aggregate benefit of incentives is recognised as a reduction of lease expense on a straight-line basis, except where another systematic basis is more representative of the time pattern in which economic benefits from the lease asset are consumed.

### (viii) Deferred acquisition costs (DAC)

Acquisition costs incurred in deriving warranty income are deferred and recognised as contract assets where they can be reliably measured and where it is probable that they will give rise to warranty revenue in subsequent reporting periods.

Deferred acquisition costs are amortised systematically in accordance with the expected pattern of the incidence risk under the warranty contracts to which they relate. The pattern of amortisation corresponds to the earning pattern of warranty revenue.

### (ix) Unearned premium liability

The Group assesses the risk attached to unexpired warranty contracts based on risk and earning pattern analysis, to ascertain whether the unearned warranty liability (contract liability) is sufficient to cover all expected future claims against current warranty contracts. This assessment is performed quarterly, to ensure that there have been no significant changes to the risk and earning pattern and to ensure the contract liability recorded is adequate.

### (x) Outstanding claims liability

The liability represents claims authorised, prior to reporting date, and paid in the subsequent reporting period.

### (xi) Inventories

The inventory of motor vehicles is stated at the lower of cost and net realisable value. Following termination of the lease or rental contract the relevant assets are transferred from Assets under Operating Lease to Inventories at their carrying amount. Net realisable value is the estimated selling price in the ordinary course of business, less estimated costs to make the sale.

### (xii) Operating cash flow

All cash flows other than investing or financing cash flows are classified as operating cash flows. As the Asset Management segment provides operating and finance leases for motor vehicles and equipment, the cash outflows to acquire the lease assets are classified as operating cash outflows. Similarly, interest received and interest paid in respect of the Asset Management segment are classified as operating cash flows.

### (xiii) Derivative financial instruments

The Group uses derivative financial instruments to manage its interest rate exposure to interest rate volatility and its impact on leasing product margins. The process to mitigate against the exposure seeks to have more control in balancing the spread between interest rates charged to lease contracts and interest rates and the level of borrowings assumed in its financing as required.

In accordance with the Group's treasury policy, derivative interest rate products that can be entered into include interest rate swaps, forward rate agreements and options as cash flow hedges to mitigate both current and future interest rate volatility that may arise from changes in the fair value of its borrowings.

Derivative financial instruments are recognised at fair value at the date of inception and subsequently re-measured at fair value at reporting date. The resulting gain or loss is recognised in profit or loss unless the derivative or amount thereof is designated and effective as a hedging instrument, in which case the gain or loss is taken to other comprehensive income in the cash flow hedging reserve that forms part of equity. Amounts recognised in other comprehensive income are transferred to profit or loss and subsequently recognised in profit or loss to match the timing and relationship with the amount that the derivative instrument was intended to hedge.

There is no change in accounting policy following the adoption of AASB 9. The designation of derivative contracts as the hedging instruments are unchanged and the measurement criteria has remained similar.

#### Cash flow hedge accounting

The Group enters into interest rate swap contracts as cash flow hedges to minimise the exposure to the variability in cash flows from external borrowings that are priced using variable interest rates. All of the hedge contracts entered into have been designated as hedging instruments. At the inception of the hedging instrument, the Group documents the economic relationship between the instrument and the item it is designated to hedge. The Group also documents its assessment at the inception of the hedging instrument and on an ongoing basis, whether the hedging instruments that are used have been and will continue to be highly effective in offsetting changes in the cash flows of the hedged items. Any gains or losses arising from changes in the fair value of the hedge contracts are taken to other comprehensive income (OCI) to the extent of the effective portion of the cash flow hedge and the ineffective portion recognised in the statement of profit or loss. These gains or losses in OCI are accumulated in a component in equity and are re-classified to the statement of profit or loss when the hedge contract is consumed.

#### Non-trading derivatives

Non-trading derivative financial instruments include the Group's irrevocable option to purchase all of the shares owned by the partner in the joint venture entity. The financial instruments are measured at fair value initially and in future reporting dates. Fair value changes are recognised in profit or loss.

# Notes to the Financial Statements

For the year ended 30 June 2019

## (xiv) Provisions

Provisions are recognised when the Group has a present obligation (legal or constructive) as a result of a past event and when it is probably that the Group is required to settle the obligation, and the obligation can be reliably estimated.

### Provision for residual value

A residual value provision is established to estimate the probable diminution in value of operating lease assets and rental assets at the end of lease contract dates. The estimate is based on the deficit in estimated recoverable value of the lease asset from contracted cash flows.

The residual value provision includes the estimated loss in recoverable value of lease assets which are transferred to the Group at the end of the lease term pursuant to the put and call option in the P&A arrangement with the financier.

## (xv) Foreign currency translation

The consolidated financial statements of the Group are presented in Australian dollars which is the functional and presentation currency. The financial statements of each entity in the Group are measured using the currency of the primary economic environment in which the entity operates ("functional currency").

### Transactions and balances

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Differences resulting at settlement of such transactions and from the translation of monetary assets and liabilities at reporting date are recognised in profit or loss.

Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates at the dates of the initial transactions. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value is determined. Translation differences are recognised as part of the fair value change of the non-monetary item.

### Group companies

On consolidation of the financial results and affairs of foreign operations, assets and liabilities are translated at prevailing exchange rates at reporting date and income and expenses for the year at average exchange rates. The resulting exchange differences from consolidation are recognised in other comprehensive income and accumulated in equity. On disposal of a foreign operation, the component of other comprehensive income relating to that particular foreign operation is recognised in profit or loss.

## (xvi) Parent entity accounts

In accordance with ASIC Corporations (Rounding in Financials/ Directors' Reports) Instrument 2016/191 the Group will continue to include parent entity financial statements in the financial report.

## (xvii) Issued capital

Ordinary shares and premium received on issue of options are classified as issued capital within equity.

Costs attributable to the issue of new shares or options are shown as a deduction from the equity proceeds, net of any income tax benefit. Costs directly attributable to the issue of new shares or options associated with the acquisition of a business are included as part of the business combination.

Shares purchased by the Company or any entity in the Group are classified as treasury shares and the incremental cost of acquiring those share are deducted from share capital.

## 3 Critical judgements and significant accounting estimates

The preparation of financial statements requires the Board to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates.

Estimates and assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised and in any future periods affected.

### Goodwill and indefinite life intangible assets

Goodwill and brands that have an indefinite lives are tested for impairment biannually and more frequently if there are indications of impairment. The recoverable amounts of cash generating units have been determined using the value-in-use methodology. The variables used in the calculation requires the use of assumptions that affect earnings projections and the estimation of a discount rate that is that uses a cost of capital and risk premia specific to the cash generating unit amongst other factors.

### Lease assets residual value

The Group has proprietary interest to assets held under operating leases and accordingly, carry an inherent risk for the residual value of the asset. Estimates of significance are used in determining the residual values of operating lease and rental assets at the end of the contract date and income from maintenance services, which is recognised on a percentage stage of completion. The assessment of residual values includes a critical forecast of the future value of the asset lease portfolio at the time of sale and considers the potential impact, economic and vehicle market conditions and dynamics.

Under the Principal and Agency (P&A) financing arrangement with an external financier, the Group acquires the lease assets on the termination of the lease contract and is thereby, exposed to the residual value of the underlying asset. A provision for residual value risk is recognised and this assessment similarly includes an assessment of the future value of these P&A funded assets.

# Notes to the Financial Statements

For the year ended 30 June 2019

## Tyre and maintenance services

The Group holds the residual risk for the provision of tyre and maintenance services which ultimately affects profit or loss for those contracts. Profit attributed over the life of the contract and losses that are provided in full in the period that the loss making contract is first determined, is adjusted in the amount of revenue recognised. The assessment of attributable revenue requires significant estimates in relation to factors that affect expected realisable margins and stage of completion. Calculations are performed monthly and key estimates and underlying assumptions are reviewed on an ongoing basis.

## Underwriting premium revenue and deferred acquisition costs

Underwriting premium revenue is recognised over the period earned and the unearned position is deferred as unearned premium in liabilities. The measurement is based upon the expected future pattern of incidence of risk in relation to warranty contracts. In determining the estimated pattern of incidence of risk, the Group uses a variety of estimation techniques generally based on statistical analysis of the Group and industry experience that assumes that the development pattern of current claims will be consistent with past experience as appropriate.

Costs directly in relation to the origination of underwriting premium revenue are deferred acquisition costs. The measurement is similar to the methodology used to assess unearned premium and requires the use of judgement to estimate the pattern of incidence of risk.

## Impairment of financial assets

Finance lease receivables, trade and other receivables are assessed for expected credit loss (ECL). The ECL for finance lease receivables includes the inherent risk attached to the credit assessment of each customer, estimate of customer default risk, environment and inventory risk and other factors affecting recoverability.

No other judgements, estimates or assumptions are considered significant.

## 4 Financial Risk Management

The Group's activities expose it to a variety of financial risks: market risk (including currency risk and interest rate risk), credit risk and liquidity risk. The Group's overall risk management approach is to identify the risk exposures and implement safeguards which seek to manage these exposures and minimise potential adverse effects on the financial performance of the Group. The Board is responsible for monitoring and managing the financial risks of the Group. The Board monitors these risks through monthly board meetings, regular reports from the Risk and Compliance Committee and ad hoc discussions with senior management, should the need arise. A risk report is presented to the Audit, Risk and Compliance Committee at least four times a year. The Credit and Treasury reports are provided to the Credit Committee and Interest Committee respectively, by the Group Treasurer/Head of Credit, including sensitivity analysis in the case of interest rate risk and aging / exposure reports for credit risk. These committee reports are discussed at Board meetings monthly, along with management accounts. All exposures to risk and management strategies are consistent with prior year, other than as noted below.

### (a) Liquidity risk

Liquidity risk is the risk that the Group will not be able to meet its financial obligations as they fall due.

#### Liquidity management strategy

The Asset Management business and the resultant borrowings exposes the Group to potential mismatches between the refinancing of its assets and liabilities. The Group's objective is to maintain continuity and flexibility of funding through the use of committed revolving bank club facilities based on common terms, asset subordination and surplus cash as appropriate to match asset and liability requirements.

The Group's policy is to ensure that there is sufficient liquidity through access to committed available funds to meet at least twelve months of average net asset funding requirements augmented with uncommitted principle and agency (P&A) facilities. This level is expected to cover any short term financial market constraint for funds. The Group monitors daily positive operating cash flows and forecasts cash flows for a twelve month period. Significant cash deposits have been maintained which enable the Group to settle obligations as they fall due without the need for short term financing facilities. The Chief Financial Officer and the Group Treasurer monitor the cash position of the Group daily.

#### Financing arrangements

The Group's committed borrowing facilities for the Asset Management segment to finance its fleet management portfolio and other borrowing requirements are as follows.

# Notes to the Financial Statements

For the year ended 30 June 2019

Asset Management revolving borrowing facilities in local currency		2019			2018		
		Facility	Used	Unused	Facility	Used	Unused
Revolving borrowing facilities (AUD '000)		384,342	296,880	87,462	375,922	293,029	82,893
Secured bank borrowings (excluding borrowing costs)	Maturity dates	2019			2018		
		Facility	Used	Unused	Facility	Used	Unused
AUD'000	31/03/2021	85,000	65,000	20,000	65,000	65,000	-
AUD'000	31/03/2021	35,000	35,000	-	75,000	60,000	15,000
AUD'000	31/03/2021	90,000	80,800	9,200	50,000	45,500	4,500
NZD'000	31/03/2021	20,000	13,700	6,300	10,900	10,900	-
NZD'000	31/03/2021	15,000	14,700	300	21,800	15,600	6,200
GBP'000	31/01/2021	35,000	16,700	18,300	35,000	22,300	12,700
GBP'000	31/03/2021	22,000	21,200	800	42,000	30,500	11,500
GBP'000	31/03/2021	22,000	12,000	10,000	12,000	3,550	8,450

The revolving borrowing facilities above have been provided by a financing club of three major Australian banks operating under common terms and conditions. These facilities are further augmented by other bank uncommitted P&A facilities of \$145 million. The Group believes that this balanced arrangement improves liquidity, provides funding diversification and provides a lower overall funding cost. The bank loans are denominated in local currency of the principal geographical markets to remove associated foreign currency cash flow exposure.

Total borrowing facilities at reporting date increased by approximately \$8.4 million together with the extension of maturity dates for some facilities following the re-negotiation with the Club of financiers during the year. The revolving facilities of \$65 million that were due to mature on 31 March 2020 were extended for another year. The NZD32.7m facilities that were due to mature on 31 March 2020 have increased to NZD 35.0 million with a new maturity date of 31 March 2021. Committed bank facilities for UK operations reduced by GBP10 million in aggregate as the mix of internal funding and the employment of P&A in the provision of lease financing continue to evolve. The facilities for GBP35 million and GBP22 million were extended another year to March 2021. The headroom from committed facilities and uncommitted P&A facilities, a GBP6 million committed working capital facility for the Company's UK joint venture supported by an unsecured guaranteed by the Company, together with contractual lease receivable cash flows, will provide the necessary funding requirements for the next twelve months of forecast new lease additions.

# Notes to the Financial Statements

For the year ended 30 June 2019

Other amortising borrowing facilities in local currency	2019			2018		
	Facility	Used	Unused	Facility	Used	Unused
Amortising borrowing facilities (AUD '000)	31,565	31,565	-	45,284	45,284	-
Total Borrowings (AUD '000)	415,907	328,445	87,462	421,206	338,313	82,893

The amortising facilities are borrowed in local currency as follows.

Secured bank borrowings (excluding borrowing costs)	Maturity dates	Facility	Used	Unused	Facility	Used	Unused
AUD'000	31/03/2020	-	-	-	30,125	30,125	-
AUD'000	31/12/2022	8,927	8,927	-	-	-	-
AUD'000	29/09/2022	10,435	10,435	-	-	-	-
GBP'000	31/01/2021	2,520	2,520	-	3,500	3,500	-
GBP'000	31/03/2022	4,307	4,307	-	5,015	5,015	-

The above amortising facilities of \$19.4 million were established to fund the acquisition of the Presidian Group, the facility of GBP2.5 million was to fund the acquisition of CLM Fleet Management plc and the facility for GBP4.3 million to fund the acquisition of European Vehicle Contracts Limited and Capex Asset Finance Limited.

### Maturities of financial liabilities

The table below summarises the maturity profile of the Group and the parent entity's financial liabilities based on contractual undiscounted payments at the expected settlement dates. The amounts disclosed in the table are the contractual undiscounted cash flows. Balances due within 12 months equal their carrying value as the impact of discounting is not significant.



# Notes to the Financial Statements

For the year ended 30 June 2019

Consolidated Group – at 30 June 2019: Contractual maturities of financial liabilities	Less than 6 months \$'000	6–12 months \$'000	1–2 years \$'000	2–5 years \$'000	Over 5 years \$'000	Total contractual cash flows \$'000	Carrying Amount / liabilities \$'000
Trade payables	27,150	-	-	-	-	27,150	27,150
Other creditors and liabilities	80,137	6,983	2,112	682	-	89,914	89,859
Borrowings	11,988	11,599	317,462	19,474	-	360,523	328,299
	119,275	18,582	319,574	20,156	-	477,587	445,308

Consolidated Group – at 30 June 2018: Contractual maturities of financial liabilities	Less than 6 months \$'000	6–12 months \$'000	1–2 years \$'000	2–5 years \$'000	Over 5 years \$'000	Total contractual cash flows \$'000	Carrying Amount / liabilities \$'000
Trade payables	28,078	-	-	-	-	28,078	28,078
Other creditors and liabilities	80,939	5,635	4,364	3,811	-	94,749	94,825
Borrowings	13,416	13,111	143,790	192,490	-	362,807	337,876
	122,433	18,746	148,154	196,301	-	485,634	460,779

Parent – at 30 June 2019: Contractual maturities of financial liabilities	Less than 6 months \$'000	6–12 months \$'000	1–2 years \$'000	2–5 years \$'000	Over 5 years \$'000	Total contractual cash flows \$'000	Carrying Amount (assets)/ liabilities \$'000
Amounts payable to wholly owned entities and other payables	87,150	-	-	-	-	87,150	87,150
Borrowings	3,185	3,073	5,922	7,924	-	20,104	19,346
Financial guarantee contracts	6,293	6,107	306,876	5,311	-	324,587	309,953
	96,628	9,180	312,798	13,235	-	431,841	416,449

Parent – at 30 June 2018: Contractual maturities of financial liabilities	Less than 6 months \$'000	6–12 months \$'000	1–2 years \$'000	2–5 years \$'000	Over 5 years \$'000	Total contractual cash flows \$'000	Carrying Amount (assets)/ liabilities \$'000
Amounts payable to wholly owned entities and other payables	150,099	-	-	-	-	150,099	150,099
Borrowings	6,320	6,203	19,091	-	-	31,614	30,083
Financial guarantee contracts	7,096	6,909	124,698	192,490	-	331,193	307,793
	163,515	13,112	143,789	192,490	-	512,906	487,975

# Notes to the Financial Statements

For the year ended 30 June 2019

## (g) Credit risk

Credit risk is the risk of financial loss to the Group if a customer or counter-party to a financial instrument fails to meet its contractual obligations. The Company and Group have exposure to credit risk through the receivables' balances, customer leasing commitments and deposits with banks. The following carrying amount of financial assets represent the maximum credit exposure at reporting date.

