

# KELLY PARTNERS GROUP HOLDINGS LIMITED

ABN 25 124 908 363

**2019**  
**ANNUAL REPORT**

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Directors	Brett Kelly – Chairman, Executive Director Stephen Rouvray – Deputy Chairman, Non-Executive Director Paul Kuchta – Executive Director Ryan Macnamee – Non-Executive Director
Company secretary	David Franks
Notice of annual general meeting	The details of the annual general meeting of Kelly Partners Group Holdings Limited are: Level 53 MLC Centre 19 Martin Place Sydney NSW 2000 10 a.m. on Friday, 29 November 2019
Registered office	Level 8 32 Walker Street North Sydney NSW 2060 Telephone: (02) 9923 0800
Share register	Computershare Investor Services Pty Limited Level 3 60 Carrington Street Sydney NSW 2000 Telephone: 1300 787 272
Auditor	Deloitte Touche Tohmatsu Grosvenor Place 225 George Street Sydney NSW 2000
Stock exchange listing	Kelly Partners Group Holdings Limited shares are listed on the Australian Securities Exchange (ASX code: KPG)
Website	<a href="http://www.kellypartnersgroup.com.au">http://www.kellypartnersgroup.com.au</a>
Corporate Governance Statement	<p>The directors and management are committed to conducting the business of Kelly Partners Group Holdings Limited in an ethical manner and in accordance with the highest standards of corporate governance. Kelly Partners Group Holdings Limited has adopted and has substantially complied with the ASX Corporate Governance Principles and Recommendations (Third Edition) ('Recommendations') to the extent appropriate to the size and nature of its operations.</p> <p>The Corporate Governance Statement, which sets out the corporate governance practices that were in operation during the financial year and identifies and explains any Recommendations that have not been followed, which is approved at the same time as the Annual Report can be found at: <a href="http://www.kellypartnersgroup.com.au/investor-centre/corporate-governance-2">www.kellypartnersgroup.com.au/investor-centre/corporate-governance-2</a></p>

The directors present their report, together with the consolidated financial statements, on the consolidated entity (referred to hereafter as the 'Group') consisting of Kelly Partners Group Holdings Limited (referred to hereafter as the 'Company' or 'parent entity') and the entities it controlled at the end of, or during, the year ended 30 June 2019.

### **Directors**

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

Brett Kelly - Chairman  
Stephen Rouvray - Deputy Chairman  
Paul Kuchta  
Ryan Macnamee  
Pauline Michelakis (Resigned on 26 March 2019)

### **Principal activities**

During the financial year the principal continuing activities of the Group were the provision of chartered accounting and other professional services, predominantly to private businesses and high net worth individuals.

### **Strategy**

In summary, the Company aims to build per-share intrinsic value by:

- improving the earning power of its subsidiaries;
- further increase their earnings through tuck-in acquisitions;
- participating in the growth of its investees;
- repurchasing Company's shares when available, at a meaningful discount from intrinsic value; and
- making an occasional large acquisition.

The Group expects to grow revenue at 10% per annum, 5% organically and 5% through acquisitions.

### **Review of operations**

In the year ended 30 June 2019 ('FY19'), the Group has recorded a consolidated statutory net profit after providing for income tax of \$7,147,654 (year ended 30 June 2018 ('FY18'): \$9,964,034). The statutory net profit attributable to the members of the parent entity was \$2,435,695 (FY18: \$4,382,654).

The directors consider Underlying Earnings Before Interest, Tax, Depreciation and Amortisation ('Underlying EBITDA') and Underlying Net Profit After Tax Before Amortisation ('Underlying NPATA') to reflect the core earnings of the Group. Underlying EBITDA and Underlying NPATA are financial measures not prescribed by Australian Accounting Standards ('AAS'). Reconciliation of statutory results to Underlying EBITDA and NPATA is set out in this section.

Underlying EBITDA and Underlying NPATA are key measurements used by management and the board to assess and review business performance and accordingly the following table provides a reconciliation between profit after income tax expense and Underlying EBITDA.

	<b>Consolidated</b>	<b>Consolidated</b>
	<b>2019</b>	<b>2018</b>
	<b>\$</b>	<b>\$</b>
Statutory net profit after income tax ('NPAT')	7,147,654	9,964,034
Finance costs	868,595	611,208
Income tax expense	899,616	1,941,144
Depreciation and amortisation expense	<u>1,249,279</u>	<u>1,037,217</u>
Earnings before interest, tax, depreciation and amortisation ('EBITDA')	10,165,144	13,553,603
Add: non-recurring expenses		
Restructuring costs	197,952	515,375
Acquisition costs	614,882	-
Initial public offering ('IPO') and other acquisition costs	-	143,692
Shares issued to employees under Employee Share Scheme ('ESS') as part of IPO	-	247,029
Other non-recurring expenses	131,721	172,932
Less: Non-recurring revenue		
Change in fair value of contingent consideration	<u>(220,463)</u>	<u>(1,201,200)</u>
Underlying EBITDA	<u><u>10,889,236</u></u>	<u><u>13,431,431</u></u>

Reconciliation of Statutory Net Profit After Tax ('NPAT') to Underlying NPATA attributable to owners of Kelly Partners Group Holdings Limited.

	<b>Consolidated</b>	<b>Consolidated</b>
	<b>2019</b>	<b>2018</b>
	<b>\$</b>	<b>\$</b>
Statutory NPAT attributable to owners of Kelly Partners Group Holdings Limited	2,435,695	4,382,654
Add: Non-recurring expenses		
Restructuring costs	181,488	416,152
Acquisition costs	347,312	-
IPO and other acquisition costs	-	143,692
Shares issued to employees under ESS as part of IPO	-	247,029
Other non-recurring expenses	192,861	64,665
Tax effect of non-recurring expenses	(198,457)	(261,461)
Less: Non-recurring revenue		
Change in fair value of contingent consideration	<u>(128,971)</u>	<u>(1,201,200)</u>
Underlying NPAT attributable to owners of Kelly Partners Group Holdings Limited	<u>2,829,928</u>	<u>3,791,531</u>
Amortisation of customer relationship intangibles	<u>363,280</u>	<u>534,445</u>
Underlying NPATA attributable to owners of Kelly Partners Group Holdings Limited	<u><u>3,193,208</u></u>	<u><u>4,325,976</u></u>

## Financial performance

### **Acquisitions and integration**

Three of the controlled entities of the Company made tuck-in acquisitions during the year. A tuck-in is where an acquired entity moves into an existing Kelly + Partners premises, which benefits both businesses through increased operating leverage. A fourth acquisition (marquee acquisition) was also completed in the Inner West of Sydney. A marquee acquisition represents a new site acquired. Acquisitions made during FY19 are expected to contribute \$3,000,000 to \$4,000,000 in revenue on a full year basis, or 7.6% to 10.1% growth on existing revenues, having contributed \$2,506,796 since acquisition (representing 6.4% growth on FY18 revenue). EBITDA margins, net of non-recurring costs, are slightly below Kelly + Partners operating benchmarks and it is expected that full synergy realisation and benchmark margins will be achieved by 30 June 2020.

### **Revenue**

FY19 saw revenue increase to \$39,975,031 (up \$506,365 or 1.3% on FY18). Organic revenue (excluding Sydney central business district ('Sydney CBD')) grew to \$31,647,560 (up \$2,200,221 or 7.5% on FY18). Total revenue growth (excluding Sydney CBD) is up 11.9% on the prior year.

### **Operating expenses**

Operating expenses comprising employee expenses, rent and utilities, and other expenses have increased to \$29,232,435 (up \$2,867,583 or 11% on FY18), of which \$1,571,478 relates to the acquired entities. Expenses (excluding acquired entities related operating expenses) increased by \$1,296,104, which is attributable to controlled entities (up \$593,563) and the parent (\$702,541).

Controlled entity costs increases were predominantly wage increases (up \$548,406) and other expenses (up \$48,320). Parent expense increases include \$235,561 wages, \$279,402 in marketing and \$237,780 in compliance costs.

### **Underlying EBITDA**

Underlying EBITDA of \$10,889,236 (down \$2,542,195 or 18.9% on FY18), with the Group running at a 27.1% margin (FY18: 33.9%).

### **Non-recurring items**

Non-recurring expenses totalled \$944,555 (FY18: \$1,079,028) and included:

- 1) \$614,882 in acquisition costs related to the four acquisitions;
- 2) \$197,952 in restructuring costs, which relate primarily to sign-on incentives as part of organic opening of new complimentary business services, a one-off major Information Technology ('IT') system upgrade (public to private cloud, increasing scalability with financial economies of scale), additional one-off rent incurred during the re-fit out of Sydney CBD; and
- 3) other costs of \$131,721 relating to closure of businesses which do not meet the size criteria for a discontinued operation and other items.

Non-recurring gains included \$220,463 favourable movement in the fair value re-measurement of contingent consideration arising on acquisition (FY18: \$1,201,200), refer note 6 to the financial statements.

### **Cash flow**

Cash from operations ('CfO') is a highlight for the business, with receipts from customers of \$46,594,198 (up \$5,317,061 or 12.9% on FY18), and net cash from operating activities of \$9,973,451 (up \$3,368,539 on FY18). This increase in net cash from operating activities is largely attributable to increased billings, a strong focus on lock up (defined as trade receivables and other receivables, plus accrued income, less contract liabilities) management, with Lockup Days reducing to 69.6 (FY18: 93.3). As a result, the Group has generated a strong cash conversion (CfO / EBITDA) of 98.1%.