	Consolidated Group		Parent Entity	
	2019 \$'000	2018 \$'000	2019 \$'000	2018 \$'000
Trade and other receivables	55,002	52,402	-	-
Deposits with banks	137,762	99,667	9,044	3,991
Finance lease & hire purchase receivables	138,067	171,632	-	-
Operating lease assets	280,705	302,128	-	-
	<b>611,536</b>	<b>625,829</b>	<b>9,044</b>	<b>3,991</b>

Lease assets of the Asset Management business represents future lease rentals that have yet to be invoiced. Such assets are secured against underlying assets.

### Credit risk management strategy

Credit risk arises from cash and cash equivalents and deposits with banks as well as exposure from outstanding receivables and unbilled future rentals for leased vehicles and counterparty risks associated with interest and currency swaps. For deposits with banks, only independently rated institutions with upper investment-grade ratings are used, in accordance with the Board approved Investment Policy.

Credit risk relating to the leasing of assets is managed pursuant to the Board approved Credit Policy by the Group CFO and the Group Treasurer/ Head of Credit. The policy is reviewed annually and prescribes minimum criteria in the credit assessment process that includes credit risk rating of the customer, concentration risk parameters, type and intended use of the asset under lease and the value of the exposure. A two tiered Credit Committee structure is in place to stratify credit applications for assessment; a Local Credit Committee and an Executive Credit Committee reviewing applications based on volume, nature and value of the application. The Board receives a monthly report from the Credit Committee and periodically reviews concentration limits that effectively spread the risks as widely as possible across asset classes, client base, industries, regions and asset manufacturer. There is a broad spread of credit risk concentration through the Group's exposure to individual customers, industry sectors, asset types, asset manufacturers or regions.

Where customers are independently rated, these ratings are taken into account. If there is no independent official rating, management assesses the credit quality of the customer using the Group's internal risk rating tool, taking into account information from an independent national credit bureau, its financial position, business segment, past experience and other factors using an application scorecard or other risk-assessment tools. Collateral is also obtained where appropriate, as a means of mitigating risk of financial loss from defaults. The overall debtor aging position is reviewed monthly by the Board, as is the provision for any impairment in the trade receivables balance.

## (h) Market risk

### (i) Interest rate risk

The Group's strong cash flow from operations and borrowings exposes the Group to movements in interest rates where movements could directly affect the margins from existing contracts and the pricing of new contracts for assets leased and income earned from surplus cash.

Exposure to interest rate volatility is managed via the Group's Treasury and pricing policies. The policies aim to minimise mismatches between the amortised value of lease contracts and the sources of financing to mitigate repricing and basis risk. Mismatch and funding graphs including sensitivity analysis, are reported monthly to the Board.

Interest rate risk arises where movements in interest rates affect the net margins on existing contracts for assets leased. As the Group carries significant cash and borrowings, movements in interest rates can affect net income to the Group, particularly for the Group Remuneration Services segment.

Borrowings issued at variable rates expose the Group to repricing interest rate risk. As at the end of the reporting period, the Group had the following variable rate borrowings under long-term revolving facilities attributable to the Asset Management business and other loan facilities drawn on.

# Notes to the Financial Statements

For the year ended 30 June 2019

	2019		2018	
	Borrowings '000	Weighted average interest rate %	Borrowings '000	Weighted average interest rate %
AUD'000	227,051	2.72%	222,836	3.36%
GBP'000	56,727	1.91%	64,865	1.88%
<b>Total AUD'000<sup>1</sup></b>	<b>328,445</b>	<b>2.56%</b>	<b>338,311</b>	<b>2.85%</b>

1. Excluding capitalised borrowing costs of \$146,000 (2018: \$394,000).

The weighted average interest rate of each borrowing is used as an input to asset repricing decisions for the geographical markets operated in. An analysis of maturities is provided in note 4(a).

To mitigate the cash flow volatility arising from interest rate movements, the Group has entered into interest rate swaps with counterparties rated as AA- by Standard & Poors, to exchange, at specified periods, the difference between fixed and variable rate interest amounts calculated on contracted notional principal amounts. The contracts require settlement of net interest receivable or payable on a quarterly basis. These swaps are designated to hedge underlying borrowing obligations and match the interest-repricing profile of the lease portfolio in order to preserve the contracted net interest margin. At 30 June 2019, the Group's borrowings for the Asset Management business of \$256,591,000 (2018: \$259,843,000) were covered by interest rate swaps at a fixed rate of interest of 2.94% (2018: 2.90%).

The Group's interest rate risk also arises from cash at bank and deposits, which are at floating interest rates.

At reporting date, the Group had the following variable rate financial assets and liabilities outstanding:

	2019	2018
	Balance \$'000	Balance \$'000
Cash and deposits	137,762	99,667
Bank loans (Asset Management segment) <sup>1</sup>	(309,083)	(308,187)
Interest rate swaps (financed amounts)	256,591	259,843
Bank loans (Presidian Group acquisition) <sup>1</sup>	(19,362)	(30,125)
<b>Net exposure to cash flow interest rate risk</b>	<b>65,908</b>	<b>21,198</b>

1. Excluding capitalised borrowing costs of \$146,000 (2018: \$394,000) for Asset Management and \$26,000 (2018 \$42,000) for the bank loan for Presidian.

## Sensitivity analysis – floating interest rates:

At 30 June 2019, the Group's and parent entity's cash and cash equivalents give rise to credit and interest rate risk. Cash and cash equivalent funds held by the Group and the parent entity include funds at bank and in deposit net of bank borrowings that are not hedged. The Group also holds cash and cash equivalent funds in trust to which the Group has contractual beneficial entitlement to the interest. If the Australian interest rate weakened or strengthened by 25 basis points, being the Group's view of possible fluctuation, and all other variables were held constant, the Group's post-tax profit for the year would have been \$780,408 (2018: \$700,755) higher or lower and the parent entity \$18,056 (2018: \$45,000) higher or lower, depending on which way the interest rates moved based on the cash and cash equivalents and borrowings balances at reporting date.

### (ii) Foreign currency risk

The Group's exposure to foreign currency risk arises from holding financial instruments that are denominated in a currency other than the functional currency in which they are measured. This includes the Group's inter-company receivables and payables which do not form part of the net investment in the UK and New Zealand entities. The Group's exposure to translation related risks from financial and non-financial items of the UK and New Zealand entities do not form part of the Group's risk exposure given that these entities are part of longer term investments and consequently, their sensitivity to foreign currency movements are not measured.

The Group's transactions are predominantly denominated Australian dollars which is the functional and presentation currency.

### (iii) Other market price risk

The Consolidated Group does not engage in any transactions that give rise to any other market risks.

# Notes to the Financial Statements

For the year ended 30 June 2019

## (i) Asset risk

The Group's exposure to asset risk is mainly from the residual value of assets under lease and the maintenance and tyre obligations to meet claims for these services sold to customers. Residual value is an estimate of the value of an asset at the end of the lease. This estimate, which is formed at the inception of the lease and any subsequent impairment, exposes the Group to potential loss from resale if the market price is lower than the value as recorded in the books. The risk relating to maintenance and tyre services arises where the costs to meet customer claims over the contracted period exceed estimates made at inception.

The Group continuously reviews the portfolio's residual values via a Residual Value Committee comprising experienced senior staff with a balance of disciplines and responsibilities, who measure and report all matters of risk that could potentially affect residual values and maintenance costs and matters that can mitigate the Group from these exposures. The asset risk policy sets out a framework to measure and factor into their assessment such critical variables as used car market dynamics, economic conditions, government policies, the credit market and the condition of assets under lease.

At reporting date, the portfolio of motor vehicles under operating lease of \$280,705,000 (2018: \$302,128,000) included a residual value provision of \$4,182,000 (2018: \$4,653,000).

## 5 Segment Reporting

### Reportable segments

#### (a) Description of Segments

The Group has identified its operating segments based on the internal reports reviewed and used by the Group's chief decision maker (the CEO) to determine business performance and resource allocation. Operating segments have been identified after considering the nature of the products and services, nature of the production processes, type of customer and distribution methods.

Three reportable segments have been identified, in accordance with AASB 8 *Operating Segments* based on aggregating operating segments taking into account the nature of the business services and products sold and the associated business and financial risks and how they affect the pricing and rates of return.

**Group Remuneration Services** - This segment provides employee benefits administration services for salary packaging and ancillary services including novated leasing asset and finance procurement, motor vehicle administration and other services, but does not provide financing.

**Asset Management** - This segment provides financing and finance brokerage services and ancillary fleet management associated with motor vehicles, commercial vehicles and equipment and retail of used motor vehicles.

**Retail Financial Services** - This segment provides retail brokerage services, aggregation of finance originations and extended warranty cover, but does not provide financing.

#### (b) Segment information managed by the CEO

The CEO uses several bases to measure segment performance amongst which is Underlying Net Profit After Tax and Amortisation (UNPATA) that is presented below, being net profit after-tax but before the impact of acquisition-related items and discontinuation and disposal of businesses. Segment revenue and expenses are reported as attributable to the shareholders of the Company and exclude outside equity interests share.

# Notes to the Financial Statements

For the year ended 30 June 2019

<b>2019</b>	Group Remuneration Services \$'000	Asset Management \$'000	Retail Financial Services \$'000	Unallocated \$'000	Consolidated \$'000
Segment from contracts with customers	221,851	245,089	80,689	265	547,894
Interest revenue	-	704	-	1,077	1,781
<b>Segment revenue</b>	<b>221,851</b>	<b>245,792</b>	<b>80,689</b>	<b>1,342</b>	<b>549,674</b>
Timing of revenue recognition:					
– At a point in time	137,562	134,563	48,992	265	321,382
– Over time	84,289	110,526	31,697	-	226,512
<b>Segment revenue from contracts with customers</b>	<b>221,851</b>	<b>245,089</b>	<b>80,689</b>	<b>265</b>	<b>547,894</b>
<b>Underlying net profit after tax and amortisation (UNPATA)</b>	<b>66,069</b>	<b>17,229</b>	<b>6,359</b>	<b>(960)</b>	<b>88,697</b>
<b>Reconciliation to statutory net profit after-tax attributable to members of the parent entity</b>					
Amortisation of intangible assets acquired on business combination	-	(1,687)	(3,145)	-	(4,832)
Fair valuation of contingent consideration	-	1,168	-	-	1,168
Acquisition costs	-	(863)	-	265	(598)
Provision for finance lease contract loss (refer note 9(a))	-	(4,600)	-	-	(4,600)
Impairment of goodwill and intangible assets	-	-	(18,254)	-	(18,254)
<b>Total UNPATA adjustments</b>	<b>-</b>	<b>(5,982)</b>	<b>(21,399)</b>	<b>265</b>	<b>(27,116)</b>
Income tax	-	1,147	1,024	(80)	2,091
<b>UNPATA adjustments after-tax</b>	<b>-</b>	<b>(4,835)</b>	<b>(20,375)</b>	<b>185</b>	<b>(25,025)</b>
<b>Statutory net profit after-tax attributable to members of the parent entity</b>	<b>66,069</b>	<b>12,394</b>	<b>(14,016)</b>	<b>(775)</b>	<b>63,672</b>

# Notes to the Financial Statements

For the year ended 30 June 2019

2018	Group Remuneration Services \$'000	Asset Management \$'000	Retail Financial Services \$'000	Unallocated \$'000	Consolidated \$'000
Segment revenue from contracts with customers as originally reported	207,712	243,547	92,547	-	543,806
Interest revenue	-	179	-	1,419	1,598
<b>Segment revenue</b>	<b>207,712</b>	<b>243,726</b>	<b>92,547</b>	<b>1,419</b>	<b>545,404</b>
Timing of revenue recognition:					
– At a point in time	130,925	127,695	60,518	-	319,138
– Over time	76,787	115,852	32,029	-	224,668
<b>Segment revenue from contracts with customers</b>	<b>207,712</b>	<b>243,547</b>	<b>92,547</b>	<b>-</b>	<b>543,806</b>
<b>Underlying net profit after tax and amortisation (UNPATA)</b>	<b>64,148</b>	<b>21,601</b>	<b>8,634</b>	<b>(864)</b>	<b>93,519</b>
<b>Reconciliation to statutory net profit after tax attributable to members of the parent entity</b>					
Amortisation of intangible assets acquired on business combination	-	-	(8,559)	-	(8,559)
Fair valuation of contingent consideration	-	(1,620)	(3,145)	-	(4,765)
Amortisation of contingent consideration financing charge	-	5,348	-	-	5,348
Impairment of goodwill and intangible assets	-	(311)	-	-	(311)
Acquisition expenses	-	-	(39,388)	-	(39,388)
Total UNPATA adjustments	-	3,417	(51,092)	-	(47,675)
Income tax	-	477	3,982	-	4,459
UNPATA adjustments after-tax	-	3,894	(47,110)	-	(43,216)
<b>Statutory net profit after-tax attributable to members of the parent entity</b>	<b>64,148</b>	<b>25,495</b>	<b>(38,476)</b>	<b>(864)</b>	<b>50,303</b>

## (c) Other segment information

### (i) Segment revenue

Segment revenue is reconciled to the Statement of Profit of Loss as follows:

	2019 \$'000	2018 \$'000
Total segment revenue	547,894	543,806

Segment revenue above represents sales to external customers and excludes inter-segment sales, consistent with the basis by which the financial information is presented to the Chief Decision Maker.

The accounting policies of the reportable segments are the same as the Group's policies. Segment profit includes the segment's share of centralised general management and operational support services which are shared across segments based on the lowest unit of measurement available to allocate shared costs that reasonably measure each segment's service level requirements and consumption. Segment profit does not include corporate costs of the parent entity, including listing and company fees, director's fees and finance costs relating to borrowings not specifically sourced for segment operations, costs directly incurred in relation to the acquisition of specific acquisition and strategic investment targets or interest revenue not directly attributable to a segment.

Included in the revenue for the Group Remuneration Services segment are revenues of \$60,498,000 (2018: \$53,139,000) from the Group's largest contract. This is the only customer representing greater than 10% of total segment revenue.

# Notes to the Financial Statements

For the year ended 30 June 2019

## (ii) Other segment information

The segment information with respect to total assets is measured in a consistent manner with that of the financial statements. These assets are allocated based on the operations of the segment and the physical location of the asset. The parent entity's borrowings are not considered to be segment liabilities. The reportable segments' assets and liabilities are reconciled to total assets as follows:

	Group Remuneration Services \$'000	Asset Management \$'000	Retail Financial Services \$'000	Unallocated <sup>1</sup> \$'000	Consolidated \$'000
<b>2019</b>					
Segment assets	175,494	540,400	103,374	34,230	853,598
Segment liabilities	66,380	362,466	27,543	25,738	482,127
Additions to segment non-current assets	14,848	95,078	840	-	110,766
Segment depreciation and amortisation <sup>2</sup>	7,530	69,675	22,157	-	99,362

	Group Remuneration Services \$'000	Asset Management \$'000	Retail Financial Services \$'000	Unallocated <sup>1</sup> \$'000	Consolidated \$'000
<b>2018</b>					
Segment assets <sup>2</sup>	222,177	578,958	128,228	(68,593)	861,902
Segment liabilities	54,136	373,121	32,053	30,083	490,525
Additions to segment non-current assets	12,233	132,075	-	-	144,308
Segment depreciation and amortisation <sup>3</sup>	6,189	75,516	50,491	-	132,196

1. Unallocated assets comprise cash and bank balances of segments other than Asset Management, maintained as part of the centralised treasury and funding function of the Group. Unallocated liabilities comprise borrowings for the acquisition of the Retail Financial Services (RFS) segment, utilising the Group's borrowing capacity and equity to fund the initial acquisition and ongoing loan maintenance utilising centralised treasury controlled funds.
2. Segment assets in 2018 have been restated to re-classify inter-entity balances relating to unallocated segment activities from the GRS segment to the Unallocated segment
3. RFS depreciation and amortisation includes impairment of goodwill and other intangibles of \$18.2 million (2018: \$39.4 million) and in 2018 goodwill and other intangibles written off in the disposal of Money Now of \$6.7 million.

## (d) Geographical segment information

The Group's revenue from continuing operations from external customers by location of operations and information about its non-current assets by location of assets are detailed below.