During the year, the Group repaid \$3,201,279 in debt relating to acquisition facilities. Of the \$6,506,684 in new borrowings, \$2,789,200 related to the four new acquisitions, \$1,063,424 in net loans on-advanced to partners (primarily in respect of their acquisition buy-in loans), and \$1,626,410 in the debt funding portion of capital expenditures. A further \$1,027,650 was drawn into the parent's banking revolver facility, to assist with timing differences on cashflows and other items.

The business is capital light. Of the \$2,223,624 in property, plant and equipment capital expenditure, the majority related to growth capital expenditure (mainly new office fit outs for Sydney CBD and Melbourne CBD, as well as growth IT capital expenditure largely debt funded). Maintenance Capital Expenditure represents the amount of cash investment (through the cash from investing activities statement) into property, plant and equipment, which is necessary to maintain the ongoing operations over the long term. It includes cash investment into replacement and ongoing maintenance of capital items. It does not include any expenditure which runs through the profit and loss as repairs or maintenance, nor does it include cash expenditure on capital items in order to grow the business. The Group's maintenance capital expenditure is approximately \$300,000 per year, which is reflective of the capital expenditure required to maintain fit out, IT equipment and vehicles.

### **Working capital**

During the year, the Group reduced its Lockup to \$7,625,583 (down \$2,461,061 on FY18), notwithstanding growing the Group by the four acquisitions. Contract liabilities represents prepaid revenue.

### **Capital structure**

The Group continues to maintain a conservative capital structure, with an Equity / Total Assets ratio of 49.8% (FY18: 54.2%) and Net Debt / Underlying EBITDA of 1.35x (FY18: 0.85x).

Total borrowings as at 30 June 2019 were \$18,627,633 (refer to note 24 to the financial statements), of which \$12,753,088 relates to non-current borrowings and \$5,874,545 relates to current borrowings.

Of the \$18,627,633 total debt, \$8,890,467 is attributable to equity partners, equating to \$222,261 debt (excluding parent debt) per equity partner (40 equity partners). \$7,210,727 is attributable to the parent (which includes acquisition funding of controlled entities, parent working capital, and some equipment finance). A further \$2,526,439 relates to overdraft facilities (refer to note 24 to the financial statements), which are covered approximately 3.0x by \$7,625,583 in Lockup.

### **Key financial metrics**

The Company uses Return on Equity ('ROE'), Return on Invested Capital ('ROIC'), Earnings Per Share ('EPS') and Owners' earnings as key financial metrics to measure the performance of the Group and its return to shareholders. The Group continues to achieve superior returns on equity and invested capital, as measured by ROE and ROIC.

ROE	NPATA / Equity \$7,886,267 / \$24,628,630 32.0%
ROIC	(NPATA + Interest) / (Equity + Debt) (\$7,886,267 + \$868,595) / (\$24,628,630 + \$18,627,633) 20.2%
EPS	Profit attributable to owners / Weighted average number of shares \$2,435,695 / 45,496,894 5.35 cents per share

### **Owners' earnings**

The Group uses owner's earnings to measure cash flow available to the group. It is a good measure of cash flow for owners of the Group as it takes into account:

- the necessary working capital investment (debtors, work-in-progress and other accrual movements) required as the business grows and makes acquisitions;
- the maintenance capital expenditure required for business as usual operations; and
- taxes and finance costs paid.

In FY19, Owners' earnings increased to \$9,673,451 (FY18: \$6,304,912) driven by increased billings and reduced net working capital investment.

	\$
Cash from operating activities	9,973,451
Less: Maintenance expense	(300,000)
Owners' earnings	9,673,451

## Dividends

Dividends paid during the financial year were as follows:

	Consolidated 2019 \$	2018 \$
For the year ended 30 June 2018:		
First interim dividend of \$0.01 per ordinary share, paid on 16 Nov 2017	-	454,972
Second interim dividend of \$0.01 per ordinary share, paid on 16 Feb 2018	-	454,972
Third interim dividend of \$0.01 per ordinary share, paid on 16 May 2018	-	454,972
Final dividend of \$0.01 per ordinary share, paid on 12 Jul 2018	454,972	-
For the year ended 30 June 2019:		
First interim dividend of \$0.011 per ordinary share, paid on 30 Oct 2018	500,469	-
Second interim dividend of \$0.011 per ordinary share, paid on 31 Dec 2018	500,469	-
Third interim dividend of \$0.011 per ordinary share, paid on 29 Mar 2019	500,469	-
	<u>1,956,379</u>	<u>1,364,916</u>

On 1 July 2019, the Company paid the final dividend for the year ended 30 June 2019 of \$0.011 per ordinary share. This dividend equates to a distribution of \$500,445, based on the number of ordinary shares on issue as at 30 June 2019. The financial effect of dividends declared after the reporting date is not reflected in the 30 June 2019 financial statements and will be recognised in subsequent financial reports.

## Significant changes in the state of affairs

### Acquisition

During the financial year, subsidiaries of the Group acquired four accounting businesses in North Sydney, Inner West of Sydney, Warriewood and Oran Park which were tucked in to the existing subsidiary businesses. Synergies are expected to be achieved from integrating these businesses into the existing Kelly Partners businesses.

### Share buy-back

On 17 April 2019, the Company announced a share buy-back of up to 10% of the minimum number of Company's shares outstanding in the last 12 months (being a buy-back of up to 4,549,718 shares at 17 April 2019). During the financial year ended 30 June 2019, the Company purchased and cancelled 2,181 shares. At 30 June 2019, 4,547,537 shares are authorised for on-market buy-back.

There were no other significant changes in the state of affairs of the Group during the financial year.

## Matters subsequent to the end of the financial year

### Banking restructure

During the year, the Group commenced restructuring its debt facilities with Westpac. As at 30 June 2019, Kelly Partners Group Holdings Limited and two controlled entities had entered into the new facility structure. Post balance date, all but one of the controlled entities with debt facilities, have entered into the new facility structure. The final outstanding entity is expected to enter into the new arranged facilities in the first quarter of FY20. Refer note 24 for further details.

### Property purchases

On 28 July 2019, Kelly Partners (Central Coast) Property Trust purchased a property in Central Coast NSW for \$780,000. Kelly Partners (Central Coast) Pty Ltd will occupy the premise to operate its business.

On 27 June 2019, the Board of Directors resolved and approved Kelly Partners (Central Tablelands) Property Trust to purchase a property in Bathurst for \$599,000, with settlement on 13 August 2019.

Apart from the dividend declared as discussed above, no other matter or circumstance has arisen since 30 June 2019 that has significantly affected, or may significantly affect the Group's operations, the results of those operations, or the Group's state of affairs in future financial years.

## Likely developments and expected results of operations

The Group will continue to pursue its policy of increasing the profitability and market share in the markets within which it operates during the next financial year.



The Group's growth plan is based on a three-pronged strategy: organic growth, network expansion (which includes acquisitions, tuck-ins and greenfields) and the introduction of new services.

### Economic, environmental and social sustainability risks

The operations of the Group are not subject to any particular or significant Commonwealth, State or Territory environmental regulations.

Accounting services, which require associated expert advice typically provided by accountants, are important particularly in the case of small and medium enterprises where the complexity of taxation and other compliance requirements are increasing, and therefore it is unlikely that there would be a material risk in relation to economic sustainability. Risks that may arise include rapidity in changes in technology and simplification of tax legislation. The risks in relation to economic sustainability are considered as part of determining strategy and management regularly monitor market developments.

Part of the Group's commitment to managing these risks is ensuring that it has governance systems, structures, values, principles, frameworks and policies to define its decision making context for managing its business sustainably.

### Information on directors

Name:	Brett Kelly
Title:	Executive Chairman and Chief Executive Officer
Qualifications:	BBus, CA, MTax, DipFS, RTA, JP
Experience and expertise:	Brett is the Founder and CEO of Kelly+Partners. He has more than 20 years commercial and professional accountancy experience, specialising in assisting private clients, private business owners and families. He commenced his career as a Chartered Accountant with 5 years at PwC Australia, and then worked at 3 mid-sized accounting firms. In 2006, Brett founded Kelly+Partners with accounting businesses in North Sydney and the Central Coast, before building out the network to 21 businesses over 15 locations to date. Brett is also the best-selling author of four books on life, business and wisdom.
Other current directorships:	None
Former directorships (last 3 years):	None
Special responsibilities:	Member of the Nomination and Remuneration Committee
Interests in shares:	23,276,378 ordinary shares
Interests in options:	None
Contractual rights to shares:	None

Name:	Stephen Rouvray
Title:	Deputy Chairman and Non-Executive Director
Qualifications:	BEC, CA
Experience and expertise:	Stephen has over 45 years' experience in financial services across many senior leadership roles. He was Chief Financial Officer, Company Secretary and Manager of Investor Relations for AUB Group (formerly Austbrokers) from 2005 until 2015. Prior to this, he was General Manager for ING Australia Holdings from 2002 to 2005 having joined ING's predecessor company, Mercantile Mutual, in 1985. Over this 20 year period, Stephen held the position of Company Secretary which included its subsidiary companies operating in the life & general insurance, investment management, funds management and banking sectors. At the start of his career, he worked in the accountancy profession from 1971 to 1984. Since retiring as CFO, Stephen continues to represent AUB as a director for a number of its subsidiaries and associates.
Other current directorships:	None
Former directorships (last 3 years):	None
Special responsibilities:	Chairman of the Nomination and Remuneration Committee Chairman of the Audit and Risk Committee
Interests in shares:	50,000 ordinary shares
Interests in options:	None
Contractual rights to shares:	None

Name: Paul Kuchta  
Title: Executive Director  
Qualifications: BBus, CA, FTIA, DipFP, RTA, JP  
Experience and expertise: Paul is a Chartered Accountant with more than 17 years accounting experience specialising in the provision of compliance, tax and advisory services to private SME's and their owners. He commenced his career with Farrar & Company Chartered Accountants in 1998, where he worked for 10 years. Paul then joined Crowe Horwath in 2008 for a further 4 years. He was a founding partner of Kelly+Partners Norwest when the practice was launched in 2012.