	Revenue from external customers		Non-current assets <sup>1</sup>	
	2019 \$'000	2018 \$'000	2019 \$'000	2018 \$'000
Australia	472,711	476,356	335,882	452,856
United Kingdom	65,073	61,396	118,238	65,668
New Zealand	10,814	7,652	35,892	25,097
	548,598	545,404	489,012	543,621

1. Non-current assets do not include deferred tax asset and subordinated loans.

# Notes to the Financial Statements

For the year ended 30 June 2019

## 6 Intangible Assets

	Consolidated Group		Parent Entity	
	2019 \$'000	2018 \$'000	2019 \$'000	2018 \$'000
<b>(a) Carrying values</b>				
<b>Goodwill</b>				
Cost	197,748	197,616	-	-
Impairment loss	(60,321)	(42,336)	-	-
Net carrying value	137,427	155,280	-	-
<b>Brands</b>				
Brands at cost - indefinite life	22,443	22,443	-	-
Impairment loss and disposal	(13,171)	(13,171)	-	-
Net carrying value of brands with an indefinite life	9,272	9,272	-	-
Brands at cost - finite life	6,598	6,598	-	-
Impairment loss and disposal	(5,720)	(4,319)	-	-
Net carrying value	10,150	11,551	-	-
<b>Dealer relationships</b>				
Cost	28,602	28,566	-	-
Accumulated amortisation	(12,216)	(9,640)	-	-
Impairment loss and disposal	(5,298)	(5,029)	-	-
Net carrying value	11,088	13,897	-	-
<b>Software development costs</b>				
Cost <sup>1</sup>	60,673	47,994	-	-
Accumulated amortisation and disposal	(30,286)	(25,852)	-	-
Net carrying value	30,387	22,142	-	-
<b>Contract rights</b>				
Cost	13,070	13,070	-	-
Accumulated amortisation	(13,070)	(12,985)	-	-
Net carrying value	-	85	-	-
<b>Customer list and relationships</b>				
Cost	6,657	6,634	-	-
Accumulated amortisation	(4,381)	(3,650)	-	-
Net carrying value	2,276	2,984	-	-
<b>Total Intangibles</b>	<b>191,328</b>	<b>205,939</b>	<b>-</b>	<b>-</b>

<sup>1</sup> Software includes capitalised internal costs.

### (b) Recognition and measurement

Intangible assets acquired in a business combination are recognised at their fair value at the date of acquisition. Following initial recognition, intangible assets are carried at their initial value less any accumulated amortisation and accumulated impairment losses. Specific criteria for various classes of intangible assets are stated below.



# Notes to the Financial Statements

For the year ended 30 June 2019

Intangible assets in software development costs and contract costs, which are not acquired from business combination, are initially measured at cost and subsequently remeasured at cost less amortisation and impairment.

**(i) Goodwill**

Goodwill represents the excess of the cost of the business combination over the Group's share of the net fair value of the identifiable assets, liabilities and contingent liabilities of the acquired entity. Goodwill is not amortised but is measured at cost less any accumulated impairment losses. Goodwill is reviewed for impairment annually, or more frequently if events or changes in circumstances indicate that the carrying value may be impaired. Gains and losses on the disposal of an entity include the carrying amount of goodwill relating to the entity sold. Any impairment is recognised immediately in the statement of profit or loss.

**(ii) Identifiable intangible assets acquired from business combination**

Identifiable intangible assets with finite lives are amortised over their useful lives and assessed for impairment. Amortisation of identifiable intangible assets is calculated on a straight-line basis over the estimated useful lives as follows:

Intangible asset	Useful life
Dealer relationships and networks	6 to 13 years
Customer contracts	5 to 13 years
Brand names	6 years to indefinite

Brand names that have indefinite useful lives will consequently, not be amortised but are subject to annual impairment assessments. Brand names that are restructured or consolidated with other brands and which consequently are considered to have a finite life are amortised over a useful life that represents the expected run-off of economic benefits are expected from them.

Brand names that have an indefinite life pursuant to the Group's plan for its continued use into the foreseeable future and there is no reasonable basis to establish a useful life and consequently any amortisation would be random and may not align with the economic benefit it generates.

**(iii) Capitalised software development costs**

Software development costs are capitalised when it is probable that future economic benefits attributable to the software will flow to the entity through revenue generation and / or cost reduction. Development costs include external direct costs for services, materials and licences and internal labour related costs directly involved in the development of the software. Capitalised software development costs are amortised from the date of commissioning on a straight line basis over three to five years, during which the benefits are expected to be realised.

**(iv) Contract rights**

Contract rights acquired and amounts paid for contract rights are recognised at the value of consideration paid plus any expenditure directly attributable to the transactions. Contracts are amortised over the life of the contract and reviewed annually for indicators of impairment in line with the Consolidated Group's impairment policy.

**(c) Reconciliation of written down values**

Consolidated Group 2019	Goodwill \$'000	Brands \$'000	Dealer relationships \$'000	Customer lists and relationships \$'000	Software development costs \$'000	Contract rights \$'000	Total \$'000
<b>Net book amount</b>							
Balance beginning of year	155,280	11,551	13,897	2,984	22,142	85	205,939
Additions	-	-	-	-	15,197	-	15,197
Transfer to Property, Plant and Equipment	-	-	-	-	(518)	-	(518)
Impairment <sup>1</sup>	(17,985)	-	(269)	-	-	-	(18,254)
Amortisation	-	(1,401)	(2,705)	(725)	(6,434)	(85)	(11,350)
Changes in foreign currency	132	-	165	17	-	-	314
<b>Closing balance</b>	<b>137,427</b>	<b>10,150</b>	<b>11,088</b>	<b>2,276</b>	<b>30,387</b>	<b>-</b>	<b>191,328</b>

<sup>1</sup> Impairment of intangible assets relate to RFS Retail

# Notes to the Financial Statements

For the year ended 30 June 2019

## (c) Reconciliation of written down values (continued)

<b>Consolidated Group 2018</b>	<b>Goodwill \$'000</b>	<b>Brands \$'000</b>	<b>Dealer relationships \$'000</b>	<b>Customer lists and relationships \$'000</b>	<b>Software development costs \$'000</b>	<b>Contract rights \$'000</b>	<b>Total \$'000</b>
<b>Net book amount</b>							
Balance beginning of year	191,186	13,734	21,109	4,451	19,719	547	250,746
Additions	-	-	-	-	10,332	-	10,332
Impairment	(34,761)	(639)	(3,095)	(893)	-	-	(39,388)
Disposal of business	(3,056)	(209)	(1,934)	-	(1,500)	-	(6,699)
Amortisation	-	(1,335)	(2,692)	(737)	(6,409)	(462)	(11,635)
Changes in foreign currency	1,911	-	509	163	-	-	2,583
<b>Closing balance</b>	<b>155,280</b>	<b>11,551</b>	<b>13,897</b>	<b>2,984</b>	<b>22,142</b>	<b>85</b>	<b>205,939</b>

## (d) Impairment test of goodwill

At each reporting date, the Group reviews the carrying amount of its intangible assets to determine whether there is any indication of impairment. If any such indication exists, the recoverable amount of the affected assets are evaluated. An impairment loss is recognised in profit or loss for the amount that the asset's carrying value exceeds the recoverable amount. The recoverable amount of an asset is determined as the higher of the asset's fair value less costs to sell and its value-in-use. For the purpose of assessing fair value, assets are grouped at the lowest levels for which there are separately identifiable cash inflows which are largely independent of cash inflows from other assets (cash-generating units). Where the asset does not generate cash flows that are independent from other assets, the Group estimates the recoverable amount of the cash-generating unit to which the asset belongs.

The carrying value of goodwill is allocated to the Group's cash-generating units (CGUs) below based on the organisation and management of its businesses.

	Consolidated Group	
	2019 \$'000	2018 \$'000
Maxxia Pty Limited (Maxxia)	24,190	24,190
Remuneration Services (Qld) Pty Limited (RemServ)	9,102	9,102
CLM Fleet Management plc (CLM)	12,955	12,840
Anglo Scottish Finance Limited (Anglo Scottish)	16,753	16,685
Retail Financial Services segment aggregation business (RFS aggregation)	65,859	65,859
Retail Financial Services segment retail business (RFS retail)	-	17,985
European Vehicle Contracts Limited (EVC)	3,487	3,473
Capex Asset Finance Limited (CAPEX)	5,081	5,146
	<b>137,427</b>	<b>155,280</b>

# Notes to the Financial Statements

For the year ended 30 June 2019

## (e) Key assumptions used for value-in-use calculations

In performing the value-in-use calculations for each CGU, the Group has applied pre-tax discount rates to discount pre-tax cash flow projections. The pre-tax discount rates discussed below reflect specific risks relating to the relevant business each operates in and have been externally tested with capital market practitioners. The recoverable value assessment also uses the after-tax model and compares the fair value to the value-in-use calculation. The growth rate used to evaluate terminal value does not exceed the long-term average growth rate for the business in which the CGU operates in.

### Cash flow projections

The cash flow projections are based off the FY20 budget that incorporates Board approved business plans and initiatives. The growth assumptions used for subsequent years reflect strategic business plans and forecast growth rates. Financial projections also take into account any risk exposures to changes to the trading, market and regulatory environments. The following average growth rate assumptions were used in the five year cash flow projections.

CGU	Growth rates	Assumptions
Maxxia and Remserv	Between 1 - 5%	Assumption for steady growth in industry where the CGUs have a pre-dominant position
EVC	Between 3 – 7%	Assumption of moderate growth below historical average growth rates
CAPEX	Between 3 – 11%	Assumption of moderate recovery in the next year followed by steady growth that is below historical average
ASF	Between 3 – 6%	Assumption of moderate growth below historical average growth rates
CLM	Between 2 – 5%	Assumption of moderate recovery in the next year followed by steady growth that is below historical average
RFS Aggregation	Between 2 – 5%	Assumption of moderate growth below historical average growth rates

Cash flows beyond the five year period are extrapolated using conservative growth rates between 1.8% to 2.0% in line with long term CPI.

### GRS CGUs

The Maxxia and RemServ CGUs that form the GRS segment operate largely in the same business environment and are exposed to similar risks. A pre-tax discount rate of 15.8% (2018: 13.8%) was applied to pre-tax cash flows for the value-in-use calculation.

The extent of current GRS segment cash flows comprising Maxxia and RemServ indicate that any reasonable changes to the key assumptions would not cause an impairment and consequently, no sensitivity assessments have been presented. One of the key assumptions in the GRS segment is that there is not significant change to Australian tax legislation that could affect the salary packaging and novated lease businesses however, the recoverable amounts will have to be re-assessed if there is anything significant to the contrary. RemServ generates a substantial portion of its salary packaging and novated leasing business from the provision of services to employees of the Queensland Government pursuant to contractual arrangements that extend to April 2021 and November 2021 respectively plus a two year extension at the option of the client.

### Asset Management CGUs

EVC and CAPEX operate largely in the same business environment and are exposed to relatively similar types of risks. The value-in-use assessment for Anglo Scottish Finance (ASF) and CLM used a pre-tax discount rate of 12.2% (2018: 13.0%).

From sensitivity tests applied to EVC, CAPEX and CLM, a 0.25% change to the discount rate indicated an impact of \$323,000, \$272,000 and \$504,000 respectively and a 5% change to revenue indicated an impact of \$610,000, \$510,000 and \$707,000 respectively. ASF has traded to plan and a 5% change to the key assumptions is unlikely to cause significant impairment.

# Notes to the Financial Statements

For the year ended 30 June 2019

## Retail Financial Services CGUs

The RFS segment operates two business groups in Aggregation and Retail that targets the wholesale and retail markets respectively.

The Aggregation and Retail CGUs applied a pre-tax discount rate of 14.1% (2018: 14.0%) for the pre-tax value-in-use calculations.

The sensitivity of the RFS Aggregation CGU estimated recoverable amount is calculated to potentially vary by \$3.5 million for every 0.50% change to the discount rate and for a 5% change in earnings growth assumption, the estimated recoverable amount could vary by \$4.1 million. The RFS Retail CGU generated revenue that was close to plan but its profitability was below plan due to the changing industry and regulated practices and consequently, lowered the growth assumptions used in the impairment assessment model. This resulted in an impairment charge of \$17,928,000 for goodwill and \$269,000 for Dealer Relationships in the Statement of Profit and Loss in the year.

The warranty business in RFS retail is undertaking enhancements to the design and distribution of the warranty products.

As disclosed in note 29, the Company has a pending class action proceeding relating to a warranty product business operated by Davantage Group Pty Ltd, an entity that is part of the RFS Retail CGU. Any impact from the action is not incorporated in the key assumptions as there is insufficient information to identify or measure the impact.

## 7 Revenue from contracts with customers

	Consolidated Group		Parent Entity	
	2019 \$'000	2018 \$'000	2019 \$'000	2018 \$'000
Remuneration services	221,831	207,714	-	-
Lease rental services	126,560	133,100	-	-
Proceeds from sale of leased assets	82,036	78,133	-	-
Brokerage commissions and financial services	116,621	123,887	-	-
Other	846	972	-	-
<b>Total revenue from contract with customers</b>	<b>547,894</b>	<b>543,806</b>	<b>-</b>	<b>-</b>

### (i) Remuneration services

The Group provides employee benefits administration services for salary packaging and ancillary services including novated leasing asset and finance procurement, motor vehicle administration and other services, but does not provide financing. Following the change in accounting policy, administration service fees are collected from customers for the provision of salary packaging services and recognised as revenue at the point in time that the services are rendered, net of any rebates payable to the employer organisation. Under the previous accounting policy, rebates were expensed. Fee rates are contractually agreed with each client employer and the provision of administration services are considered to have been satisfied for each period completed.

The Group receives certain interest for managing funds held in trust for clients pursuant to contractual agreement and is recognised as revenue in the period that the interest is received for (refer note 13(b)).

The Group derives fees and commission for the procurement of lease finance and financial as well as volume based commissions. Under the new accounting policy, fees and commission received from the origination of financing and insurance products is recognised at a point in time when the customer has executed the lease finance or activated the insurance cover and that the Group has no outstanding obligations consistent with previous policy. The Company acts as agent and does not include the premium on policies as revenue. Volume-based rebates from providers are received on a retrospective basis and revenue is recognised for the period that the rebates are received for.

### (ii) Lease rental services

The Asset Management segment provides fleet administration and finance services. Rental income is received for the leasing of assets, interest from the provision of finance leasing and fees for the provision of tyre and maintenance and other in-life fleet services.

Rental income from operating leases is recognised as revenue on a straight line basis over the term of the lease. Interest from finance leases is recognised over the term of the lease for a constant periodic return on the amount invested in the lease asset. Fees received for tyre and maintenance services are recognised as revenue to the extent that services are completed based on the percentage of costs incurred relative to expected costs at completion and less the deferral for the portion not recognised as revenue in the period. Fees for fleet administration are recognised as revenue in the period that services are provided.

# Notes to the Financial Statements

For the year ended 30 June 2019

**(iii) Sale of leased assets**

The Asset Management segment sells motor vehicles at the termination of their lease contract. The Company assumes ownership of the motor vehicle and disposes the asset as principal. Revenue is recognised for the net proceeds when settlement is completed and ownership of the motor vehicle passed to the customer.

**(iv) Brokerage commissions and financial services**

The Group earns revenue from the third party distribution of and administration of wholesale motor vehicle extended warranty products. The Group acts in the capacity as agent and does not carry the risk as underwriter for the sale of warranty products, however the Group applies its discretion to assist dealers to meet the cost of customer claims in relation to the dealer warranty products. Fees from the sale of wholesale warranty discretionary product is recognised as revenue over time and measured using the historical profile of claims to measure probable future performance obligations net of premium clawbacks. Premium income is subject to clawback for policy terminations and is estimated on a historical profile of termination rates. Premium income that is not recognised as revenue in the period is deferred in liabilities as unearned warranty premium.

In the aggregation business, volume-based incentives are received based on the volume of financial products introduced by the network of dealers and brokers with financiers and providers using contracted rates. Volume-based incentives are recognised as revenue in the period based on the fact that finance originations are activated by the financier net of rebates provided to dealers and brokers in the network.

Commission income is received from brokerage services for the procurement of lease finance to motor vehicle fleet operators and other customers as agent of or under a principal and agency arrangement (P&A) with financiers. Under a P&A arrangement the Group acts as agent for the procurement of lease asset financing and does not possess credit risk or carry on risks of ownership of the underlying finance or asset with the customer. Commission income from these services is recognised as revenue when the financing arrangements are funded and free from any service deliverables less a provision for an estimate of expected clawback of commissions from future terminations. The clawback provisions are calculated using the historical profile of finance terminations. In P&A, the Group has a put and call option to acquire the asset from the financier at its residual value on termination of the lease which creates an exposure of the carrying value to expected market price for which the potential impact is assessed at reporting date and the shortfall provided for.

## 8 Other income items

	Consolidated Group		Parent Entity	
	2019 \$'000	2018 \$'000	2019 \$'000	2018 \$'000
Interest income	1,781	1,598	776	43
Dividends received	-	-	189,173	56,406
<b>Other income</b>	<b>1,781</b>	<b>1,598</b>	<b>189,949</b>	<b>56,449</b>

**(i) Interest**

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

**(ii) Dividends**

Dividends are recognised when the Company's right to receive payment is established.

# Notes to the Financial Statements

For the year ended 30 June 2019

## 9 Profit and loss information

	Consolidated Group		Parent Entity	
	2019 \$'000	2018 \$'000	2019 \$'000	2018 \$'000
<b>(a) Impairment losses</b>				
Impairment of goodwill	17,985	34,761	-	-
Impairment of other intangible assets	269	4,627	-	-
Finance lease receivables loss allowance	4,874	-	-	-
Subordinated loan loss allowance	812	-	-	-
Impairment of investment in subsidiaries	-	-	-	44,587
	<b>23,940</b>	<b>39,388</b>	<b>-</b>	<b>44,587</b>

The Group's impairment of goodwill and other intangible assets relate to the RFS retail segment following a review of the projected cash flows. Refer note 6(e) for the bases and assumptions used in the assessment.