Other current directorships: None  
Former directorships (last 3 years): None  
Interests in shares: 164,000 ordinary shares  
Interests in options: None  
Contractual rights to shares: None

Name: Ryan Macnamee  
Title: Non-Executive Director  
Qualifications: BCom, GACID  
Experience and expertise: Ryan is an experienced business technology executive with over 25 years of IT management experience. He has been Chief Information Officer ('CIO') at Laing O'Rourke since 2012, with 6 years as the Global CIO. Ryan is responsible for all IT functions within Laing O'Rourke with a focus on strategic objectives, global alignment and delivering business value. Prior to his current role, he held several senior IT management positions at Woolworths from 2008 to 2012. Earlier in his career, Ryan undertook various senior IT positions at financial, insurance, construction and retail operations globally. Ryan has served as non-executive director on a number of boards, including Open Data Institute and Advanced Navigation.

Other current directorships: None  
Former directorships (last 3 years): None  
Special responsibilities: Member of the Audit and Risk Committee  
Member of the Nomination and Remuneration Committee  
Interests in shares: 125,046 ordinary shares  
Interests in options: None  
Contractual rights to shares: None

Name: Pauline Michelakis  
Title: Chief Financial Officer and Former Executive Director (resigned on 26 March 2019)  
Qualifications: BCom (Hons), CA  
Experience and expertise: Pauline joined Kelly+Partners in 2013 as Group CFO. She has more than 20 years' experience in senior financial roles in financial services and investment companies. Pauline is a Chartered Accountant who commenced her career in 1981 as an auditor with Arthur Young & Company (now EY). In 1986 she joined listed international investment company AFP Group in an executive role. In total, she worked for the group for 10 years, including 5 years as General Manager Finance of Lang Corporation, the ASX-listed Australian spin-off (subsequently renamed Patrick Corporation Limited). She also held CFO roles at Kaplan Funds Management and Committed Capital Limited before joining Kelly+Partners.

Other current directorships: None  
Former directorships (last 3 years): None  
Special responsibilities: Former Member of the Audit and Risk Committee  
Interests in shares: 1,000,000 ordinary shares  
Interests in options: None  
Interests in rights: None

### Company secretary

David Franks - BEc, CA, F Fin, FGIA JP

David Franks is a former principal of Franks & Associates Pty Ltd, which merged with the Automic Group in 2018. David is a Director and Principal of the Automic Group. David is a Chartered Accountant, Fellow of the Financial Services Institute of Australia, Fellow of the Governance Institute of Australia, Justice of the Peace, Registered Tax Agent and holds a Bachelor of Economics (Finance and Accounting) from Macquarie University. With over 20 years in finance and accounting, initially qualifying with Price Waterhouse in their Business Services and Corporate Finance Divisions, David has been CFO, Company Secretary and/or Director for numerous ASX listed and unlisted public and private companies, in a range of industries covering energy retailing, transport, financial services, mineral exploration, technology, automotive, software development and healthcare. David is also currently the Company Secretary for the following public entities: AUB Group Limited, Adcorp Australia Limited, Elk Petroleum Limited, JCurve Solutions Limited, Noxopharm Limited, Nyrada Inc, Tomorrow Entertainment Limited, White Energy Company Limited, White Energy Technology Limited and ZIP Co Limited. David is also a Non-Executive Director of, JCurve Solutions Limited.

### Meetings of directors

The number of meetings of the Company's Board of Directors ('the Board') and of each Board committee held during the year ended 30 June 2019, and the number of meetings attended by each director were:

	Full Board		Nomination and Remuneration Committee		Audit and Risk Committee	
	Attended	Held	Attended	Held	Attended	Held
Brett Kelly	7	7	2	2	-	-
Stephen Rouvray	7	7	2	2	4	4
Paul Kuchta	7	7	-	-	1	1
Ryan Macnamee	7	7	2	2	4	4
Pauline Michelakis	6	6	-	-	3	3

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

### Committee membership

As at the date of this report, the Company had an Audit and Risk Committee and a Nomination and Remuneration Committee. Members acting on the Committees of the Board during the year were:

#### Audit and Risk Committee

Stephen Rouvray (Chairman)  
 Ryan Macnamee  
 Pauline Michelakis (resigned on 26 March 2019)  
 Paul Kuchta (appointed on 4 June 2019)

#### Nomination and Remuneration Committee

Stephen Rouvray (Chairman)  
 Ryan Macnamee  
 Brett Kelly

### Remuneration report (audited)

The remuneration report details the key management personnel remuneration arrangements for the Group, in accordance with the requirements of the Corporations Act 2001 and its Regulations.

Key management personnel are those persons having authority and responsibility for planning, directing and controlling the activities of the entity, directly or indirectly, including all directors.

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

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

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

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

- competitiveness and reasonableness
- acceptability to shareholders
- performance linkage / alignment of executive compensation
- transparency

The Nomination and Remuneration Committee is responsible for determining and reviewing remuneration arrangements for its directors and executives. The performance of the Group depends on the quality of its directors and executives. The remuneration philosophy is to attract, motivate and retain high performance and high quality personnel.

The reward framework is designed to align executive reward to shareholders' interests. The Board have considered that it should seek to enhance shareholders' interests by:

- having economic profit as a core component of plan design;
- focusing on sustained growth in shareholder wealth, consisting of dividends and growth in share price, and delivering constant or increasing return on assets as well as focusing the executive on key non-financial drivers of value; and
- attracting and retaining high calibre executives.

Additionally, the reward framework should seek to enhance executives' interests by:

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

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

### ***Non-executive directors remuneration***

Fees and payments to non-executive directors reflect the demands and responsibilities of their role. Non-executive directors' fees and payments are reviewed annually by the Nomination and Remuneration Committee. The Nomination and Remuneration Committee may, from time to time, receive advice from independent remuneration consultants to ensure non-executive directors' fees and payments are appropriate and in line with the market.

ASX listing rules require the aggregate non-executive directors' remuneration be determined periodically by a general meeting. A maximum annual aggregate remuneration of \$70,000 is currently in place.

### ***Executive remuneration***

The Group aims to reward executives based on their position and responsibility, with a level and mix of remuneration which has both fixed and variable components.

The executive remuneration and reward framework has four components:

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

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

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

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

The Group may introduce incentive arrangements in the future in order to attract, motivate and retain its executives.

*Group performance and link to remuneration*

For the year ended 30 June 2019 there was no link between Group performance and key management personnel remuneration.

*Use of remuneration consultants*

During the financial year ended 30 June 2019, the Group engaged Egan Associates, remuneration consultants, to review its existing remuneration policies and provide recommendations on STI and LTI programs. A total amount of \$30,345 was paid to engage Egan Associates. The Board was satisfied that the remuneration recommendation received was free from undue influence by members of the key management personnel to whom the recommendation relates, because of strict protocols observed and complied with regarding any interaction between Egan Associates and management, and because all remuneration advice was provided to the Nomination and Remuneration Committee. At the date of the report, no recommendations have been implemented.

*Voting and comments made at the Company's 2018 Annual General Meeting ('AGM')*

The motion was carried on a show of hands and for the record the show of hands and proxy portion were in excess of 75% in favour of the resolution.

**Details of remuneration**

*Amounts of remuneration*

Details of the remuneration of key management personnel of the Group are set out in this section.

The key management personnel of the Group consisted of the following directors of Kelly Partners Group Holdings Limited:

- Brett Kelly – Chairman, Chief Executive Officer, Executive Director
- Stephen Rouvray – Deputy Chairman, Non-Executive Director
- Paul Kuchta – Executive Director
- Ryan Macnamee – Non-Executive Director
- Pauline Michelakis – Chief Financial Officer (resigned on 26 March 2019 with a 6 month notice period), Former Executive Director (resigned on 26 March 2019)

	Short-term benefits			Post employment benefits	Leave	Share-based payments	Total
	Cash salary and fees	Cash bonus	Non-monetary	Super-annuation	Annual /long service	Equity-settled	
2019	\$	\$	\$	\$	\$	\$	\$
<i>Non-Executive Directors:</i>							
Stephen Rouvray	27,397	-	-	2,603	-	-	30,000
Ryan Macnamee	27,397	-	-	2,603	-	-	30,000
<i>Executive Directors:</i>							
Brett Kelly	339,509	-	63,511	20,531	10,839	-	434,390
Pauline Michelakis*	316,513	-	-	15,131	(1,308)	-	330,336
<i>Other Key Management Personnel:</i>							
Pauline Michelakis*	112,956	-	-	5,400	(467)	-	117,889
	823,772	-	63,511	46,268	9,064	-	942,615

Refer to the section 'Service agreements' for Paul Kuchta's remuneration.