The expected loss allowance from finance leases is due mainly to the UK asset management business having entered into a series of short-term contracts, allowing the return of vehicles without the customary contract break fee with a customer that has subsequently been placed into administration and many vehicles having been returned prematurely.

	Consolidated Group		Parent Entity	
	2019 \$'000	2018 \$'000	2019 \$'000	2018 \$'000
<b>(b) Loss on disposal of business</b>				
Goodwill written-off	-	3,056	-	-
Intangible assets written-off	-	2,142	-	-
Redundant assets written-off	-	1,500	-	-
Termination costs of contractual arrangements, employees and property	-	1,471	-	-
Other closure costs	-	390	-	-
	<b>-</b>	<b>8,559</b>	<b>-</b>	<b>-</b>

In the year ended 30 June 2018, the loss on disposal of business followed from a strategic review of the RFS segment that has resulted in the exit from its Money Now point of sale motor vehicle finance business. The expense comprises the write-off of redundant assets and costs of closure.

# Notes to the Financial Statements

For the year ended 30 June 2019

	Consolidated Group		Parent Entity	
	2019 \$'000	2018 \$'000	2019 \$'000	2018 \$'000
<b>(c) Other operating expenses</b>				
Consulting	5,180	2,396	199	201
Marketing	6,106	4,930	-	-
Property and corporate	10,939	11,130	340	336
Technology and communication	13,044	11,909	-	-
Other	11,612	12,353	-	-
	<b>46,881</b>	<b>42,718</b>	<b>539</b>	<b>537</b>

	Consolidated Group		Parent Entity	
	2019 \$'000	2018 \$'000	2019 \$'000	2018 \$'000
<b>(d) Other expense items</b>				
<b>Depreciation and amortisation expenses</b>				
Amortisation of software development	6,519	6,409	-	-
Amortisation of contract rights acquired	-	462	-	-
Depreciation of assets under operating lease	66,246	71,218	-	-
Depreciation of plant and equipment	3,511	3,183	-	-
Amortisation of intangibles	4,832	4,764	-	-
	<b>81,108</b>	<b>86,036</b>	<b>-</b>	<b>-</b>
<b>Rental expense on operating leases</b>				
Minimum lease payments	9,647	9,238	-	-
<b>Superannuation</b>				
Defined contribution superannuation expense	8,796	8,520	-	-

# Notes to the Financial Statements

For the year ended 30 June 2019

## 10 Income Tax Expense / (Benefit)

	Consolidated Group		Parent Entity	
	2019 \$'000	2018 \$'000	2019 \$'000	2018 \$'000
<b>(a) Components of tax expense / (benefit)</b>				
Current tax expense / (benefit)	42,075	37,237	(82)	(773)
Adjustments for current tax of prior years	56	(190)	-	-
Deferred tax	(6,252)	(1,950)	(342)	(10)
<b>Income tax expense / (benefit)</b>	<b>35,879</b>	<b>35,097</b>	<b>(424)</b>	<b>(783)</b>

	Consolidated Group		Parent Entity	
	2019 \$'000	2018 \$'000	2019 \$'000	2018 \$'000
<b>(b) The prima facie tax payable on profit before income tax is reconciled to the income tax expense / (benefit) as follows:</b>				
Profit before income tax	99,696	84,931	187,765	9,209
Prima facie tax payable on profit before income tax at 30% (2018: 30%)	29,908	25,479	56,329	2,763
Add tax effect of:				
– non-deductible costs	668	344	-	-
– non-deductible impairment expense	5,396	11,345	-	13,376
– contingent consideration fair valuation	(222)	(1,040)	-	-
– share of joint venture loss	203	-	-	-
– share-based payments	-	410	-	-
– overseas tax rate differential of subsidiaries	(251)	123	-	-
– acquisition expenses	233	(1,351)	-	-
– under-provision of tax from prior year	(56)	(213)	-	-
	35,879	35,097	56,329	16,139
Less tax effect of:				
– dividends received	-	-	(56,753)	(16,922)
<b>Income tax expense / (benefit)</b>	<b>35,879</b>	<b>35,097</b>	<b>(424)</b>	<b>(783)</b>



# Notes to the Financial Statements

For the year ended 30 June 2019

	Consolidated Group		Parent Entity	
	2019 \$'000	2018 \$'000	2019 \$'000	2018 \$'000
<b>(c) Deferred tax asset / (liability)</b>				
The balance comprises temporary differences and tax losses attributed for:				
<b>Amounts recognised in profit or loss</b>				
Doubtful debts	292	168	-	-
Provisions	6,795	6,581	-	-
Property, plant and equipment	(6,686)	(7,680)	-	-
Accrued expenses	9,778	8,450	160	-
Other receivables/prepayments	(1,718)	(2,549)	(1,134)	(696)
Other	-	(2,062)	-	-
Losses	589	916	-	-
Deferred acquisition expenses	325	806	53	158
Intangible assets	(6,126)	(7,644)	-	-
Unearned income	(127)	(342)	-	-
Employee share rights	-	151	-	-
	3,122	(3,205)	(921)	(538)
<b>Amounts recognised in equity</b>				
Derivatives recognised directly in equity	209	1	(26)	(20)
Closing balance at 30 June	3,331	(3,204)	(947)	(558)
Recognised as:				
Deferred tax asset	13,008	729	-	-
Deferred tax liability	(9,677)	(3,933)	(947)	(558)
	3,331	(3,204)	947	(558)
<b>Movements in deferred tax asset / (liability)</b>				
Opening balance at 1 July	(3,204)	(5,344)	(558)	(568)
Charged to profit or loss	6,252	1,963	(342)	10
Charged to other comprehensive income	279	(37)	(47)	-
FX	4	214	-	-
Closing balance at 30 June	3,331	(3,204)	(947)	(558)
<b>(d) Income tax asset</b>	6,026	-	-	-

During the year the Company received amended income tax assessments for FY12, FY13 and FY14 of \$6,206,000 which the Company considers to have been incorrectly determined and has raised objections with the taxation authorities. However the Company has paid the assessments to reduce the income tax liabilities and prevent any potential charges and is working with the taxation authorities to recover the payments.

# Notes to the Financial Statements

For the year ended 30 June 2019

	Consolidated Group		Parent Entity	
	2019 \$'000	2018 \$'000	2019 \$'000	2018 \$'000
<b>(e) Unrecognised temporary differences</b>				
<i>Temporary differences that have not been tax effected:</i>				
Unused tax losses for which no deferred tax asset has been recognised	1,329	1,329	-	-
Foreign currency translation of investments in subsidiaries	4,560	5,596	-	-
	<b>5,889</b>	<b>6,925</b>	-	-

Unused tax losses were incurred by a subsidiary that is now dormant and is unlikely to generate sufficient taxable income to use these losses or is expected to be available for group relief.

Foreign exchange translation differences in overseas investments will only be realised when the investments are disposed of in the foreseeable future.

## (f) Recognition and measurement

The income tax expense for the period is the tax payable on the current period's taxable income based on the applicable income tax rate for each jurisdiction adjusted by changes in deferred tax assets and liabilities attributable to temporary differences and unused tax losses.

The current income tax charge is calculated on the basis of the tax laws enacted or substantively enacted at the end of the reporting period in the countries where the entities in the Group operate and generate taxable income.

### (i) Deferred tax

Deferred tax assets and liabilities are recognised for all temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and their respective tax bases, at the tax rates expected to apply when the assets are recovered or liabilities settled, based on those rates which are enacted or substantially enacted. Deferred tax is not recognised if they arise from the initial recognition of goodwill.

Deferred tax assets are reviewed at each reporting date and the carrying value is reduced to the extent that it is probable future taxable profits will be available to utilise these temporary differences. Deferred tax assets and liabilities are offset only if certain criteria are met with respect to legal enforceability and within the same tax jurisdiction.

Deferred tax assets and liabilities are not recognised for temporary differences between the carrying amounts and tax bases of investments in subsidiaries where the parent entity is able to control the timing of the reversal of the temporary differences and it is probable that the differences will not reverse in the foreseeable future.

Current and deferred tax on items that are accounted for in other comprehensive income or equity are recognised in other comprehensive income and equity respectively. Deferred tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets and liabilities and the deferred taxes relate to the same taxable entity and the same taxing authority.

### (ii) Tax consolidation

The Company and its wholly-owned Australian resident entities are members of a tax consolidated group under Australian taxation law. The Company is the head entity in the tax consolidated group. Entities within the tax consolidated group have entered into a tax funding agreement and a tax sharing agreement with the head entity. Under the terms of the tax funding arrangement, the Company and each of the entities in the tax consolidated group have agreed to pay a tax equivalent payment to or from the head entity, based on the current tax liability or current tax asset of the head entity.

### (iii) Investment allowances

Companies within the Group may be entitled to claim special tax deductions for investments in qualifying assets (investment allowances) or a tax credit under the incentive regime in Australia in relation to eligible research & development expenditure. The Consolidated Group accounts for such allowances as a reduction in income tax payable and current tax expense. A deferred tax asset is recognised for unclaimed tax credits.

# Notes to the Financial Statements

For the year ended 30 June 2019

## 11 Earnings Per Share

	Consolidated Group	
	2019	2018
<b>Basic earnings per share</b>		
Basic EPS – cents per share	77.0	60.9
Net profit after tax (\$'000)	\$63,672	\$50,303
Weighted average number of ordinary shares outstanding during the year used in the calculation of basic EPS ('000)	82,667	82,616
Basic earnings per share is calculated by dividing the profit attributable to members of the Company by the weighted average number of ordinary shares outstanding during the financial year.		
<b>Diluted earnings per share</b>		
Diluted EPS – cents per share	76.4	60.6
Earnings used to calculate basic earnings per share (\$'000)		
Weighted average number of ordinary shares outstanding during the year used in the calculation of basic EPS ('000)	82,667	82,616
Weighted average number of options on issue outstanding ('000)	2,392	1,483
Weighted average number of ordinary shares outstanding during the year used in the calculation of diluted EPS ('000)	85,059	84,099

Diluted earnings per share is calculated from earnings and the weighted average number of shares used in calculating basic earnings per share adjusted for the dilutive effect of all potential ordinary shares from employee options.

# Notes to the Financial Statements

For the year ended 30 June 2019

## 12 Dividends

	Consolidated Group		Parent Entity	
	2019 \$'000	2018 \$'000	2019 \$'000	2018 \$'000
Final fully franked ordinary dividend for the year ended 30 June 2018 of \$0.40 (2017: \$0.35) per share franked at the tax rate of 30% (2017: 30%)	33,066	28,938	33,066	28,938
Interim fully franked ordinary dividend for the year ended 30 June 2019 of \$0.34 (2018: \$0.33) per share franked at the tax rate of 30% (2018: 30%)	28,107	27,279	28,107	27,279
	<b>61,173</b>	<b>56,217</b>	<b>61,173</b>	<b>56,217</b>
Franking credits available for subsequent financial years based on a tax rate of 30% (2018 – 30%)	128,758	111,752	128,758	111,752

The above amounts represent the balance of the franking account at the end of the financial year end adjusted for:

- franking credits that will arise from the payment of the amount of the provision for income tax;
- franking debits that will arise from the payment of dividends recognised as a liability at the reporting date; and
- franking credits that will arise from the receipt of dividends recognised as receivables at the reporting date.

The consolidated amounts include franking credits that would be available to the parent entity if distributable profits of subsidiaries were paid as dividends.

### Recognition and measurement

Dividends are brought to account when declared and appropriately authorised before the end of the financial year but not distributed at balance date.

# Notes to the Financial Statements

For the year ended 30 June 2019

## 13 Cash and Cash Equivalents

	Consolidated Group		Parent Entity	
	2019 \$'000	2018 \$'000	2019 \$'000	2018 \$'000
Cash on hand	9	9	4	4
Bank balances	103,377	69,839	9,040	3,987
Short term deposits	34,376	29,819	-	-
	137,762	99,667	9,044	3,991

### (a) Cash and cash equivalents

This asset is controlled by the Company and the contractual rights transfer to the Company substantially all of the benefits and risks of ownership.

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

Cash and cash equivalents are subject to interest rate risk as they earn interest at floating rates. Cash at bank is invested at floating rates. In 2019, the floating interest rates for the Group and parent entity were between 0.77% and 1.80% (2018: 1.35% and 1.6%). The short term deposits are also subject to floating rates, which in 2019 were between 1.76% and 2.53% (2018: 1.80% and 2.20%). These deposits have an average maturity of 90 days (2018: 90 days) and are highly liquid.

### (b) Cash and cash equivalents held in trust and not recognised in the statement of financial position

Pursuant to contractual arrangements with clients, the GRS segment administers the cash flows on behalf of clients as part of the remuneration benefits administration service. Cash held in trust for clients are therefore, not available for use in the Group's operations. For some clients, cash is held in bank accounts specified in their name and other client monies are held in bank accounts specially designated as monies in trust for clients. All client monies are segregated from the Group's own cash and not included in the Consolidated Statement of Financial Position. At reporting date, the balance of monies held in bank accounts in trust for clients representing all client contributions to operate their accounts were as follows.

	Consolidated Group		Consolidated Group	
	2019		2018	
	Average interest rate %	\$'000	Average interest rate %	\$'000
Client monies in trust, interest accruing to the Group	2.50%	380,123	2.30%	373,485
Client monies in trust, interest accruing to clients	2.36%	32,518	2.23%	33,085
		412,641		406,570

The parent entity did not hold any client monies at the end of the current and preceding reporting period.

Pursuant to contractual agreement with clients, the Company received the following interest for managing client monies and as part substitute for administration service fees at an average interest rate of 2.50% (2018: 2.30%).

	Consolidated Group	
	2019 \$'000	2018 \$'000
Interest received	9,570	9,077

# Notes to the Financial Statements

For the year ended 30 June 2019

## 14 Trade and Other Receivables

	Consolidated Group		Parent Entity	
	2019 \$'000	2018 \$'000	2019 \$'000	2018 \$'000
<b>Current</b>				
Trade receivables	23,636	28,747	-	-
Other receivables	31,366	23,655	-	-
Income tax receivable (refer note 10(d))	6,026	-	-	-
Amounts receivable from wholly owned entities	-	-	49,350	7,258
	<b>61,028</b>	<b>52,402</b>	<b>49,350</b>	<b>7,258</b>

The carrying amount of all current receivables are equal to their fair value as they are short term and fully recoverable.

### (a) Trade receivables

Trade receivables are amounts due from customers for services performed in the ordinary course of business and held with the objective of collecting cash flows. They are generally settled within 30 days and the carrying amount that includes a loss allowance of \$793,000 is generally considered to equal their fair value and recoverable.

#### Impairment of trade receivables

The recoverability of trade receivables is reviewed on an ongoing basis. The Group applies the AASB 9 simplified model of recognising lifetime expected credit losses for all trade receivables as these items do not have a significant financing component. In measuring the expected credit losses, the trade receivables have been assessed on a collective basis as they possess shared credit risk characteristics. The expected loss rate for trade receivables has been based on the credit loss history on sales over the previous 36 months and adjusted for forward looking factors. On this basis, the loss allowance for trade receivables have been estimated as follows.

	Consolidated Group		Parent Entity	
	2019 \$'000	2018 \$'000	2019 \$'000	2018 \$'000
Expected loss rate	3.25%	2.41%	-	-
Gross carrying amount	24,429	29,461	-	-
Loss allowance	<b>793</b>	<b>714</b>	-	-

	2019			2018		
	Total \$'000	Loss allowance \$'000	Amount not impaired \$'000	Total \$'000	Loss allowance \$'000	Amount not impaired \$'000
<b>Ageing and expected credit loss of trade receivables</b>						
Not past due	18,840	-	18,840	23,155	-	23,155
Past due 30 days	3,176	-	3,176	4,198	-	4,198
Past due 31-60 days	1,062	-	1,062	746	(87)	659
Past due 61-90 days	457	(131)	326	301	(102)	199
Past due > 90 days	894	(662)	232	1,061	(525)	536
	<b>24,429</b>	<b>(793)</b>	<b>23,636</b>	<b>29,461</b>	<b>(714)</b>	<b>28,747</b>

### (b) Concentration of risk

The Group's maximum exposure to credit risk at reporting date by geographic region is predominantly in Australia based on the location of originating transactions and economic activity.

### (c) Other receivables

These amounts generally arise from transactions outside the usual operating activities of the Group and carried at amortised cost. None of the other current receivables are impaired or past due.

# Notes to the Financial Statements

For the year ended 30 June 2019

## 15 Finance Lease Receivables

	Consolidated Group		Parent Entity	
	2019 \$'000	2018 \$'000	2019 \$'000	2018 \$'000
Current finance lease receivables	57,412	71,137	-	-
Non-current finance lease receivables	80,654	100,495	-	-
	<b>138,066</b>	<b>171,632</b>	-	-

### Recognition and measurement

Asset Management finance lease contracts entered into with customers are recognised as finance lease receivables and classified as financial assets that are measured at amortised cost as the objective is to collect contractual cash flows comprising principal and interest.