\* Pauline resigned as a director of the Company on 26 March 2019, but has been the Chief Financial Officer for the entire financial year. The amount set out in the table represents her remuneration for the entire financial year.

2018	Short-term benefits			Post employment benefits	Leave	Share-based payments	Total
	Cash salary and fees	Cash bonus	Non-monetary	Super-annuation	Annual /long service	Equity-settled	
	\$	\$	\$	\$	\$	\$	\$
<i>Non-Executive Directors:</i>							
Stephen Rouvray	27,397	-	-	2,603	-	-	30,000
Ryan Macnamee	27,397	-	-	2,603	-	-	30,000
<i>Executive Directors:</i>							
Brett Kelly	339,950	-	29,011	20,049	39,467	-	428,477
Pauline Michelakis	304,850	-	-	20,049	27,940	-	352,839
	699,594	-	29,011	45,304	67,407	-	841,316

Refer to the section 'Service agreements' for Paul Kuchta's remuneration.

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

Name	Fixed remuneration		At risk - STI		At risk - LTI	
	2019	2018	2019	2018	2019	2018
<i>Non-Executive Directors:</i>						
Stephen Rouvray	100%	100%	-	-	-	-
Ryan Macnamee	100%	100%	-	-	-	-
<i>Executive Directors:</i>						
Brett Kelly	100%	100%	-	-	-	-
Pauline Michelakis	100%	100%	-	-	-	-

### Service agreements

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

Name: Brett Kelly  
Title: Chairman, Chief Executive Officer, Executive Director  
Agreement commenced: 16 May 2017  
Term of agreement: No fixed period  
Details: Base salary of \$360,000 p.a. inclusive of superannuation, to be reviewed annually by the Nomination and Remuneration Committee. Terms include a 12 month termination notice by either party, non-solicitation and non-compete clauses.

Name: Stephen Rouvray  
Title: Deputy Chairman, Non-Executive Director  
Agreement commenced: 2 May 2017  
Term of agreement: No fixed period  
Details: Director fees \$30,000 inclusive of superannuation, to be reviewed annually by the Nomination and Remuneration Committee.

Name: Paul Kuchta  
Title: Executive Director  
Agreement commenced: Not applicable  
Term of agreement: Not applicable  
Details: Paul Kuchta is an Operating Business Owner in the Kelly Partners Norwest Partnership and receives a base distribution plus a distribution of profits from that Operating Business in accordance with the terms of the Partnership Agreement.

Name: Pauline Michelakis  
 Title: Chief Financial Officer, Former Executive Director (resigned on 26 March 2019 with a 6 month notice period)  
 Agreement commenced: 16 May 2017  
 Term of agreement: No fixed period  
 Details: Base salary \$450,000 p.a. inclusive of superannuation, to be reviewed annually by the Nomination and Remuneration Committee. 6 month termination notice by either party, non-solicitation and non-compete clauses.

Name: Ryan Macnamee  
 Title: Non-Executive Director  
 Agreement commenced: 2 May 2017  
 Term of agreement: No fixed period  
 Details: Director fees of \$30,000 inclusive of superannuation, to be reviewed annually by the Nomination and Remuneration Committee.

### Share-based compensation

#### Issue of shares

There were no shares issued to directors and other key management personnel as part of compensation during the year ended 30 June 2019.

#### Options

There were no options over ordinary shares issued to directors and other key management personnel as part of compensation that were outstanding as at 30 June 2019.

### Additional information

The earnings of the Group for the three years to 30 June 2019 are summarised below:

	2019 \$	2018 \$	2017 \$
Revenue and other gains	40,342,134	40,824,551	30,331,286
EBITDA	10,165,144	13,553,603	2,914,140
Profit after income tax	7,147,654	9,964,034	1,085,446

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

	2019	2018	2017
Share price at financial year end (\$)	0.89	1.23	1.42
Basic earnings per share (cents per share)	5.35	9.63	(8.37)
Diluted earnings per share (cents per share)	5.35	9.63	(8.37)

### Additional disclosures relating to key management personnel

#### Shareholding

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

	Balance at the start of the year	Additions*	Disposals/ other	Balance at the end of the year
<i>Ordinary shares</i>				
Brett Kelly	23,253,378	23,000	-	23,276,378
Stephen Rouvray	50,000	-	-	50,000
Paul Kuchta	152,995	11,005	-	164,000
Ryan Macnamee	125,046	-	-	125,046
Pauline Michelakis	937,061	62,939	-	1,000,000
	<u>24,518,480</u>	<u>96,944</u>	<u>-</u>	<u>24,615,424</u>

\*There were no shares received as part of remuneration.



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

#### **Shares under option**

There were no unissued ordinary shares of Kelly Partners Group Holdings Limited under option outstanding at the date of this report.

#### **Shares issued on the exercise of options**

There were no ordinary shares of Kelly Partners Group Holdings Limited issued on the exercise of options during the year ended 30 June 2019 and up to the date of this report.

#### **Employee share plan**

The Company has adopted an Employee Share Scheme in order to assist in the motivation and retention of selected employees of the Company. The Employee Share Scheme is designed to align the interest of eligible employees more closely with the interest of Shareholders, by providing an opportunity for eligible employees to receive equity interest in the Company.

#### **Indemnity and insurance of officers**

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

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

#### **Indemnity and insurance of auditor**

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

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

#### **Proceedings on behalf of the Company**

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

#### **Non-audit services**

Details of the amounts paid or payable to the auditor for non-audit services provided during the financial year by the auditor are outlined in note 34 to the financial statements.

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

The directors are of the opinion that the services as disclosed in note 34 to the financial statements do not compromise the external auditor's independence requirements of the Corporations Act 2001 for the following reasons:

- all non-audit services have been reviewed and approved to ensure that they do not impact the integrity and objectivity of the auditor; and
- none of the services undermine the general principles relating to auditor independence as set out in APES 110 Code of Ethics for Professional Accountants issued by the Accounting Professional and Ethical Standards Board, including reviewing or auditing the auditor's own work, acting in a management or decision-making capacity for the Company, acting as advocate for the Company or jointly sharing economic risks and rewards.

#### **Officers of the Company who are former partners of Deloitte Touche Tohmatsu**

There are no officers of the Company who are former partners of Deloitte Touche Tohmatsu.

#### **Auditor's independence declaration**

A copy of the auditor's independence declaration as required under section 307C of the Corporations Act 2001 is set out immediately after this directors' report.



**Auditor**

Deloitte Touche Tohmatsu continues in office in accordance with section 327 of the Corporations Act 2001.

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

On behalf of the directors



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Brett Kelly  
Executive Chairman and Chief Executive Officer

20 August 2019  
Sydney

Board of Directors  
Kelly Partners Group Holdings Limited  
Level 8, 32 Walker Street  
North Sydney NSW 2000

20 August 2019

Dear Board Members

### **Auditor's Independence Declaration to Kelly Partners Group Holdings Limited**

In accordance with section 307C of the Corporations Act 2001, I am pleased to provide the following declaration of independence to the directors of Kelly Partners Group Holdings Limited.

As lead audit partner for the audit of the financial report of Kelly Partners Group Holdings Limited for the financial year ended 30 June 2019, I declare that to the best of my knowledge and belief, there have been no contraventions of:

- (i) the auditor independence requirements of the Corporations Act 2001 in relation to the audit; and
- (ii) any applicable code of professional conduct in relation to the audit.

Yours sincerely



DELOITTE TOUCHE TOHMATSU



Cheryl Kennedy  
Partner  
Chartered Accountants

	Note	Consolidated 2019 \$	2018 \$
<b>Revenue</b>	5	39,975,031	39,468,666
Other gains	6	367,103	1,355,885
Total revenue and other gains		<u>40,342,134</u>	<u>40,824,551</u>
<b>Expenses</b>			
Employment and related expenses	7	(19,555,935)	(17,776,114)
Rent and utilities		(2,500,714)	(2,288,742)
Other expenses		(7,175,786)	(6,299,996)
Business acquisition and restructuring costs		(944,555)	(515,375)
Employee shares issued and related expenses		-	(247,029)
Initial public offering and other transaction costs		-	(143,692)
Depreciation and amortisation expense	7	(1,249,279)	(1,037,217)
Finance costs	7	(868,595)	(611,208)
Total expenses		<u>(32,294,864)</u>	<u>(28,919,373)</u>
<b>Profit before income tax expense</b>		8,047,270	11,905,178
Income tax expense	8	<u>(899,616)</u>	<u>(1,941,144)</u>
<b>Profit after income tax expense for the year</b>		7,147,654	9,964,034
<b>Other comprehensive income</b>			
<i>Items that may be reclassified subsequently to profit or loss</i>			
Foreign currency translation		1,585	-
Other comprehensive income for the year, net of tax		<u>1,585</u>	<u>-</u>
<b>Total comprehensive income for the year</b>		<u>7,149,239</u>	<u>9,964,034</u>
Profit for the year is attributable to:			
Non-controlling interest		4,711,959	5,581,380
Owners of Kelly Partners Group Holdings Limited		<u>2,435,695</u>	<u>4,382,654</u>
		<u>7,147,654</u>	<u>9,964,034</u>
Total comprehensive income for the year is attributable to:			
Non-controlling interest		4,712,736	5,581,380
Owners of Kelly Partners Group Holdings Limited		<u>2,436,503</u>	<u>4,382,654</u>
		<u>7,149,239</u>	<u>9,964,034</u>
		<b>Cents</b>	<b>Cents</b>
Basic earnings per share	29	5.35	9.63
Diluted earnings per share	29	5.35	9.63

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

	Note	Consolidated 2019 \$	2018 \$
<b>Assets</b>			
<b>Current assets</b>			
Cash and cash equivalents	9	3,955,119	3,410,934
Trade and other receivables	10	6,099,138	6,602,607
Accrued income	11	2,009,017	3,484,037
Other financial assets	12	1,704,255	626,925
Other assets	13	687,972	481,870
<b>Total current assets</b>		<u>14,455,501</u>	<u>14,606,373</u>
<b>Non-current assets</b>			
Financial assets	14	15,481	14,780
Other financial assets	15	3,212,503	2,853,078
Property, plant and equipment	16	3,957,842	2,439,659
Intangible assets	17	27,227,897	23,876,857
Other assets	18	633,005	698,445
<b>Total non-current assets</b>		<u>35,046,728</u>	<u>29,882,819</u>
<b>Total assets</b>		<u>49,502,229</u>	<u>44,489,192</u>
<b>Liabilities</b>			
<b>Current liabilities</b>			
Trade and other payables	19	2,229,838	2,795,950
Contract liabilities		482,572	-
Borrowings	20	5,874,545	4,627,422
Current tax liabilities	8	570,187	97,012
Provisions	21	1,480,562	1,181,645
Contingent consideration	22	-	231,418
Other liabilities	23	193,991	152,721
<b>Total current liabilities</b>		<u>10,831,695</u>	<u>9,086,168</u>
<b>Non-current liabilities</b>			
Borrowings	24	12,753,088	10,139,039
Deferred tax liabilities	8	412,468	827,427
Provisions	25	285,385	270,511
Contingent consideration	26	544,719	-
Other liabilities	27	46,244	46,244
<b>Total non-current liabilities</b>		<u>14,041,904</u>	<u>11,283,221</u>
<b>Total liabilities</b>		<u>24,873,599</u>	<u>20,369,389</u>
<b>Net assets</b>		<u>24,628,630</u>	<u>24,119,803</u>
<b>Equity</b>			
Issued capital	28	14,169,601	14,171,477
Reserve	30	808	-
Retained profits		1,198,882	719,566
Equity attributable to the owners of Kelly Partners Group Holdings Limited		<u>15,369,291</u>	<u>14,891,043</u>
Non-controlling interest		9,259,339	9,228,760
<b>Total equity</b>		<u>24,628,630</u>	<u>24,119,803</u>

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

<b>Consolidated</b>	<b>Issued capital</b> \$	<b>Reserve</b> \$	<b>Retained profits</b> \$	<b>Non-controlling interest</b> \$	<b>Total equity</b> \$
Balance at 1 July 2017	13,988,051	-	(2,298,172)	8,144,162	19,834,041
Profit after income tax expense for the year	-	-	4,382,654	5,581,380	9,964,034
Other comprehensive income for the year, net of tax	-	-	-	-	-
Total comprehensive income for the year	-	-	4,382,654	5,581,380	9,964,034
<i>Transactions with owners in their capacity as owners:</i>					
Shares issued to employees	220,473	-	-	-	220,473
Share issue costs	(37,047)	-	-	-	(37,047)
Distributions to non-controlling interests	-	-	-	(4,496,782)	(4,496,782)
Dividends paid (note 31)	-	-	(1,364,916)	-	(1,364,916)
Balance at 30 June 2018	<u>14,171,477</u>	<u>-</u>	<u>719,566</u>	<u>9,228,760</u>	<u>24,119,803</u>

<b>Consolidated</b>	<b>Issued capital</b> \$	<b>Reserve</b> \$	<b>Retained profits</b> \$	<b>Non-controlling interest</b> \$	<b>Total equity</b> \$
Balance at 1 July 2018	14,171,477	-	719,566	9,228,760	24,119,803
Profit after income tax expense for the year	-	-	2,435,695	4,711,959	7,147,654
Other comprehensive income for the year, net of tax	-	808	-	777	1,585
Total comprehensive income for the year	-	808	2,435,695	4,712,736	7,149,239
<i>Transactions with owners in their capacity as owners:</i>					
Share-buy back	(1,876)	-	-	-	(1,876)
Adjustment to non-controlling interest	-	-	-	65,846	65,846
Distributions to non-controlling interests	-	-	-	(4,748,003)	(4,748,003)
Dividends paid (note 31)	-	-	(1,956,379)	-	(1,956,379)
Balance at 30 June 2019	<u>14,169,601</u>	<u>808</u>	<u>1,198,882</u>	<u>9,259,339</u>	<u>24,628,630</u>

	Note	Consolidated 2019 \$	2018 \$
<b>Cash flows from operating activities</b>			
Receipts from customers		46,594,198	41,277,137
Payments to suppliers and employees		(34,724,287)	(32,670,704)
Finance costs paid		(819,926)	(611,208)
Income taxes paid		(1,076,534)	(1,390,313)
Net cash from operating activities	41	<u>9,973,451</u>	<u>6,604,912</u>
<b>Cash flows from investing activities</b>			
Payment for purchase of business	39	(2,827,771)	-
Payment in respect of contingent consideration	26	(231,418)	-
Payments for property, plant and equipment		(2,223,624)	(390,420)
Proceeds from disposal of property, plant and equipment		167,804	-
Payments for intangibles		(163,702)	(105,290)
Deposits refunded		-	(197,076)
Proceeds from release of deposits		65,440	-
Loans to partners - loans advanced		(2,371,809)	(450,559)
Loans to partners - proceeds from repayments		1,000,900	815,944
Proceeds from disposal of investments		-	10,000
Net cash used in investing activities		<u>(6,584,180)</u>	<u>(317,401)</u>
<b>Cash flows from financing activities</b>			
Proceeds from borrowings		6,506,684	3,695,310
Payments for share buy-backs	28	(1,876)	-
Distributions paid to non-controlling interests		(4,748,003)	(4,496,782)
Dividends paid	31	(1,956,379)	(1,364,916)
Repayment of borrowings		(3,201,279)	(3,831,299)
Share issue transaction costs	28	-	(37,047)
Net cash used in financing activities		<u>(3,400,853)</u>	<u>(6,034,734)</u>
Net (decrease)/increase in cash and cash equivalents		(11,582)	252,777
Cash and cash equivalents at the beginning of the financial year		<u>1,440,262</u>	<u>1,187,485</u>
Cash and cash equivalents at the end of the financial year	9	<u><u>1,428,680</u></u>	<u><u>1,440,262</u></u>

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

## **Note 1. General information**

The financial statements cover Kelly Partners Group Holdings Limited (the 'Company' or 'parent entity') and its controlled entities as a consolidated entity consisting of Kelly Partners Group Holdings Limited and the entities (the 'Group') it controlled at the end of, or during, the year. The financial statements are presented in Australian dollars, which is Kelly Partners Group Holdings Limited and its controlled entities functional and presentation currency.

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

Level 8, 32 Walker Street  
North Sydney  
NSW 2060

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

The financial statements were authorised for issue, in accordance with a resolution of directors, on 20 August 2019. The directors have the power to amend and reissue the financial statements.

## **Note 2. Significant accounting policies**

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

### **New or amended Accounting Standards and Interpretations adopted**

The Group has adopted all of the new or amended Accounting Standards and Interpretations issued by the Australian Accounting Standards Board ('AASB') that are mandatory for the current reporting period.

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

The following Accounting Standards and Interpretations adopted during the year are most relevant to the Group:

#### *AASB 9 Financial Instruments*

The Group has adopted AASB 9 from 1 July 2018. The Group has adopted the modified retrospective approach where comparatives are not restated. The Group has no complex financial instruments and does not apply hedge accounting. The primary impact is in relation to the calculation of impairment losses that impacts the way the Group calculates the bad debts provision, now termed the credit loss allowance.

All recognised financial assets that are within the scope of AASB 9 are required to be subsequently measured at amortised cost or fair value on the basis of the entity's business model for managing the financial assets and the contractual cash flow characteristics of the financial assets. The directors of the Company reviewed and assessed the Group's existing financial assets and liabilities as at 1 July 2018 based on the facts and circumstances that existed at that date and concluded that the initial application of AASB 9 has had no impact on the classification and measurement of the Group's financial assets and liabilities.