A finance lease arrangement transfers substantially all the risk and rewards of ownership of the asset to the lessee. The Group's net investment in the lease equals the net present value of the future minimum lease payments. Finance lease income is recognised as income in the period to reflect a constant periodic rate of return on the Consolidated Group's remaining net investment in respect of the lease.

### Impairment of financial assets

Finance lease receivables loss provision

	Consolidated Group		Parent Entity	
	2019 \$'000	2018 \$'000	2019 \$'000	2018 \$'000
Expected credit loss provision	1,128	-	-	-
Specific provision	2,021	741	-	-
	<b>3,149</b>	<b>741</b>	-	-

The movement in the expected loss provision is set out below.

	Consolidated Group		Parent Entity	
	2019 \$'000	2018 \$'000	2019 \$'000	2018 \$'000
Balance at start of year	191	191	-	-
Re-statement of loss provision on transition to AASB 9	1,223	-	-	-
Re-stated carrying value at start of the financial year	1,414	191	-	-
Specific loss allowance <sup>1</sup>	4,874	-	-	-
Loss allowance discharged	(3,059)	-	-	-
Changes in foreign currency	(80)	-	-	-
<b>Balance at end of year</b>	<b>3,149</b>	<b>191</b>	-	-

<sup>1</sup> Includes the one-off provision for a UK contract of \$4,600,000.

The Group applies the AASB 9 simplified approach to measuring Expected Credit Losses (ECL) which uses a lifetime expected loss allowance for all trade receivables and finance and hire purchase lease receivables. To measure ECL, trade receivables and finance lease and hire purchase receivables have been grouped based on substantially shared credit risk characteristics.

The Group uses the assessment criteria from its credit management system and forward looking indicators to reflect macro-economic factors to estimate the expected credit loss for finance leases and hire purchase receivables. The expected loss rate is calculated using the credit management system's default rate assigned for each customer adjusted by the expected recoverable rate plus deflators for duration and other economic or business environmental factors.

# Notes to the Financial Statements

For the year ended 30 June 2019

On this basis, the loss expected at reporting date was determined as follows.

	Consolidated Group		Parent Entity	
	2019 \$'000	2018 \$'000	2019 \$'000	2018 \$'000
Expected loss rate	0.79%	0.71%	-	-
Gross carrying amount	142,829	171,632	-	-
Loss allowance	1,128	1,223	-	-

	Consolidated Group			
	Minimum lease payments 2019 \$'000	Present value of lease payments 2019 \$'000	Minimum lease payments 2018 \$'000	Present value of lease payments 2018 \$'000
<b>Amounts receivable under finance lease receivables</b>				
Within one year	67,579	56,796	81,432	74,638
Later than one but not more than five years	80,513	80,985	98,253	93,357
Later than five years	292	285	3,756	3,637
	148,384	138,066	183,441	171,632
Less: unearned finance income	(10,318)	-	(11,809)	-
<b>Present value of minimum lease payments</b>	<b>138,066</b>	<b>138,066</b>	<b>171,632</b>	<b>171,632</b>



# Notes to the Financial Statements

For the year ended 30 June 2019

## 16 Other financial assets

	Consolidated Group		Parent Entity	
	2019 \$'000	2018 \$'000	2019 \$'000	2018 \$'000
(a) Investment in subsidiaries				
Shares in subsidiaries at cost	-	-	286,243	282,246

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

Name	Country of Incorporation	% Owned 2019	% Owned 2018	Principal activities
<b>Parent entity</b>				
McMillan Shakespeare Limited	Australia			
<b>Subsidiaries in Group</b>				
Maxxia Pty Limited <sup>1</sup>	Australia	100%	100%	Remuneration services provider
Remuneration Services (Qld) Pty Limited <sup>1</sup>	Australia	100%	100%	Remuneration services provider
Interleasing (Australia) Ltd <sup>1</sup>	Australia	100%	100%	Asset management and services
TVPR Pty Ltd <sup>1</sup>	Australia	100%	100%	Asset management and services
Presidian Holdings Pty Ltd	Australia	100%	100%	Retail financial services
Davantage Group Pty Ltd	Australia	100%	100%	Retail financial services
Money Now Pty Ltd	Australia	100%	100%	Retail financial services
National Finance Choice Pty Ltd	Australia	100%	100%	Retail financial services
Franklin Finance Group Pty Ltd	Australia	100%	100%	Retail financial services
Australian Dealer Insurance Pty Ltd	Australia	100%	100%	Retail financial services
National Finance Solutions Pty Ltd	Australia	100%	100%	Retail financial services
National Insurance Choice Pty Ltd	Australia	100%	100%	Retail financial services
National Dealer Services Pty Ltd	Australia	100%	100%	Retail financial services
Motorsure Pty Ltd	Australia	100%	100%	Retail financial services
Presidian Management Services Pty Ltd	Australia	100%	100%	Retail financial services
ADU Investments Pty Ltd	Australia	100%	100%	Retail financial services
United Financial Services Pty Ltd	Australia	100%	100%	Retail financial services
United Financial Services Network Pty Ltd	Australia	100%	100%	Retail financial services
United Financial Services (Queensland) Pty Ltd	Australia	100%	100%	Retail financial services
Just Honk Pty Ltd	Australia	100%	100%	Asset management
Plan Management Partners Pty Ltd	Australia	75%	75%	Plan management services
Maxxia (UK) Limited	United Kingdom	100%	100%	Investment holding
Maxxia Finance Limited	United Kingdom	100%	100%	Asset management
CLM Fleet Management plc	United Kingdom	100%	100%	Fleet management services
Anglo Scottish Asset Finance Limited plc	United Kingdom	100%	100%	Fleet management services
European Vehicle Contracts Limited	United Kingdom	100%	100%	Fleet management services
Capex Asset Finance Limited	United Kingdom	100%	100%	Fleet management services
Maxxia Limited (NZ)	New Zealand	100%	100%	Dormant
Maxxia Fleet Limited	New Zealand	100%	100%	Asset management and services
Wuxi McMillan Software Co. Ltd	Peoples Republic of China	100%	100%	Software development

<sup>1</sup> These subsidiaries have been granted relief from the necessity to prepare financial reports in accordance with ASIC Corporations (Rounding in Financial / Directors' Reports) Instrument 2016/191 issued by the Australian Securities and Investments Commission. For further information refer to Note 33.

# Notes to the Financial Statements

For the year ended 30 June 2019

## Recognition and measurement

The Group's investment in its subsidiaries are recognised at cost less impairment.

	Consolidated Group		Parent Entity	
	2019 \$'000	2018 \$'000	2019 \$'000	2018 \$'000
<b>(b) Subordinated loan receivable</b>				
Carrying value at start of the financial year previously stated	1,169	1,586	-	-
Reverse share of losses of equity accounted joint venture – refer note 2(e)(i)	6,129	-	-	-
Expected loss allowance – refer note 2(e)(i)	(7,238)	-	-	-
<b>Re-stated carrying value at start of the financial year</b>	-	<b>1,586</b>	-	-
New loans during year	812	1,442	-	-
Expected credit loss allowance	(812)	-	-	-
Share of losses of equity accounted joint venture	-	(1,365)	-	-
Changes in foreign currency	-	(494)	-	-
<b>Carrying value at end of the financial year</b>	-	<b>1,169</b>	-	-

## Recognition and measurement

The loan and other expense receivable is made up of advances to the joint venture with Maxxia Limited in the UK ("JV", refer note 17) as part of the working capital facility provided pursuant to the Group's investment arrangement and forms part of the net investment in the JV. The loan is classified as a financial asset at amortised cost. In the previous financial year, the fair value of the loan was not materially different to the carrying value and there was no objective evidence that the JV would default. On transition to AASB 9 (as amended) at the start of the financial year, fair value was assessed on an expected credit loss basis and it was considered appropriate to provide for a loss allowance that was consistent with the trading outlook and prospective strategic plans being considered. Accordingly, the credit loss allowance takes precedence in application to the loan receivable before equity accounting to absorb the Group's share of the JV's loss that is in excess of investment cost.

At reporting, the subordinated loan was assessed to be impaired and \$812,000 was expensed in the Statement of Profit and Loss.

## Risk exposure

The maximum facility under the arrangement is GBP5.0 million together with other expenses agreed between the joint venture parties. Under the existing agreement, certain conditions of default on the repayments, provides the Group with an option to convert a portion of the amount outstanding to increase the Group's interest in the JV from 50% to 60%. The loan accrues interest at commercial rates and the balance at reporting date approximates fair value.

# Notes to the Financial Statements

For the year ended 30 June 2019

## 17 Investment in joint venture

	Consolidated Group		Parent Entity	
	2019 \$'000	2018 \$'000	2019 \$'000	2018 \$'000
Acquired	337	337	-	-
Share of losses after income tax	(337)	(337)	-	-
<b>Carrying value at end of the financial year</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>

### (a) Recognition and measurement

A subsidiary has a 50% interest in Maxxia Limited (UK, "JV"), a company resident in the UK and the principal activity of which is provider of financing solutions and associated management services on motor vehicles. Under the contractual agreement, the Group together with the joint venture partner jointly control the economic activities and key decisions of the JV entity. The arrangement requires unanimous consent of the parties for decisions about the JV's relevant activities which include key strategic, financial and operating policies that affect the Group's returns. By agreement, the Group assumes responsibility for key decisions of the joint venture entity when its interest is greater than 75%. The Group has an option to acquire the residual interest in the joint venture entity from the joint venture partner after five years from acquisition and the joint venture partner has an option to sell its interest to the Group during the same period. At reporting date, the fair value of the option is not materially different to the carrying value.

The interest in the JV is equity accounted in the financial statements where the Group's share of the post-acquisition net result after tax is recognised in the Group's consolidated profit after income tax. The Group's share of losses exceeds its investment cost in the JV and accordingly, the excess is applied to the extent of any loan receivable from the JV that forms part of the net investment until it is reduced to zero, and thereafter the recognition of further losses is discontinued except to the extent that the Group has an obligation or has made payments on behalf of the joint venture entity. The Group's share of intra-group balances, transactions and unrealised gains or losses on such transactions between the Group and the joint venture are eliminated.

Information relating to the joint venture investment is set out below.

	Consolidated Group	
	2019 \$'000	2018 \$'000
Current assets	9,550	6,144
Non-current assets	97	81
<b>Total assets</b>	<b>9,647</b>	<b>6,225</b>
Current liabilities	16,906	11,382
Non-current liabilities	8,057	7,233
<b>Total liabilities</b>	<b>24,963</b>	<b>18,615</b>
<b>Net liabilities</b>	<b>(15,316)</b>	<b>(12,390)</b>

The net liabilities of Maxxia Limited (UK) is reconciled to the carrying amount of the Group's interest is as follows.

Net liabilities of JV	(15,316)	(12,390)
Group ownership interest (50%)	(7,658)	(6,195)
Carrying amount	-	-
<b>Cumulative losses of JV equity accounted</b>	<b>-</b>	<b>(6,466)</b>

The Group's share of the JV losses is limited to its carrying value.

# Notes to the Financial Statements

For the year ended 30 June 2019

	Consolidated Group	
	2019 \$'000	2018 \$'000
<b>Joint venture financial results</b>		
Revenues	6,164	4,040
Expenses	(9,077)	(6,770)
Loss before income tax	(2,913)	(2,730)
Income tax	-	-
Loss after income tax	(2,913)	(2,730)
Group's share of loss after income tax	-	(1,365)
Share of joint venture capital commitments	-	-

## 18 Property, Plant and Equipment

	Consolidated Group		Parent Entity	
	2019 \$'000	2018 \$'000	2019 \$'000	2018 \$'000
<b>(a) Plant and equipment</b>				
<b>Plant and equipment</b>				
At cost	25,385	23,278	-	-
Less accumulated depreciation	(17,958)	(16,035)	-	-
	7,427	7,243	-	-
<b>Assets under operating lease</b>				
At cost	434,508	458,732	-	-
Less accumulated depreciation	(153,803)	(156,604)	-	-
	280,705	302,128	-	-
<b>Total plant and equipment</b>	<b>288,132</b>	<b>309,371</b>	-	-
Total current	74,030	70,910	-	-
Total non-current	214,102	238,461	-	-
<b>Total plant and equipment</b>	<b>288,132</b>	<b>309,371</b>	-	-
<b>Carrying value of assets under operating lease</b>				
Written down value of operating lease assets terminating within the next 12 months	74,030	70,910	-	-
Written down value of operating lease assets terminating after more than 12 months	206,675	231,218	-	-
	280,705	302,128	-	-

# Notes to the Financial Statements

For the year ended 30 June 2019

	Consolidated Group		
	Plant and equipment \$'000	Assets under operating lease <sup>1</sup> \$'000	Total \$'000
<b>(b) Movements in cost and accumulated depreciation</b>			
<b>Year ended 30 June 2019</b>			
Balance at the beginning of year	7,243	302,128	309,371
Additions	3,395	91,921	95,316
Transfer from software development	518	-	518
Disposals / transfers to assets held for sale	(63)	(48,457)	(48,520)
Depreciation expense	(3,511)	(66,246)	(69,757)
Residual value adjustment	-	472	472
Change in foreign currency	(155)	887	732
<b>Balance at 30 June</b>	<b>7,427</b>	<b>280,705</b>	<b>288,132</b>
<b>Year ended 30 June 2018</b>			
Balance at the beginning of year	7,542	299,189	306,731
Additions	2,581	131,046	133,627
Disposals / transfers to assets held for sale	-	(56,163)	(56,163)
Depreciation expense	(3,183)	(71,218)	(74,401)
Change in foreign currency	303	(726)	(423)
<b>Balance at 30 June</b>	<b>7,243</b>	<b>302,128</b>	<b>309,371</b>

1. Accumulated provision for impairment loss at reporting date is \$4,182,000 (2018: \$4,653,000).

## (c) Recognition and measurement

Property, plant and equipment is stated at cost less accumulated depreciation and impairment loss provision. Cost includes expenditure that is directly attributable to bringing the asset to the location and condition necessary for it to be capable of operating as intended.

### Assets under operating lease

Assets held under operating leases are for contracts with customers other than finance leases. The Group's initial investment in the lease is added as a cost to the carrying value of the leased assets and rental payments received are recognised as lease income on a straight line basis over the term of the lease. Operating lease assets are amortised as an expense on a straight line over the term of the lease based on the cost less residual value of the lease.

### Depreciation and impairment

Depreciation on assets is calculated on a straight-line basis over the estimated useful life of the asset as follows:

Class of Fixed Asset	Depreciation Rate
Plant and equipment	20% – 40%
Motor vehicles under operating lease	20% – 33%

The useful lives and residual value of assets are reviewed and adjusted for impairment, if appropriate, at the end of the reporting period.

## (d) Security

The above assets form part of the security supporting the fixed and floating charge pledged to the Group's financiers.

## (e) Property, plant and equipment held for sale

Property, plant and equipment no longer held under operating leases is classified as inventory.

# Notes to the Financial Statements

For the year ended 30 June 2019

## 19 Trade and Other Payables

	Consolidated Group		Parent Entity	
	2019 \$'000	2018 \$'000	2019 \$'000	2018 \$'000
<b>Unsecured liabilities</b>				
Trade payables	27,150	28,078	-	-
GST payable	6,177	2,515	-	-
Sundry creditors and accruals	61,261	64,674	1,741	246
Amounts payable to wholly owned entities	-	-	85,409	149,853
	<b>94,588</b>	<b>95,267</b>	<b>87,150</b>	<b>150,099</b>

### Recognition and measurement

Trade and other payables are recorded initially at fair value, and subsequently at amortised cost. Given that they are short term in nature their carrying value is representative of fair value and undiscounted. Trade and other payables and non-interest bearing are unsecured. Financial liabilities are derecognised when the Group's obligations are discharged, cancelled or expire pursuant to its commitments.

## 20 Other Liabilities

	Consolidated Group		Parent Entity	
	2019 \$'000	2018 \$'000	2019 \$'000	2018 \$'000
<b>(a) Other liabilities</b>				
Revenue received in advance	3,257	3,498	-	-
Unearned property incentives	5,590	5,577	-	-
	<b>8,847</b>	<b>9,075</b>	<b>-</b>	<b>-</b>

### Recognition and measurement

#### Revenue received in advance

Customer receipts in advance represent payments for future services.

#### Unearned property incentives

Property incentives received are amortised over the term of the lease.

	Consolidated Group		Parent Entity	
	2019 \$'000	2018 \$'000	2019 \$'000	2018 \$'000
<b>(b) Contract liabilities</b>				
Maintenance fees received in advance	3,388	3,746	-	-
Rebates and cancellations	2,663	5,209	-	-
	<b>6,051</b>	<b>8,955</b>	<b>-</b>	<b>-</b>

#### Maintenance fees received in advance

Maintenance fees received in advance is income from maintenance service contracts that is unearned based on the historical profile of costs incurred to date over expected total cost.