In relation to the impairment of financial assets, AASB 9 requires an expected loss model in relation to the determination of impairment of trade receivables including trade receivables and accrued income. The Group has applied the simplified approach to measuring expected credit losses in respect of trade receivables and accrued income balances. Expected credit losses have been determined based on historical credit loss experience and considered future information. Trade receivables and accrued income are written off when there is no reasonable expectation of recovery.

On adoption of the new standard there was no material change to retained earnings or the classification of financial assets and financial liabilities which continue to be measured at amortised cost, or fair value where applicable.

#### *AASB 15 Revenue from Contracts with Customers*

The Group has adopted AASB 15 from 1 July 2018. The standard moves away from the previous focus on identifying whether the seller has transferred to the buyer the significant risks and rewards of ownership. The core principle of the new standard is to recognise revenue to depict the transfer of promised services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those services.

## Note 2. Significant accounting policies (continued)

For each type of contract entered into by Kelly Partners, the Group has identified the contract; identified the performance obligations in the contract; determined the transaction price; allocated the transaction price to performance obligations and recognised the revenue as and when the performance obligations are satisfied. Professional services provided by Kelly Partners are primarily contracted via an engagement letter ("contract") which sets out the engagement, performance obligations, the consideration and the terms of the business.

The standard defines a customer as 'a party that has contracted with an entity to obtain services that are an output of the entity's ordinary activities in exchange for consideration'. Management has undertaken an exercise to assess the Group's contractual arrangements with its customers as part of its implementation of AASB 15.

Performance obligations are identified at contract inception and represent each promise to transfer services whereby the customer can benefit from the service either on its own or with other readily available resources.

The transaction price allocated to the performance obligation is determined at the amount that reflects the consideration to which the entity expects to be entitled in exchange for those services. Consideration promised in a contract may therefore be variable and such variables may be either explicitly or implicitly stated in the contract.

Revenue is only recognised to the extent to which it is considered highly probable that there will be no significant reversal of that revenue. This determination is made having regard to contract terms, the nature of the services provided and past experience with the customer.

The transition provisions of AASB 15 allow an entity to not restate comparatives. However, accrued income and contract liabilities which were previously included within trade and other receivables has been reclassified and disclosed separately.

The application of AASB 15 has not had a significant impact on the financial position and/or the financial performance of the Group. There was no material change to retained earnings arising on adoption of the new standard.

### Basis of preparation

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

#### *Historical cost convention*

The financial statements have been prepared under the historical cost convention except for certain financial assets at fair value.

#### *Critical accounting estimates*

The preparation of the financial statements requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Group's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the financial statements, are disclosed in note 3.

### Parent entity information

In accordance with the Corporations Act 2001, these financial statements present the results of the Group only. Supplementary information about the parent entity is disclosed in note 38.

### Principles of consolidation

The consolidated financial statements incorporate the assets and liabilities of all subsidiaries of Kelly Partners Group Holdings Limited as at 30 June 2019 and the results of all subsidiaries for the year then ended.

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



## Note 2. Significant accounting policies (continued)

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

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

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

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

### Foreign currency translation

The financial statements are presented in Australian dollars, which is Kelly Partners Group Holdings Limited's functional and presentation currency.

#### *Foreign currency transactions*

Foreign currency transactions are translated into Australian dollars using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at financial year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in profit or loss.

#### *Foreign operations*

The assets and liabilities of foreign operations are translated into Australian dollars using the exchange rates at the reporting date. The revenues and expenses of foreign operations are translated into Australian dollars using the average exchange rates, which approximate the rates at the dates of the transactions, for the period. All resulting foreign exchange differences are recognised in other comprehensive income through the foreign currency reserve in equity.

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

### Revenue recognition

The Group recognises revenue as follows:

#### *Revenue from contracts with customers*

Revenue is recognised at an amount that reflects the consideration to which the Group is expected to be entitled in exchange for transferring goods or services to a customer. For each contract with a customer, the Group: identifies the contract with a customer; identifies the performance obligations in the contract; determines the transaction price which takes into account estimates of variable consideration and the time value of money; allocates the transaction price to the separate performance obligations on the basis of the relative stand-alone selling price of each distinct good or service to be delivered; and recognises revenue when or as each performance obligation is satisfied in a manner that depicts the transfer to the customer of the goods or services promised.

Variable consideration within the transaction price, if any, reflects concessions provided to the customer such as discounts and refunds, any potential bonuses receivable from the customer and any other contingent events. Such estimates are determined using either the 'expected value' or 'most likely amount' method. The measurement of variable consideration is subject to a constraining principle whereby revenue will only be recognised to the extent that it is highly probable that a significant reversal in the amount of cumulative revenue recognised will not occur. The measurement constraint continues until the uncertainty associated with the variable consideration is subsequently resolved. Amounts received that are subject to the constraining principle are initially recognised as deferred revenue in the form of a separate refund liability.

## Note 2. Significant accounting policies (continued)

### *Provision of services*

Revenue from a contract to provide services is recognised over time as the services are rendered based on either a fixed price or an hourly rate.

### *Commissions and other income*

Commissions and other income is recognised when it is received or when the right to receive the payment is established.

### **Income tax**

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

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

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

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

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

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

Kelly Partners Group Holdings Limited (the 'head entity') and its wholly-owned Australian subsidiaries have formed an income tax consolidated group under the tax consolidation regime. The head entity and each subsidiary in the tax consolidated group continue to account for their own current and deferred tax amounts. The tax consolidated group has applied the 'separate taxpayer within group' approach in determining the appropriate amount of taxes to allocate to members of the tax consolidated group.

In addition to its own current and deferred tax amounts, the head entity also recognises the current tax liabilities (or assets) and the deferred tax assets arising from unused tax losses and unused tax credits assumed from each subsidiary in the tax consolidated group.

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

### **Current and non-current classification**

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

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

## Note 2. Significant accounting policies (continued)

A liability is classified as current when: it is either 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 12 months after the reporting period; or there is no unconditional right to defer the settlement of the liability for at least 12 months after the reporting period. All other liabilities are classified as non-current.

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

### Cash and cash equivalents

Cash and cash equivalents includes cash on hand, deposits held at call with financial institutions, other short-term, highly liquid investments with original maturities of three months or less that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value. For the statement of cash flows presentation purposes, cash and cash equivalents also includes bank overdrafts, which are shown within borrowings in current liabilities on the statement of financial position.

### Trade and other receivables

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

The Group has applied the simplified approach to measuring expected credit losses, which uses a lifetime expected loss allowance. To measure the expected credit losses, trade receivables have been grouped based on days overdue.

Other receivables are recognised at amortised cost, less any allowance for expected credit losses.

### Accrued income

An accrued income asset arises where the Group has performed by transferring goods or services to a customer prior to the receipt of consideration from the customer or prior to payment becoming due and represents the Group's right to consideration for the transferred good or service.

When a customer pays in advance, the amount received by the Group is recognised as a contract liability until the service has been provided to the customer.

Accrued income of \$3,484,037 previously included on the balance sheet within trade and other receivables at 30 June 2018 has been reclassified separately as Accrued income.

### Investments and other financial assets

Investments and other financial assets are initially measured at fair value. Transaction costs are included as part of the initial measurement, except for financial assets at fair value through profit or loss. Such assets are subsequently measured at either amortised cost or fair value depending on their classification. Classification is determined based on both the business model within which such assets are held and the contractual cash flow characteristics of the financial asset.

Financial assets are derecognised when the rights to receive cash flows have expired or have been transferred and the Group has transferred substantially all the risks and rewards of ownership. When there is no reasonable expectation of recovering part or all of a financial asset, its carrying value is written off.

#### *Financial assets at fair value through profit or loss*

Financial assets not measured at amortised cost or at fair value through other comprehensive income are classified as financial assets at fair value through profit or loss. Typically, such financial assets will be either: (i) held for trading, where they are acquired for the purpose of selling in the short-term with an intention of making a profit, or a derivative; or (ii) designated as such upon initial recognition where permitted. Fair value movements are recognised in profit or loss.

#### *Financial assets at amortised cost*

A financial asset is measured at amortised cost only if both of the following conditions are met: (i) it is held within a business model whose objective is to hold assets in order to collect contractual cash flows; and (ii) the contractual terms of the financial asset represent contractual cash flows that are solely payments of principal and interest.

## Note 2. Significant accounting policies (continued)

### *Impairment of financial assets*

The Group recognises a loss allowance for expected credit losses on financial assets which are either measured at amortised cost or fair value through other comprehensive income. The measurement of the loss allowance depends upon the Group's assessment at the end of each reporting period as to whether the financial instrument's credit risk has increased significantly since initial recognition, based on reasonable and supportable information that is available, without undue cost or effort to obtain.

Where there has not been a significant increase in exposure to credit risk since initial recognition, a 12-month expected credit loss allowance is estimated. This represents a portion of the asset's lifetime expected credit losses that is attributable to a default event that is possible within the next 12 months. Where a financial asset has become credit impaired or where it is determined that credit risk has increased significantly, the loss allowance is based on the asset's lifetime expected credit losses. The amount of expected credit loss recognised is measured on the basis of the probability weighted present value of anticipated cash shortfalls over the life of the instrument discounted at the original effective interest rate.

For financial assets measured at fair value through other comprehensive income, the loss allowance is recognised within other comprehensive income. In all other cases, the loss allowance is recognised in profit or loss.