#### Rebates and cancellations

Brokerage commissions from the provision of financial services allow for rebates to be paid to its dealer/broker network and commissions received from the origination business may be clawed back by the financial service providers. The potential for rebates and clawback are calculated based on the historical profile of rebates and commissions and changes to the provision are recognised in revenue from contracts with customers.

# Notes to the Financial Statements

For the year ended 30 June 2019

## 21 Provisions

	Consolidated Group		Parent Entity	
	2019 \$'000	2018 \$'000	2019 \$'000	2018 \$'000
<b>Current</b>				
Employee benefit liabilities	10,339	9,729	-	-
Provision for onerous contracts	749	468	-	-
	<b>11,088</b>	<b>10,197</b>	<b>-</b>	<b>-</b>
<b>Non current</b>				
Provision for long service leave	1,365	1,391	-	-
Provision for onerous contracts	-	936	-	-
	<b>1,365</b>	<b>2,327</b>	<b>-</b>	<b>-</b>

	Employee benefit liabilities		Provision for onerous rent	
	2019 \$'000	2018 \$'000	2019 \$'000	2018 \$'000
Balance at start of the year	11,120	10,655	1,404	1,886
Employee benefits earned and accrued in the year	7,929	7,022	-	-
Finance charges and provision adjustments			(147)	24
Payments in the year	(7,345)	(6,557)	(508)	(508)
<b>Balance at the end of the year</b>	<b>11,704</b>	<b>11,120</b>	<b>749</b>	<b>1,404</b>

### Recognition and measurement

Provisions are recognised when the Group has a present obligation (legal or constructive) as a result of a past event and where it is probable that the Group is required to settle the obligation, and the obligation can be reliably estimated.

Provisions are measured at the present value of expenditure expected at settlement. The discount rate used to determine the present value reflects the current pre-tax market rate of the time value of money and the risks specific to the liability. The increase in the provision due to the passage of time is recognised as interest expense.

### Employee benefits

Employee entitlements to annual and long service leave have been provided for based on amounts expected to be paid when the leave entitlements are used. Employee leave provisions are presented as current liabilities in the statement of financial position if the Group does not have an unconditional right to defer settlement for at least twelve months after the reporting date, regardless of when the actual settlement is expected to occur.

Annual leave and long service leave that is not expected to be settled wholly within twelve months have been measured at the present value of the estimated future cash outflows to be made for those benefits. Expected future payments are discounted using interest rates attaching to high quality corporate bonds with terms to maturity that match, as closely as possible, the estimated future cash outflows.

Employee liabilities other than annual leave and long service leave are included in other payables.

### Onerous contracts

The provision for onerous contracts is for the outstanding property lease commitments for a vacant property. It represents the unavoidable costs of meeting the lease obligations that exceed the economic benefits expected to be received. The provision is measured on the net cash outflow and present valued using the pre-tax rate that reflects current market rates to reflect the time value of money and any specific risks to the liability.

# Notes to the Financial Statements

For the year ended 30 June 2019

## 22 Borrowings

	Consolidated Group		Parent Entity	
	2019 \$'000	2018 \$'000	2019 \$'000	2018 \$'000
<b>Current</b>				
Bank loans – at amortised cost	8,779	14,505	5,761	11,500
<b>Non-current</b>				
Bank loans – at amortised cost	319,520	323,371	13,585	18,583
<b>Total borrowings</b>	<b>328,299</b>	<b>337,876</b>	<b>19,346</b>	<b>30,083</b>

### (a) Recognition and measurement

Borrowings are initially recorded at fair value, net of transaction costs and subsequently measured at amortised cost using the effective interest rate method. The effective interest rate method exactly discounts the estimated cash flows through the expected life of the borrowing. Transaction costs comprise fees paid for the establishment of loan facilities and are amortised over the term of the borrowing facilities.

### (b) Security

The parent entity guarantees all bank loans of subsidiaries in the Group, totalling \$308,953,000 (2018: \$337,876,000).

Fixed and floating charges are provided by the Group in respect to financing facilities provided to it by its syndicate of financiers.

The Group's loans are also secured by the following financial undertakings from all the entities in the Group.

The following are other undertakings that have been provided by entities in the Group receiving the loans.

- (i) Negative pledge that imposes certain covenants including a restriction to provide other security over its assets, a cap on its maximum finance debt, acquire assets which are non-core business to the Group, not to dispose of a substantial part of its business and reduction of its capital.
- (ii) Maintenance of certain financial thresholds for shareholders' equity, gearing ratio and fleet asset portfolio performance.
- (iii) The business exposures of the Interleasing Group and Maxxia Finance Ltd satisfy various business parameters.

At all times throughout the year, the Group operated with significant headroom against all of its borrowing covenants.

### (c) Fair value disclosures

The fair value of financial liabilities for disclosure purposes is estimated by discounting the future contractual cash flows at the current market interest rate that is available to the Group for similar financial instruments. The fair value of current borrowings approximates the carrying amount, as the impact of discounting is not significant.

### (d) Risk exposures

Details of the Group's exposure to risks arising from current and non-current borrowings are set out in Note 4.



# Notes to the Financial Statements

For the year ended 30 June 2019

## 23 Contingent consideration

	Consolidated Group		Parent Entity	
	2019 \$'000	2018 \$'000	2019 \$'000	2018 \$'000
Current	-	1,756	-	-
Non-current	1,374	4,402	-	-
<b>Contingent consideration</b>	<b>1,374</b>	<b>6,158</b>	<b>-</b>	<b>-</b>

### (a) Recognition and measurement

Contingent consideration arises from business combinations and represents the fair value of future consideration payable upon the achievement of certain performance targets in relation to acquisitions in the UK.

	2019 \$'000	2018 \$'000	2019 \$'000	2018 \$'000
<b>Movement in contingent consideration</b>				
Balance at the beginning of the year	6,158	10,815	-	-
Fair value adjustment in Profit or Loss	(1,168)	(5,348)	-	-
Finance expense	265	311	-	-
Payments	(3,741)	-	-	-
Change in foreign currency	(140)	380	-	-
<b>Balance at 30 June</b>	<b>1,374</b>	<b>6,158</b>	<b>-</b>	<b>-</b>

Contingent consideration is initially recorded at fair value on business combination and subsequently, reassessed at the fair value at each reporting date. Changes to the carrying value is recognised in the Statement of Profit or Loss.

The fair value assessed at reporting date resulted in an adjustment of \$4,324,000 for European Vehicle Contracts Limited (EVC) and Capex Asset Finance Limited (CAPEX). Based on the performance to date and expected performance and plans to the date of the earnouts, it was considered unlikely that further payments will be required under the existing agreements. A contingent consideration of \$3,156,000 has been valued for Anglo Scottish Finance plc (ASF) under a revised agreement completed in the year. The original agreement recognised earn-out targets that were deemed aggressive performance targets based on post-acquisition performance achieved to 30 June 2018 which consequently, affected the prospects of achieving the original earnout targets and the provision written-back to the Statement of Profit or Loss for the year then ended. These impacts have been recognised in the Statement of Profit or Loss.

## 24 Issued Capital

	Consolidated Group		Parent Entity	
	2019 \$'000	2018 \$'000	2019 \$'000	2018 \$'000
<b>(a) Share capital</b>				
83,204,720 (2018: 83,204,720) fully paid ordinary shares	135,868	135,868	135,868	135,868

	Number of shares	Issue price	Ordinary shares \$'000
<b>(b) Movements in issued capital</b>			
Shares issued	83,204,720	-	135,868
Treasury shares	(538,129)	-	-
<b>Shares held by external shareholders at 30 June 2019</b>	<b>82,666,591</b>		<b>135,868</b>

There were no movements in issued capital during the year.

# Notes to the Financial Statements

For the year ended 30 June 2019

	Number of shares	Issue price	Ordinary shares \$'000
Shares issued at 1 July 2017	83,204,720		141,088
Proceeds from exercise of options	-	\$10.92	4,477
Premium received from grant of options	-	-	50
Treasury shares acquired on-market	(692,369)	\$14.08	(9,747)
	82,512,351		135,868
Treasury shares brought forward	(255,752)		-
Shares distributed to employees on exercise of employee options	409,992		-
<b>Shares held by external shareholders at 30 June 2018</b>	<b>82,666,591</b>		<b>135,868</b>

Ordinary shares participate in dividends and the proceeds on winding up of the parent entity in proportion to the number of members' shares held. At members' meetings, each fully paid ordinary share is entitled to one vote when a poll is called, otherwise each shareholder has one vote on a show of hands.

## (c) Treasury shares

The Group maintains the McMillan Shakespeare Limited Employee Share Plan Trust (EST) to facilitate the distribution of McMillan Shakespeare Limited shares under the Group's Long Term Incentive Plan (LTIP). The EST is controlled by McMillan Shakespeare Limited and forms part of the Consolidated Group.

Treasury shares are shares in McMillan Shakespeare Limited that are held by the EST for the purpose of issuing shares under the McMillan Shakespeare Limited LTIP. Treasury shares are deducted from issued shares to show the number of issued shares held by external shareholders. The balance of 538,129 treasury shares brought forward at the beginning of the year was unchanged at reporting date.

## (d) Options

At 30 June 2019, there were 2,030,950 (2018: 1,392,861) unissued ordinary shares for which options were outstanding and exercisable at an average price of \$13.68 (2018: \$11.59). Details relating to options issued, exercised and lapsed during the year and options outstanding at the end of the reporting period is set out in Note 31.

These options are subject to two vesting conditions namely, the achievement of financial hurdles and each employee's continuity of employment at vesting date.

## (e) Equity expenses

Costs directly attributable to the issue of new shares or options are shown as a deduction from the equity proceeds, net of any income tax benefit. Costs directly attributable to the issue of new shares or options associated with the acquisition of a business are included as part of the business combination.

## (f) Capital management strategy

The Group's objectives when managing capital are to safeguard its ability to continue as a going concern, so that it can continue to provide returns for shareholders and benefits for other stakeholders. In order to maintain or adjust the capital structure, the Group may adjust the amount of dividends paid to shareholders, return capital to shareholders, issue new shares or sell assets to reduce debt.

The Group monitors capital on the basis of the gearing ratio. This ratio is calculated as net debt divided by total capital. Net debt is calculated as long and short term borrowings (excluding derivatives and financial guarantees) less cash and cash equivalents. Total capital is calculated as equity as shown in the statement of financial position plus net debt.

The Groups' gearing ratio was 27% (2018: 39%) calculated as net debt of \$190,713,000 (2018: \$238,209,000) divided by total debt and equity of \$699,843,000 (2018: \$609,562,000). The capital structure of the Group is reviewed on an ongoing basis and considers the allocation and type of capital and the associated risks and returns.

# Notes to the Financial Statements

For the year ended 30 June 2019

## 25 Reserves

### (a) Option reserve

Movements in the reserve are detailed in the Statements of Changes in Equity. The reserve records amounts for the fair value of options granted and recognised as an employee benefits expense but not exercised.

The balance in reserves representing share-based equity rights and options are transferred to retained earnings upon vesting.

During the year \$9,969,000 was transferred to retained earnings.

	Consolidated Group		Parent Entity	
	2019 \$'000	2018 \$'000	2019 \$'000	2018 \$'000
<b>(b) Cash flow hedge reserve</b>				
Revaluation - gross	(1,157)	36	88	68
Deferred tax	279	1	(26)	(20)
<b>Balance at the end of the financial year</b>	<b>(878)</b>	<b>37</b>	<b>62</b>	<b>48</b>

The hedging reserve is used to record gains and losses on interest rate swaps that are designed and qualify as cash flow hedges and that are recognised in other comprehensive income.

	Consolidated Group		Parent Entity	
	2019 \$'000	2018 \$'000	2019 \$'000	2018 \$'000
<b>(c) Foreign currency translation reserve</b>				
<b>Balance at the end of the financial year</b>	<b>(4,560)</b>	<b>(5,596)</b>	<b>-</b>	<b>-</b>

The foreign translation reserve account accumulates exchange differences arising on translation of foreign controlled entities which are recognised in other comprehensive income. The carrying amount is reclassified to profit or loss when the net investment is disposed of.

The improvement in the foreign currency reserve was a direct result of GBP strengthening against the Australian dollar. The Group does not have plans to realise its investments in the UK in the foreseeable future.

### (d) Treasury reserve

In the previous year, the Company contributed \$2,855,000 to the EST to acquire MMS shares for distribution to employees under the Group LTIP. The EST holds a balance of 538,129 of treasury shares.

# Notes to the Financial Statements

For the year ended 30 June 2019

## 26 Fair value measurement

The fair value of financial assets and financial liabilities is estimated for recognition and measurement for disclosure purposes.

The following table is an analysis of financial instruments that are measured at fair value on a recurring basis subsequent to initial recognition, grouped into three levels based on the degree to which the fair value is observable.

- Level 1: derived from quoted prices (unadjusted) in active markets for identical assets or liabilities.
- Level 2: derived from inputs other than quoted prices included in level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices).
- Level 3: derived from inputs for the asset or liability that are not based on observable market data (unobservable inputs).

Financial asset/ (financial liability)	Fair value at		Fair value hierarchy	Valuation technique and key input
	2019 \$'000	2018 \$'000		
Interest rate swaps – cash flow hedge	(1,194)	37	2	Discounted cash flow using estimated future cash flows based on forward interest rates (from observable yield curves at the end of the reporting period) and contract interest rates, discounted to reflect the credit risk of various counterparties.
Contingent consideration	(1,374)	(6,158)	3	Discounted cash flow using a discount rate of 2.8%, average annual revenues of approximately \$9.5m and EBITDA in the region of \$3.2m.

Contingent consideration arises from business combination and is valued at reporting date based on the probable settlements amounts calculated using revenue and EBITDA projections.

Contingent consideration arising from the acquisition of ASF is based on variable earnouts depending on the achievement of EBITDA targets. A 5% increase in EBITDA is not expected to make a material difference to the earnout.

	Consolidated Group			
	Carrying amount 2019 \$'000	Carrying amount 2018 \$'000	Fair value 2019 \$'000	Fair value 2018 \$'000
Finance lease receivables – non-current	80,654	100,495	77,231	92,267

Current finance lease receivables are short term and their carrying amount is considered to equal their fair value. The fair value of non-current finance lease receivables were calculated based on cash flows discounted using an average of current lending rates appropriate for the geographical markets the leases operate of 3.30% (2018: 3.58%). They are classified as level 3 fair values in the fair values hierarchy due to the inclusion of unobservable inputs.

Except as detailed in the above, the carrying amounts of financial assets and financial liabilities recognised in the consolidated financial statements approximate their fair values. The fair value of borrowings is not materially different to their carrying amounts since the interest payable is close to market rates. The carrying amount of cash, trade and other receivables, trade and other payables are assumed to be the same as their fair values, due to their short term nature.

# Notes to the Financial Statements

For the year ended 30 June 2019

## 27 Cash Flow Information

	Consolidated Group		Parent Entity	
	2019 \$'000	2018 \$'000	2019 \$'000	2018 \$'000
<b>(a) Reconciliation of cash flow from operations with profit from operating activities after tax</b>				
Profit for the year	63,817	49,834	188,189	9,992
<b>Non cash flows in profit from operating activities</b>				
Amortisation	11,351	11,635	-	-
Impairment	23,940	39,388	-	44,587
Depreciation	69,757	74,401	-	-
Option expense	(750)	1,499	-	-
Loss on disposal of business	-	8,559	-	-
Fair valuation of contingent consideration	(1,168)	(5,348)	-	-
Share of equity accounted joint venture loss	-	1,365	-	-
Purchase of assets under lease	(318,756)	(336,694)	-	-
Written down value of assets sold	42,996	57,214	-	-
Finance lease receivables principle repayments and disposals	227,104	160,865	-	-
<b>Changes in assets and liabilities, net of the effects of purchase of subsidiaries</b>				
(Increase) in trade receivables and other assets	(4,403)	(6,354)	179	1,772
Increase / (decrease) in trade payables and accruals	25,233	64,990	2,162	(73)
Decrease in income taxes payable	(6,347)	(5,022)	(1,760)	(2,416)
(Decrease) / increase in deferred taxes	(5,962)	(2,192)	388	(10)
Increase / (decrease) in unearned revenue	3,103	1,684	-	-
(Decrease) / increase in provisions	2,973	1,836	-	-
<b>Net cash from operating activities</b>	<b>132,888</b>	<b>117,660</b>	<b>189,158</b>	<b>53,852</b>

### (b) Proceeds from sale of lease portfolio

Proceeds from a sale of a portion of the UK fleet that was moved off balance sheet as part of the principal and agency arrangements with a number of funding providers in the previous year.

### (c) Proceeds and repayments of borrowings

Proceeds from and repayments of borrowings were predominantly to change the mix of funding between syndicate banks together with the repayment of amortising loans.

# Notes to the Financial Statements

For the year ended 30 June 2019

## d) Net debt reconciliation

A summary of the movement in borrowings (excluding capitalised borrowing costs) affecting financing cash flows during the year is provided below.

	Consolidated Group		Parent Entity	
	2019 \$'000	2018 \$'000	2019 \$'000	2018 \$'000
<b>Financing cash flow from liabilities</b>				
Borrowings (excluding capitalised borrowing costs)	328,430	338,312	19,362	30,125
Payable due to wholly owned entities	-	-	36,059	149,853
<b>Financing liabilities</b>	<b>328,430</b>	<b>338,312</b>	<b>55,421</b>	<b>179,978</b>

	Consolidated Group		Parent Entity	
	2019 \$'000	2018 \$'000	2019 \$'000	2018 \$'000
Liabilities at the start of the period	338,312	339,966	179,978	174,577
Cash flows relating to borrowings	(10,696)	(8,176)	(10,762)	(11,500)
Cash flows relating to payables due to wholly owned entities	-	-	(113,795)	16,901
Foreign exchange adjustments	814	6,522	-	-
<b>Liabilities at the end of the period</b>	<b>328,430</b>	<b>338,312</b>	<b>55,421</b>	<b>179,978</b>

## 28 Commitments

### (a) Operating lease commitments

Non cancellable operating leases contracted for but not capitalised in the financial statements:

The property leases are non-cancellable leases with varying terms, with rent payable monthly in advance. Individual rental agreements specify each rental adjustment. The equipment leases are non cancellable leases with varying terms, with rent payable quarterly in arrears.

	Consolidated Group		Parent Entity	
	2019 \$'000	2018 \$'000	2019 \$'000	2018 \$'000
Payable minimum lease payments				
– Not later than 12 months	8,024	9,659	-	-
– Between 1 and 5 years	31,808	25,325	-	-
– Greater than 5 year	17,095	7,498	-	-
<b>Current payables</b>	<b>56,927</b>	<b>42,482</b>	<b>-</b>	<b>-</b>

# Notes to the Financial Statements

For the year ended 30 June 2019

## 29 Contingent Liabilities

(a) Estimates of the potential financial effect of contingent liabilities that may become payable.	Consolidated Group		Parent Entity	
	2019 \$'000	2018 \$'000	2019 \$'000	2018 \$'000
Guarantee provided for the performance of a contractual obligation not supported by term deposit.	12,550	13,050	50	50
Guarantees provided for obligations under principal and agency facilities	14,478	-	11,171	-
Guarantee provided in respect of a working capital facility	10,724	-	10,724	-
Guarantees provided in respect of property leases.	5,512	6,440	-	-
	<b>43,264</b>	<b>19,490</b>	<b>21,945</b>	<b>50</b>

The Company has been served with a class action for a claim relating to a warranty product business operated by Davantage Group Pty Ltd (trading as "National Warranty Company" (NWC)) which is and was at all relevant times a subsidiary of Presidian Holdings Pty Ltd which the Company acquired in February 2015. The claim is made on behalf of all persons who entered an NWC warranty between 1 July 2013 and 28 May 2015 (provided it was acquired for domestic/personal use and they received an NWC PDS). A significant portion of the relevant period to which the claim relates is in respect of a time when the "National Warranty Company" was not owned by the MMS Group. The class action seeks orders that the NWC warranties are void, and seeks either the restitution or a refund of the premium paid and interest on that amount, regardless of whether claims were in fact met and the contracts performed. The Company intends to vigorously defend the proceedings. At the date of this report the Company is not in a position to estimate the impact, if any, of this claim.

# Notes to the Financial Statements

For the year ended 30 June 2019

## 30 Related Party Transactions

### (a) Wholly owned group

Transactions between the Company and other entities within the wholly owned group during the years ended 30 June 2019 and 2018 consisted of:

- (a) loans advanced to the Company; and
- (b) the payment of dividends to the Company.

Aggregate amounts included in the determination of profit from ordinary activities before income tax that resulted from transactions with entities in the wholly owned group:

	Consolidated Group		Parent Entity	
	2019 \$	2018 \$	2019 \$	2018 \$
Dividend revenue	-	-	189,173,277	56,406,000
Aggregate amounts payable to entities within the wholly owned group at balance date:				
Current receivables	-	-	49,350,000	7,258,226
Current payables	-	-	85,409,000	149,852,525

### (b) Key management personnel compensation

	Consolidated Group		Parent Entity	
	2019 \$	2018 \$	2019 \$	2018 \$
Compensation				
Short-term employment benefits	3,210,946	3,594,872	2,276,442	2,194,232
Post-employment benefits	208,656	160,657	113,856	112,009
Long-term employment benefits	26,795	71,348	31,732	35,370
Share-based payments	(348,013)	678,599	(254,914)	483,500
	3,098,384	4,505,476	2,167,116	2,825,111



# Notes to the Financial Statements

For the year ended 30 June 2019

## 31 Share-Based Payments

The Company operates a Long Term Incentive Plan (LTIP) for certain executives and employees under the McMillan Shakespeare Limited Employee Share Plan. Under the LTIP, the Company issued Performance Options and Performance Rights during the year. Historically, the Company has only issued Performance and Voluntary Options and on a triennial basis. Under the new LTIP, the Company will seek to issue rights and options annually, each with a three year vesting period. The value of the annual issuance under the new LTIP is about one-third the value previously issued under the triennial grant.

During the year, the Company issued Performance Options and Performance Rights with a three year vesting period. Performance Options and Performance Rights were issued in the July 2018 grant. The issuance to the Managing Director was granted on 24 October 2017 following shareholder approval on that day.

No executive can enter into a transaction that is designed or intended to hedge the executive's exposure to any unvested option. Executives will be required to provide declarations to the Board on their compliance with this policy regularly.

### Performance Options

Performance Options are granted for nil consideration, which may be exercised into ordinary shares subject to satisfaction of specified performance hurdles and continuity of employment. Performance Options carry no dividend or voting rights. On exercise of the option, each participant will pay the exercise price and receive one fully paid ordinary share in the Company.

The Remuneration and Nomination Committee recommends to the Board the number of performance options to be granted on the basis of the position, duties and responsibilities of the relevant executive.

### Voluntary Options

A Voluntary Option allows the participant to acquire a fully paid ordinary share in the Company by the payment of the exercise price at the exercise date. The entitlement to exercise the voluntary options is not contingent upon continued employment with the Company nor are there performance hurdles. Voluntary Options are offered to certain executives for an additional opportunity to invest in the Company, who can acquire for a consideration up to a maximum of \$20,000. The consideration was set at a 25% discount to the face value of the option at the date of grant. However, if the participant leaves employment before vesting date, the participant will forfeit 25% of their entitlement for \$1 (the amount forfeited being equal to the 25% discount to the face value that applied to the consideration price of the option at the date of the conditional offer and acceptance).

### Performance Rights

A Performance Right is an entitlement to acquire a fully paid ordinary share in the Company for nil consideration at grant or conversion to a share, subject to the achievement of performance hurdles and service conditions being satisfied. Performance Rights carry no dividend or voting rights.

### Performance hurdles and vesting entitlements

Refer page 38 for details of the terms and conditions for Performance Options and Performance Rights issued in the year.

### Recognition and measurement

The Performance Options and Rights are equity-settled share-based payments and their fair value at grant are recognised as an employee benefit expense with a corresponding increase in equity (share option reserve). Fair value is measured at grant date and recognised over the period from issue date to vesting date. Fair value is determined using a binomial option pricing model and incorporate market conditions and does not include any option conditions that are not market based. The cumulative expense recognised between grant date and vesting date is adjusted to reflect the Directors' best estimate of the number of options that will ultimately vest based on the vesting conditions attached to the options and rights, such as the employees having to remain with the Consolidated Group until vesting date, or such that employees are required to meet financial targets. No expense is recognised for options that do not ultimately vest for failing to meet vesting conditions.

# Notes to the Financial Statements

For the year ended 30 June 2019

## (a) Options

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

### Performance Options

Consolidated Group and parent entity - 2019

Grant date	Expiry date	Exercise price	Balance at start of the year	Granted during the year	Exercised or sold during the year	Forfeited during the year	Balance at end of the year	Exercisable at end of the year
19 August 2014	30 September 2019	\$10.18	538,129	-	-	-	538,129	538,129
3 July 2017	30 September 2020	\$13.45	343,769	-	-	(11,388)	332,381	-
26 September 2017	30 September 2020	\$14.97	17,340	-	-	-	17,340	-
24 October 2017	30 September 2020	\$13.45	71,140	-	-	-	71,140	-
3 July 2017	30 September 2021	\$13.45	319,057	-	-	(10,569)	308,488	-
26 September 2017	30 September 2021	\$14.97	15,920	-	-	-	15,920	-
24 October 2017	30 September 2021	\$13.45	66,027	-	-	-	66,027	-
3 July 2018	30 September 2022	\$16.64	-	593,796	-	(17,543)	576,253	-
23 October 2018	30 September 2022	\$16.64	-	105,272	-	-	105,272	-
			1,371,382	699,068	-	(39,500)	2,030,950	538,129
Weighted average exercise price			\$11.56	\$16.64	-	\$14.87	\$13.68	\$10.18

### Performance Options

Consolidated Group and parent entity - 2018

Grant date	Expiry date	Exercise price	Balance at start of the year	Granted during the year	Exercised or sold during the year	Forfeited during the year	Balance at end of the year	Exercisable at end of the year
19 August 2014	30 September 2019	\$10.18	978,417	-	-	(440,288)	538,129	-
19 August 2014	30 September 2018	\$10.18	398,789	-	(219,334)	(179,455)	-	-
23 September 2014	30 September 2018	\$10.83	107,877	-	(59,332)	(48,545)	-	-
24 March 2015	30 September 2018	\$11.87	76,048	-	(41,826)	(34,222)	-	-
26 May 2015	30 September 2018	\$12.88	85,692	-	(47,131)	(38,561)	-	-
25 August 2015	30 September 2018	\$13.82	33,436	-	(18,390)	(15,046)	-	-
3 July 2017	30 September 2020	\$13.45	-	390,354	-	(46,585)	343,769	-
26 September 2017	30 September 2020	\$14.97	-	17,340	-	-	17,340	-
24 October 2017	30 September 2020	\$13.45	-	71,140	-	-	71,140	-
3 July 2017	30 September 2021	\$13.45	-	362,294	-	(43,237)	319,057	-
26 September 2017	30 September 2021	\$14.97	-	15,920	-	-	15,920	-
24 October 2017	30 September 2021	\$13.45	-	66,027	-	-	66,027	-
			1,680,259	923,075	(386,013)	(845,939)	1,371,382	-
Weighted average exercise price			\$10.51	\$13.50	\$10.97	\$10.82	\$11.56	-

# Notes to the Financial Statements

For the year ended 30 June 2019

## Voluntary Options

Consolidated Group and parent entity - 2019

Grant date	Expiry date	Exercise price	Balance at start of the year	Granted during the year	Exercised or sold during the year	Forfeited during the year	Balance at end of the year	Exercisable at end of the year
19 August 2014	30 September 2018	\$10.18	-	-	-	-	-	-
3 July 2017	30 September 2020	\$13.45	8,979	-	-	-	8,979	-
3 July 2017	30 September 2021	\$13.45	12,500	-	-	-	12,500	-
			21,479	-	-	-	21,479	-
		Weighted average exercise price	\$13.45	-	-	-	\$13.45	-

## Voluntary Options

Consolidated Group and parent entity - 2018

Grant date	Expiry date	Exercise price	Balance at start of the year	Granted during the year	Exercised or sold during the year	Forfeited during the year	Balance at end of the year	Exercisable at end of the year
19 August 2014	30 September 2018	\$10.18	23,981	-	(23,981)	-	-	-
3 July 2017	30 September 2020	\$13.45	-	8,979	-	-	8,979	-
3 July 2017	30 September 2021	\$13.45	-	12,500	-	-	12,500	-
			23,981	21,479	(23,981)	-	21,479	-
		Weighted average exercise price	\$10.18	\$13.45	\$10.18	-	\$13.45	-

## Fair value of Performance Options granted

The assessed fair value at grant date of options granted in the year is presented in the table below. The fair value at grant date is determined using a binomial option pricing model that takes into account the exercise price, the term of the option, the share price at the grant date, the expected price volatility of the underlying share, the expected dividend yield and the risk-free interest rate for the term of the option.

Model input	July 2018	October 2018
Fair value of Performance Options	\$2.54	\$2.25
Consideration payable upon grant	Nil	Nil
Exercise price	\$16.64	\$16.64
Grant date	2 July 2018	23 October 2018
Expected life	3.3 years	2.9 years
Share price at grant date	\$16.14	\$15.90
Expected price volatility	28%	27%
Expected dividend yield	4.2%	4.6%
Risk-free interest rate	2.1%	2.1%

## Fair value of Voluntary Options granted

Voluntary Options are similarly valued as Performance options but given that Voluntary Options have an acquisition price based on 75% of the value at grant date, its fair value is made out to be 25% of the fair value of Performance Options. The fair value of Voluntary Options is \$0.74 and \$0.80 for the two and three year vesting period respectively.

# Notes to the Financial Statements

For the year ended 30 June 2019

## (b) Rights

Set out below is a summary of Performance Rights granted during the year.

Grant date	Exercise date <sup>1</sup>	Granted during the year	Exercised or sold during the year	Forfeited during the year <sup>1</sup>	Balance at end of the year	Exercisable at end of the year
3 July 2017	30 September 2019	86,287	-	(2,858)	83,429	-
26 September 2017	30 September 2019	4,365	-	-	4,365	-
24 October 2017	30 September 2019	17,860	-	-	17,860	-
3 July 2017	30 September 2020	90,894	-	(3,011)	87,883	-
26 September 2017	30 September 2020	4,598	-	-	4,598	-
24 October 2017	30 September 2020	18,814	-	-	18,814	-
3 July 2018	30 September 2021	-	106,803	(3,155)	103,648	-
24 October 2017	30 September 2021	-	18,937	-	18,937	-
		222,818	125,740	(9,024)	339,534	-

<sup>1</sup> The first available exercise date is the date that the Company's financial statements for the respective years are lodged with ASX. For the purpose of this summary it is assumed to be 30 September of that year.

### Fair value of Performance Rights granted

The fair value of Performance Rights at grant date was estimated by discounting the Company's share price at this date by the dividend yield of the Company as follows.

Grant date	Share price at grant date	Expected life (years)	Expected dividend yield	Fair value
3 July 2018	\$16.14	3.3	4.2%	\$14.12
23 October 2018	\$15.90	2.9	4.6%	\$13.95

## (c) Expenses arising from share-based payment transactions

Set out below is a summary of Performance Rights granted during the year.

	Consolidated Group		Parent Entity	
	2019 \$	2018 \$	2019 \$	2018 \$
Performance Options issued under the LTIP	(359,636)	682,954	-	-
Voluntary Options issued under the LTIP	4,960	5,994	-	-
Performance Rights issued under the LTIP	(405,103)	811,049	-	-
	(749,779)	1,499,997	-	-

The amount expensed in a period is based on the cumulative amount at each reporting date less amounts expensed in previous periods.

# Notes to the Financial Statements

For the year ended 30 June 2019

## 32 Auditor's Remuneration

	Consolidated Group		Parent Entity	
	2019 \$	2018 \$	2019 \$	2018 \$
<b>Remuneration of the auditor (Grant Thornton Audit Pty Ltd) of the parent entity for:</b>				
Audit or review of the financial report of the entity and any other entities in the Consolidated Group	285,200	278,000	-	-
Assurance related	219,220	202,850	-	-
<b>Remuneration of a network firm of the parent entity auditor:</b>				
Audit or review of the financial statements (UK)	182,673	166,961	-	-

# Notes to the Financial Statements

For the year ended 30 June 2019

## 33 Deed of Cross Guarantee

McMillan Shakespeare Limited, Maxxia Pty Ltd and Remuneration Services (Qld) Pty Ltd are parties to a deed of cross guarantee entered into during the year ended 30 June 2009 and Interleasing (Australia) Ltd, CARILA Pty Ltd and TVPR Pty Ltd (Interleasing Group) entered into deeds of cross guarantee in the year ended 30 June 2010. Under the deeds, each company guarantees the debts of the others and is relieved from the requirement to prepare a financial report and directors' report under ASIC Corporations (Rounding in Financial / Directors' Reports) Instrument 2016/191.

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

Set out below is a statement of comprehensive income, statement of financial position and a summary of movements in consolidated retained profits for the year ended 30 June 2019 of the Closed group consisting of McMillan Shakespeare Limited, Maxxia Pty Ltd and Remuneration Services (Qld) Pty Ltd, Interleasing (Australia) Ltd, CARILA Pty Ltd and TVPR Pty Ltd.