### **Property, plant and equipment**

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

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

Buildings	Not depreciated
Leasehold improvements	3-10 years
Plant and equipment	3-7 years
Motor vehicles	8 years

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

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

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

### **Leases**

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

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

Finance leases are capitalised. A lease asset and liability are established at the fair value of the leased assets, or if lower, the present value of minimum lease payments. Lease payments are allocated between the principal component of the lease liability and the finance costs, so as to achieve a constant rate of interest on the remaining balance of the liability.

Leased assets acquired under a finance lease are depreciated over the asset's useful life or over the shorter of the asset's useful life and the lease term if there is no reasonable certainty that the Group will obtain ownership at the end of the lease term.

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

## Note 2. Significant accounting policies (continued)

### Intangible assets

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

#### *Goodwill*

Goodwill arises on the acquisition of a business. Goodwill is not amortised. Instead, goodwill is tested annually for impairment, or more frequently if events or changes in circumstances indicate that it might be impaired, and is carried at cost less accumulated impairment losses. Impairment losses on goodwill are taken to profit or loss and are not subsequently reversed.

#### *Brand names and intellectual property*

Brand names and intellectual property have indefinite useful lives and are not amortised.

#### *Customer relationships*

Customer contracts acquired in a business combination are amortised on a straight-line basis over the period of their expected benefit, being their finite life of 3 to 7 years.

#### *Software - Computer software*

Significant costs associated with computer software are deferred and amortised on a straight-line basis over the period of their expected benefit, being their finite life of 1 to 3 years.

### Impairment of non-financial assets

Goodwill and other intangible assets that have an indefinite useful life are not subject to amortisation and are tested annually for impairment, or more frequently if events or changes in circumstances indicate that they might be impaired. Other non-financial assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount.

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

### Trade and other payables

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

### Contract liabilities

Contract liabilities represent the Group's obligation to transfer services to a customer and are recognised when a customer pays consideration, or when the Group recognises a receivable to reflect its unconditional right to consideration (whichever is earlier) before the Group has transferred the services to the customer.

### Borrowings

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

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

## Note 2. Significant accounting policies (continued)

Borrowings are removed from the balance sheet when the obligation specified in the contract is discharged, cancelled or expired. The difference between the carrying amount of a financial liability that has been extinguished or transferred to another party and the consideration paid, including any non-cash assets transferred or liabilities assumed, is recognised in profit or loss as other income or finance costs.

### Finance costs

All finance costs are expensed in the period in which they are incurred.

### Employee benefits

#### *Short-term employee benefits*

Liabilities for wages and salaries, including non-monetary benefits, annual leave and long service leave expected to be settled wholly within 12 months of the reporting date are measured at the amounts expected to be paid when the liabilities are settled.

#### *Other long-term employee benefits*

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

#### *Equity-settled compensation*

Equity-settled compensation benefits are provided to employees.

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

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

### Fair value measurement

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

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

### Issued capital

Ordinary shares are classified as equity.

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

### Share buy-back

Where any group company purchases the Company's equity instruments, for example as the result of a share buy-back or a share-based payment plan, the consideration paid, including any directly attributable incremental costs (net of income taxes) is deducted from equity attributable to the owners of Kelly Partners Group Holdings Limited as treasury shares until the shares are cancelled or reissued. Where such ordinary shares are subsequently reissued, any consideration received, net of any directly attributable incremental transaction costs and the related income tax effects, is included in equity attributable to the owners of Kelly Partners Group Holdings Limited.



## Note 2. Significant accounting policies (continued)

### Dividends

Dividends are recognised when declared during the financial year and no longer at the discretion of the Company.

### Business combinations

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

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

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

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

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

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

Business combinations are initially accounted for on a provisional basis. The acquirer retrospectively adjusts the provisional amounts recognised and also recognises additional assets or liabilities during the measurement period, based on new information obtained about the facts and circumstances that existed at the acquisition-date. The measurement period ends on either the earlier of (i) 12 months from the date of the acquisition or (ii) when the acquirer receives all the information possible to determine fair value.

### Earnings per share

#### *Basic earnings per share*

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

#### *Diluted earnings per share*

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

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

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

## Note 2. Significant accounting policies (continued)

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

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

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

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

Australian Accounting Standards and Interpretations that have recently been issued or amended but are not yet mandatory, have not been early adopted by the Group for the annual reporting period ended 30 June 2019. The Group's assessment of the impact of these new or amended Accounting Standards and Interpretations, most relevant to the Group, are set out below.

#### AASB 16 Leases

This standard is currently applicable to annual reporting periods beginning on or after 1 January 2019. AASB 16 replaces the current AASB 117 'Leases' standard and sets out a comprehensive model for identifying lease arrangement and the subsequent measurement. A contract contains a lease if it conveys the right to control the use of an identified asset for a period of time. The majority of leases from the lessee perspective within the scope AASB 16 will require the recognition of a 'right of use' asset and a related lease liability, being present value of future lease payments. This will result in an increase in the recognised assets and liabilities in the Statement of Financial Position as well as a change in expense recognition, with interest and depreciation replacing lease expense, with the exception of leases of low value assets and leases with a term of 12 months or less.

The Group expects to adopt the standard from 1 July 2019 and the primary impact from adoption will be the treatment of premises across the Group. The adoption of the standard will increase net current assets and lease liabilities due to the recognition of the lease liability and right of use asset; expense relating to minimum lease payments will reduce and there will be an increase in interest expense.

A preliminary assessment has been performed and an assessment of the quantitative impact on the adoption of the standard is currently being undertaken.

#### IASB revised Conceptual Framework for Financial Reporting

A revised Conceptual Framework for Financial Reporting has been issued by the AASB and is applicable for annual reporting periods beginning on or after 1 January 2020. This release impacts for-profit private sector entities that have public accountability that are required by legislation to comply with Australian Accounting Standards and other for-profit entities that voluntarily elect to apply the Conceptual Framework. Phase 2 of the framework is yet to be released which will impact for-profit private sector entities. The application of new definition and recognition criteria as well as new guidance on measurement will result in amendments to several accounting standards. The issue of AASB 2019-1 Amendments to Australian Accounting Standards – References to the Conceptual Framework, also applicable from 1 January 2020, includes such amendments. Where the Group has relied on the conceptual framework in determining its accounting policies for transactions, events or conditions that are not otherwise dealt with under Australian Accounting Standards, the Group may need to revisit such policies.

## Note 3. Critical accounting judgements, estimates and assumptions

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



### Note 3. Critical accounting judgements, estimates and assumptions (continued)

#### *Allowance for expected credit losses*

The allowance for expected credit losses assessment requires a degree of estimation and judgement. It is based on the lifetime expected credit loss, grouped based on shared credit risk characteristics and on days overdue, and makes assumptions to allocate an overall expected credit loss rate for each group. These assumptions include past default experience of the debtor profile and an assessment of the historical loss rates.

#### *Accrued income*

An accrued income asset arises where the Group has performed by transferring goods or services to a customer prior to the receipt of consideration from the customer and represents the Group's right to consideration for the transferred good or service. While assessing the accrued income balance, a degree of estimation needs to be applied on its recoverability and the assessment is primarily based on the Operating Business Owner's professional judgement on the proportionate completion of the performance obligations in comparison to the transaction price stated in the contract .

#### *Goodwill and other indefinite life intangible assets*

The Group tests annually, or more frequently if events or changes in circumstances indicate impairment, whether goodwill and other indefinite life intangible assets have suffered any impairment, in accordance with the accounting policy stated in note 2. The recoverable amounts of cash-generating units have been determined based on value-in-use calculations. These calculations require the use of assumptions, including estimated discount rates based on the current cost of capital and growth rates of the estimated future cash flows.

#### *Business combinations*

As discussed in note 2, business combinations are initially accounted for on a provisional basis. The fair value of assets acquired, liabilities and contingent liabilities assumed are initially estimated by the Group taking into consideration all available information at the reporting date. Fair value adjustments on the finalisation of the business combination accounting is retrospective, where applicable, to the period the combination occurred and may have an impact on the assets and liabilities, depreciation and amortisation reported.

### Note 4. Operating segments

The Group has only one reportable segment. The Group primarily provides accounting and tax services to small and medium enterprises predominantly in Australia. This assessment is based on the internal reports that are reviewed by the Board of Directors (identified as the Chief Operating Decision Maker) in assessing performance and in determining allocation of resources.

The operating segment information is the same information as provided throughout the financial statements and are therefore not duplicated.

No revenue from a single customer exceeds 10% of group revenue.

### Note 5. Revenue

	<b>Consolidated</b>	
	<b>2019</b>	<b>2018</b>
	<b>\$</b>	<b>\$</b>
Provision of services	<u>39,975,031</u>	<u>39,468,666</u>

#### *Timing of revenue recognition*

The revenue from provision of services from contracts with customers is recognised over time.