### (a) Consolidated Statement of Comprehensive Income and summary of movements in consolidated retained profits

	2019 \$'000	2018 \$'000
<b>Statement of Comprehensive Income</b>		
Revenue and other income	360,794	386,035
Employee benefits expenses	(101,400)	(96,853)
Depreciation and amortisation expenses and impairment	(69,318)	(75,748)
Leasing and vehicle management expenses	(39,598)	(60,324)
Consulting cost expenses	(3,622)	(2,340)
Marketing expenses	(4,739)	(3,435)
Property and corporate expenses	(7,947)	(7,449)
Technology and communication expenses	(10,391)	(9,482)
Finance costs	(6,681)	(6,006)
Other expenses	(2,038)	(3,955)
Impairment	-	(44,587)
<b>Profit before income tax</b>	<b>115,060</b>	<b>75,856</b>
Income tax expense	(33,841)	(34,504)
<b>Profit attributable to members of the parent entity</b>	<b>81,219</b>	<b>41,352</b>
<b>Other comprehensive income</b>		
Other comprehensive income for the year after tax	110	(22)
<b>Total comprehensive income for the year</b>	<b>81,329</b>	<b>41,330</b>
<b>Movements in consolidated retained earnings</b>		
Retained earnings at the beginning of the financial year	202,057	216,922
Profits for the year	81,219	41,352
Dividends paid	(61,173)	(56,217)
Intra-equity transfer from option reserve	9,969	-
<b>Retained earnings at the end of the financial year</b>	<b>232,072</b>	<b>202,057</b>

# Notes to the Financial Statements

For the year ended 30 June 2019

<b>(b) Consolidated Statement of Financial Position</b>	<b>2019</b> <b>\$'000</b>	<b>2018</b> <b>\$'000</b>
<b>Current assets</b>		
Cash and cash equivalents	100,806	69,574
Trade and other receivables	31,293	25,626
Finance lease receivables	11,061	13,197
Assets under operating lease	74,030	67,704
Inventory	7,026	9,740
Income tax receivable	6,026	-
<b>Total current assets</b>	<b>230,242</b>	<b>185,841</b>
<b>Non current assets</b>		
Property, plant and equipment	177,571	214,813
Intangible assets	60,600	52,977
Deferred tax asset	8,284	3,520
Finance lease receivables	11,410	12,820
Other financial assets	174,760	168,901
<b>Total non current assets</b>	<b>432,625</b>	<b>453,031</b>
<b>TOTAL ASSETS</b>	<b>662,867</b>	<b>638,872</b>
<b>Current liabilities</b>		
Trade and other payables	77,181	75,369
Current tax liability	4,775	1,420
Provisions	10,324	10,144
Borrowings	11,484	11,500
<b>Total current liabilities</b>	<b>103,764</b>	<b>98,433</b>
<b>Non current liabilities</b>		
Provisions	2,076	2,125
Borrowings	188,153	188,819
<b>Total non current liabilities</b>	<b>190,229</b>	<b>190,944</b>
<b>TOTAL LIABILITIES</b>	<b>293,993</b>	<b>289,377</b>
<b>NET ASSETS</b>	<b>368,874</b>	<b>349,495</b>
<b>Equity</b>		
Issued capital	135,868	135,868
Reserves	934	11,570
Retained earnings	232,072	202,057
<b>TOTAL EQUITY</b>	<b>368,874</b>	<b>349,495</b>

# Notes to the Financial Statements

For the year ended 30 June 2019

## 34 Events subsequent to the reporting date

On 21 August 2019, MMS announced its intention to return around \$80 million to shareholders through an off-market ordinary share buy-back (Buy-Back). The Buy-Back will be funded from existing cash. MMS will maintain a strong balance sheet following the Buy-Back.

Details about the Buy-Back will be contained in a Buy-Back booklet, including regarding shareholders' eligibility and the tender process. The booklet is expected to be released on 28 August 2019 and will be sent to shareholders shortly after that date. The Record Date will be Thursday, 29 August 2019.

Other than the above and matters disclosed in this Annual Report there were no material events subsequent to reporting date.



## Directors' Declaration

The Directors are of the opinion that:

1. the financial statements and notes on pages 53 to 118 are in accordance with the *Corporations Act 2001* (Cth), including:
  - (a) compliance with Accounting Standards, the *Corporations Regulations 2001* (Cth) and other mandatory professional reporting requirements; and
  - (b) giving a true and fair view of the consolidated entity's financial position as at 30 June 2019 and financial performance for the financial year ended on that date; and
2. there are reasonable grounds to believe that the Company will be able to pay its debts as and when they become due and payable; and
3. at the date of this declaration, there are reasonable grounds to believe that the members of the extended closed group identified in Note 33 will be able to meet any obligations or liabilities to which they are, or may become, subject by virtue of the deed of cross guarantee described in Note 33.

Note 2(a) confirms that the financial statements also comply with International Financial Reporting Standards as disclosed as issued by the International Accounting Standards Board.

The Directors have been given the declarations by the Chief Executive Officer and Chief Financial Officer required by section 295A of the *Corporations Act 2001* (Cth).

This declaration is made in accordance with a resolution of the Directors of McMillan Shakespeare Limited.



**Tim Poole**  
Chairman



**Michael Salisbury**  
Managing Director

21 August 2019  
Melbourne, Australia

# Independent Audit Report

As at 30 June 2019



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## Independent Auditor's Report

To the Members of McMillan Shakespeare Limited

### Report on the audit of the financial report

#### Opinion

We have audited the financial report of McMillan Shakespeare Limited (the Company) and its subsidiaries (the Group), which comprises the consolidated statement of financial position as at 30 June 2019, 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 2019 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 auditor independence requirements of the *Corporations Act 2001* and the ethical requirements of the Accounting Professional and Ethical Standards Board's APES 110 *Code of Ethics for Professional Accountants* (the Code) that are relevant to our audit of the financial report in Australia. We have also fulfilled our other ethical responsibilities in accordance with the Code.

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

Grant Thornton Audit Pty Ltd ACN 130 913 594  
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# Independent Audit Report

As at 30 June 2019



## 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
<p><b>Impairment of goodwill and intangible asset balance (Note 6)</b></p> <p>At 30 June 2019 the Group has \$137,427,000 of goodwill and \$23,514,000 in other intangible assets contained within separate cash generating units (CGUs).</p> <p>During the year the group recognised an impairment against goodwill and other intangible assets totalling \$18,254,000 relating to the Retail Financial Services Retail business CGU.</p> <p>Management is required to perform an impairment test on goodwill, other infinite life intangibles, and capitalised software development costs at least annually, and is also required to perform an impairment test on other intangible assets with finite lives if indicators of impairment are identified.</p> <p>We consider this a key audit matter due to the nature of the balances and the judgments required in preparing the value-in-use models and due to the judgement in determining CGUs, impairment indicators and triggers. This involves consideration of the future results of the business, growth and the discount rates applied.</p>	<p>Our procedures included, amongst others:</p> <ul style="list-style-type: none"> <li>• reviewing the model for compliance with AASB 136 <i>Impairment of Assets</i>;</li> <li>• reviewing the completeness and accuracy of the underlying data used in the calculation;</li> <li>• assessing management's determination of CGUs based on our understanding of how management monitors the entity's operations and makes decisions about groups of assets that generate independent cash flows;</li> <li>• evaluating management's process for the preparation and review of value-in-use models, taking into consideration the impacts of the sector specific issues;</li> <li>• utilising internal valuation expert to review the appropriateness of the value-in-use model, appropriateness of benchmarks to external data and its compliance with the requirements of AASB 136;</li> <li>• verifying the mathematical accuracy of the underlying model calculations and assessing the appropriateness of the methodologies;</li> <li>• evaluating cash flow projections compared to the historical accuracy of the budgeting process;</li> <li>• assessing the key growth rate assumptions by comparing them to historical results, economic or industry forecasts;</li> <li>• assessing the discount rate by reference to the cost of capital for the Group as well as applying specific adjustments for the particular CGU where the CGU had a higher risk of impairment;</li> <li>• performing a sensitivity analysis in relation to the cash flow projections, discount and growth rate assumptions on CGUs. The impairment analysis considered both the individual and collective impacts; and</li> <li>• assessing the adequacy of the Group's disclosures within the financial statements.</li> </ul>

# Independent Audit Report

As at 30 June 2019



## Warranty revenue, unearned premium liability and deferred acquisition costs (Note 3)

The warranty area of the business derives revenues through the gross wholesale premiums obtained upon dealers entering into the sale of warranty products to used vehicle consumers.

Revenue is recognised over the term of the warranty in line with the profile of expected future claims. This gives rise to the unearned premium liability.

We consider this a key audit matter due to the inherent subjectivity over the nature of the estimations used in determining the unearned premium liability.

Our procedures included, amongst others:

- verifying the mathematical accuracy of the unearned premium liability and warranty revenue calculations to ensure the revenue profile assumptions have been correctly applied;
- reviewing the completeness and accuracy of the underlying data used in the calculation;
- assessing the reasonableness of management's key assumptions in relation to the revenue recognition profile, which is based on the profile of future claim costs, by:
  - analytically reviewing the claims pattern during the year to determine appropriateness of the percentages used in the revenue recognition profile;
  - selected a sample of claims in the current year to supporting documentation and payments; and
- testing the accuracy of the gross premiums used in the deferred income calculation by selecting a sample of gross premiums and agreeing amounts and key terms to supporting contracts; and
- assessing the adequacy of the Group's disclosures within the financial statements.

## Maintenance instalments received in advance (Note 19)

The Group receive fixed payments from customers for future tyre and maintenance services for which the Group is liable to perform. The profit or loss on these contracts is uncertain given the cost of fulfilling the future obligations can only be estimated based on the historic performance of this service line. Therefore, at each reporting period the profit or loss on these contracts is recognised by reference to the satisfied performance obligations which are defined by the remaining length of time the Group are contracted to provide such maintenance services.

We consider this a key audit matter due to the judgement required by management in preparing the tyre and maintenance provision calculation and the inherent subjectivity over the nature of the estimation.

Our procedures included, amongst others:

- reviewing a sample of contractual arrangements to understand the types of services and costs to be provided under the arrangements;
- verifying the mathematical accuracy of the tyre and maintenance provision model including the consistency of the formulas applied;
- reviewing the completeness and accuracy of the underlying data used in the calculation;
- evaluating the key assumptions applied in the model for reasonableness and performed sensitivity on these key assumptions;
- analytically reviewing movements in the provision from the prior period in the context of understanding the changes in the businesses operations and the market;
- selecting a sample of contracts included in the calculation and agreed details to supporting documentation to assess the completeness and accuracy of actual costs used in developing the cost profile assumptions;
- considering changes in key inputs into the provision through inquiries of management; and
- assessing the adequacy of the Group's disclosures within the financial statements.

# Independent Audit Report

As at 30 June 2019



## 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 2019, 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](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 30 to 47 of the Directors' report for the year ended 30 June 2019.

In our opinion, the Remuneration Report of McMillan Shakespeare Limited, for the year ended 30 June 2019 complies with section 300A of the *Corporations Act 2001*.

# Independent Audit Report

As at 30 June 2019



## 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.

A handwritten signature in blue ink that reads "Grant Thornton".

Grant Thornton Audit Pty Ltd  
Chartered Accountants

A handwritten signature in blue ink that reads "Darren Scammell".

Darren Scammell  
Partner – Audit & Assurance

Melbourne, 21 August 2019

# Auditor's Independence Declaration

For the year ended 30 June 2019



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## Auditor's Independence Declaration

To the Directors of McMillan Shakespeare Limited

In accordance with the requirements of section 307C of the *Corporations Act 2001*, as lead auditor for the audit of McMillan Shakespeare Limited for the year ended 30 June 2019, 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 Audit Pty Ltd  
Chartered Accountants

Darren Scammell  
Partner – Audit & Assurance

Melbourne, 21 August 2019

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## Shareholder Information

Additional information required by the ASX Listing Rules and not disclosed elsewhere in this Annual Report is set out below:

### SUBSTANTIAL SHAREHOLDINGS

As at 8 August 2019, the number of shares held by substantial shareholders and their associates is as follows:

Shareholder	Number of Ordinary Shares	Percentage of Ordinary Shares <sup>1</sup>
HSBC Custody Nominees (Aust) Ltd	31,256,931	37.57
JP Morgan Nominees Australia Limited	10,175,722	12.23
Chessari Holdings Pty Limited <sup>2</sup>	6,050,941	7.27
Citicorp Nominees Limited	6,409,294	7.70
CS Third Nominees Pty Ltd <HSBC Cust Nom Au Lts 13 A/C>	3,606,645	4.33

<sup>1</sup> As at 8 August 2019, 83,204,720 fully paid ordinary shares have been issued by the Company.

<sup>2</sup> Chessari Holdings Pty Limited is a company associated with Mr Ross Chessari, a Non-Executive Director.

### NUMBER OF SHARE & OPTION HOLDERS

As 8 August 2019, the number of holders of ordinary shares and options in the Company was as follows:

Class of Security	Number of Holders
Fully paid ordinary shares	5,014
Options exercisable at \$10.18 and expiring on 30 September 2019	4
Options exercisable at \$13.45 and expiring on 30 September 2020	26
Options exercisable at \$14.97 and expiring on 30 September 2020	1
Options exercisable at \$13.45 and expiring on 30 September 2021	26
Options exercisable at \$14.97 and expiring on 30 September 2021	1
Options exercisable at \$16.64 and expiring on 30 September 2022	27

### VOTING RIGHTS

In accordance with the Constitution of the Company and the *Corporations Act 2001* (Cth), every member present in person or by proxy at a general meeting of the members of the Company has:

- on a vote taken by a show of hands, one vote; and
- on a vote taken by a poll, one vote for every fully paid ordinary share held in the Company.

A poll may be demanded at a general meeting of the members of the Company in the manner permitted by the *Corporations Act 2001* (Cth).

### DISTRIBUTION OF SHARE & OPTION HOLDERS

As at 8 August 2019, the distribution of share and option holders in the Company was as follows:

Distribution of Shares & Options	Number of Holders of Ordinary Shares
1 – 1,000	2,986
1,001 – 5,000	1,620
5,001 – 10,000	234
10,001 – 100,000	146
100,000+	28

As at 8 August 2019 there were 296 shareholders who held less than a marketable parcel of 39 fully paid ordinary shares in the Company.

### ON-MARKET BUY BACK

The Company does not have a current on-market buy-back.



## Shareholder Information

### TOP 20 SHAREHOLDERS

As at 8 August 2019, the details of the top 20 shareholders in the Company are as follows:

No.	Name	Number of Ordinary Shares	Percentage of Ordinary Shares <sup>1</sup>
1	HSBC Custody Nominees (Aust) Ltd	31,256,931	37.57
2	J P Morgan Nominees Australia Pty Limited	10,175,772	12.23
3	Citicorp Nominees Pty Limited	6,409,294	7.70
4	Chessari Holdings Pty Ltd <sup>2</sup>	6,050,941	7.27
5	CS Third Nominees Pty Limited <HSBC Cust Nom Au Ltd 13 A/C>	3,606,645	4.33
6	Asia Pac Technology Pty Ltd <sup>3</sup>	3,343,025	4.02
7	National Nominees Limited	2,777,715	3.34
8	BNP Paribas Noms Pty Ltd <DRP>	1,755,670	2.11
9	BNP Paribas Nominees Pty Ltd <Agency Lending DRP A/C>	1,374,977	1.65
10	Ann Leslie Ryan	1,008,418	1.21
11	Milton Corporation Limited	662,538	0.80
12	AFICO Pty Ltd	564,555	0.68
13	CPU Share Plans Pty Ltd <MMS Options Unallocated A/C>	538,129	0.65
14	MOHL Invest Pty Ltd <MOHL Super Fund A/C>	425,000	0.51
15	Aust Executor Trustees Ltd <GFFD>	396,205	0.48
16	MOHL Invest Pty Ltd <MOHL Family A/C>	340,000	0.41
17	HSBC Custody Nominees (Australia) Limited-GSCO ECA	298,989	0.36
18	NWC Group Pty Ltd	279,470	0.34
19	Sandhurst Trustees Ltd <Endeavor Asset Mgmt MDA A/C>	263,164	0.32
20	Citicorp Nominees Pty Limited <Colonial First State Inv A/C>	256,907	0.31
<b>Totals: Top 20 holders of issued Capital</b>		<b>71,784,345</b>	<b>86.27</b>
<b>Total Remaining Holders Balance</b>		<b>11,420,375</b>	<b>13.73</b>

<sup>1</sup> As at 8 August 2019, 83,204,720 fully paid ordinary shares have been issued by the Company.

<sup>2</sup> Chessari Holdings Pty Limited is a company associated with Mr Ross Chessari, a Non-Executive Director.

<sup>3</sup> Asia Pac Technology Pty Limited is a company associated with Mr John Bennetts, a Non-Executive Director.

### RESTRICTED SECURITIES

As at the date of this Annual Report, the following securities in the Company were subject to voluntary escrow.

Number of ordinary shares	Date of escrow expiry
79,937	3 January 2018

### UNQUOTED SECURITIES

As at the date of this Annual Report, the details of unquoted securities in the Company are as follows:

Class	Number of Securities	Number of Holders
Options exercisable at \$10.18 and expiring on 30 September 2019	538,129	4
Options exercisable at \$13.45 and expiring on 30 September 2020	412,500	28
Options exercisable at \$14.97 and expiring on 30 September 2020	17,340	1
Options exercisable at \$13.45 and expiring on 30 September 2021	387,015	29
Options exercisable at \$14.97 and expiring on 30 September 2021	15,920	1
Options exercisable at \$16.64 and expiring on 30 September 2022	681,525	27

Options do not carry a right to vote

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## McMillan Shakespeare Limited

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## Corporate Directory

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### Company Auditor

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Melbourne Victoria 3008

### Share Registry

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McMillanShakespeareGroup