**Note 6. Other gains**

	<b>Consolidated 2019 \$</b>	<b>2018 \$</b>
Change in fair value of contingent consideration	220,463	1,201,200
Commissions	110,667	113,688
Other income	35,973	40,997
	<u>367,103</u>	<u>1,355,885</u>

**Note 7. Expenses**

	<b>Consolidated 2019 \$</b>	<b>2018 \$</b>
Profit before income tax includes the following specific expenses:		
<i>Depreciation and amortisation</i>		
Depreciation	510,666	385,738
Amortisation	738,613	651,479
Total depreciation and amortisation	<u>1,249,279</u>	<u>1,037,217</u>
<i>Finance costs</i>		
Interest on bank overdrafts and loans	<u>868,595</u>	<u>611,208</u>
<i>Net loss on disposal</i>		
Net loss on disposal of property, plant and equipment	<u>26,971</u>	<u>60,753</u>
<i>Rental expense relating to operating leases</i>		
Minimum lease payments	<u>2,092,480</u>	<u>2,089,822</u>
<i>Employment and related expenses</i>		
Salaries and wages	17,314,745	15,654,722
Superannuation	1,330,840	1,167,849
Other on costs	846,612	825,937
Employee leave	63,738	127,606
Total employment and related expenses	<u>19,555,935</u>	<u>17,776,114</u>

Note 8. Income tax

	Consolidated 2019 \$	2018 \$
<i>Income tax expense</i>		
Current tax	1,497,755	1,480,699
Origination and reversal of temporary differences	(634,585)	523,407
Adjustment recognised for prior periods	36,446	(62,962)
	<u>899,616</u>	<u>1,941,144</u>
Aggregate income tax expense		
<i>Numerical reconciliation of income tax expense and tax at the statutory rate</i>		
Profit before income tax expense	8,047,270	11,905,178
Tax at the statutory tax rate of 27.5% (2018: 30%)	2,212,999	3,571,553
Tax effect amounts which are not deductible/(taxable) in calculating taxable income:		
Other non-allowable items	(58,207)	(219,888)
	2,154,792	3,351,665
Adjustment recognised for prior periods	36,446	(62,962)
Distributions to non-controlling interests	(1,196,562)	(1,347,559)
Change in tax rate to 27.5%	(95,060)	-
	<u>899,616</u>	<u>1,941,144</u>
Income tax expense		

The reduction in tax rate from 30% to 27.5% is due to the Company being considered a base rate entity for the 2019 financial year as the Group's aggregated turnover is less than \$50 million.

As the majority of operating businesses are structured as partnerships, the income tax expense attributable to the minority interests in these partnerships are not included in the consolidated accounts. This is with the exception of subsidiaries that are in a corporate structure where the consolidated income tax expense is included in the profit attributable to minority interests in these subsidiaries. The remaining balance of the consolidated income tax expense is included in the profit attributable to the shareholders in the parent entity.

	Consolidated 2019 \$	2018 \$
<i>Net deferred tax liability</i>		
Amounts recognised in profit or loss:		
Accrued expenses	(431,982)	(401,179)
Income assessable on receipt	374,723	954,713
Differences between accounting and tax depreciation	67,388	14,587
Customer relationship intangibles	754,646	782,918
Expenses deductible over five years	(352,307)	(523,612)
	<u>412,468</u>	<u>827,427</u>
Net deferred tax liability		
Movements:		
Opening balance	827,427	306,414
Charged/(credited) to profit or loss	(634,585)	523,407
Additions through business combinations (note 39)	235,134	-
Other movements	(15,508)	(2,394)
	<u>412,468</u>	<u>827,427</u>
Closing balance		

**Note 8. Income tax (continued)**

	Consolidated 2019 \$	2018 \$
<i>Provision for income tax</i>		
Provision for income tax	<u>570,187</u>	<u>97,012</u>

**Note 9. Current assets - cash and cash equivalents**

	Consolidated 2019 \$	2018 \$
Cash at bank and in hand	<u>3,955,119</u>	<u>3,410,934</u>

*Reconciliation to cash and cash equivalents at the end of the financial year*

The above figures are reconciled to cash and cash equivalents at the end of the financial year as shown in the statement of cash flows as follows:

Cash at bank and in hand	3,955,119	3,410,934
Bank overdrafts (note 20)	<u>(2,526,439)</u>	<u>(1,970,672)</u>
Balance as per statement of cash flows	<u>1,428,680</u>	<u>1,440,262</u>

**Note 10. Current assets - trade and other receivables**

	Consolidated 2019 \$	2018 \$
Trade receivables	6,424,827	6,858,723
Less: Allowance for expected credit losses	<u>(339,956)</u>	<u>(261,958)</u>
	6,084,871	6,596,765
Other receivables	<u>14,267</u>	<u>5,842</u>
	<u>6,099,138</u>	<u>6,602,607</u>

*Allowance for expected credit losses*

The Group has recognised a loss of \$131,326 in profit or loss in respect of the credit losses and a movement of \$79,282 in respect of expected credit losses during the year ended 30 June 2019.

The Group applies the AASB 9 simplified approach to measuring expected credit losses which uses a lifetime expected loss allowance for all trade receivables.

To measure the expected credit losses, trade receivables have been grouped based on shared credit risk characteristics and the days past due.

The Group measures the loss allowance for trade receivables at an amount equal to lifetime expected credit losses. The expected credit losses on trade receivables are estimated using a provision matrix by reference to past default experience of the debtor profile and an assessment of the loss rates based on the payment profiles of sales over a period of 18 months before 30 June 2019. The historical loss rates are adjusted to reflect current and forward looking information affecting the ability of the customers to settle the receivables.

The Group writes off a trade receivable when there is information indicating that the debtor is in severe financial difficulty and there is no realistic prospect of recovery, e.g. when the debtor has been placed under liquidation or has entered into bankruptcy proceedings.

**Note 10. Current assets - trade and other receivables (continued)**

<b>Consolidated</b>	<b>Expected credit loss rate 2019 %</b>	<b>Carrying amount 2019 \$</b>	<b>Allowance for expected credit losses 2019 \$</b>
0 to 3 months overdue	1.17%	4,945,247	58,037
3 to 6 months overdue	5.59%	939,921	52,552
Over 6 months overdue	42.50%	539,659	229,367
		<u>6,424,827</u>	<u>339,956</u>

Movements in the allowance for expected credit losses are as follows:

	<b>Consolidated 2019 \$</b>	<b>2018 \$</b>
Opening balance	261,958	245,814
Additional provisions recognised	157,280	245,101
Receivables written off during the year as uncollectable	(79,282)	(52,812)
Unused amounts reversed	-	(176,145)
Closing balance	<u>339,956</u>	<u>261,958</u>

**Note 11. Current assets - accrued income**

	<b>Consolidated 2019 \$</b>	<b>2018 \$</b>
Accrued income	<u>2,009,017</u>	<u>3,484,037</u>

Contract liabilities (previously net off against accrued income in the prior period) has been reclassified to current liabilities in the current period.

**Note 12. Current assets - other financial assets**

	<b>Consolidated 2019 \$</b>	<b>2018 \$</b>
Loans to partners	<u>1,704,255</u>	<u>626,925</u>

**Note 13. Current assets - other assets**

	<b>Consolidated 2019 \$</b>	<b>2018 \$</b>
Prepayments	<u>687,972</u>	<u>481,870</u>

**Note 14. Non-current assets - financial assets**

	<b>Consolidated</b>	
	<b>2019</b>	<b>2018</b>
	\$	\$
Shares in listed entities - at fair value	<u>15,481</u>	<u>14,780</u>

**Note 15. Non-current assets - other financial assets**

	<b>Consolidated</b>	
	<b>2019</b>	<b>2018</b>
	\$	\$
Loans to partners	<u>3,212,503</u>	<u>2,853,078</u>

Loans to partners primarily represents amounts of money which have first been borrowed on the balance sheet of various controlled entities, and then secondly on lent to partners to assist them with their purchase of equity into that entity. This results in the controlled entity having both a financial liability to the financier, and a corresponding financial asset to the partner. These loans are typically repaid over a four to eight year period. As the loans are repaid by the partners and the financial asset amortises, there is a corresponding amortisation in the financial liability. Repayment of these loans is typically from partner equity distributions.

**Note 16. Non-current assets - property, plant and equipment**

	<b>Consolidated</b>	
	<b>2019</b>	<b>2018</b>
	\$	\$
Buildings - at cost	<u>625,825</u>	<u>625,825</u>
Leasehold improvements - at cost	3,127,492	1,968,640
Less: Accumulated depreciation	<u>(960,322)</u>	<u>(1,217,403)</u>
	<u>2,167,170</u>	<u>751,237</u>
Plant and equipment - at cost	1,879,397	2,044,946
Less: Accumulated depreciation	<u>(1,074,484)</u>	<u>(1,418,885)</u>
	<u>804,913</u>	<u>626,061</u>
Motor vehicles - at cost	581,842	664,032
Less: Accumulated depreciation	<u>(221,908)</u>	<u>(227,496)</u>
	<u>359,934</u>	<u>436,536</u>
	<u><u>3,957,842</u></u>	<u><u>2,439,659</u></u>

**Note 16. Non-current assets - property, plant and equipment (continued)**

*Reconciliations*

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

<b>Consolidated</b>	<b>Buildings</b> \$	<b>Leasehold improve- ments</b> \$	<b>Plant and equipment</b> \$	<b>Motor vehicles</b> \$	<b>Total</b> \$
Balance at 1 July 2017	571,396	708,640	685,157	530,537	2,495,730
Additions	54,429	88,582	203,975	43,434	390,420
Disposals - written down value	-	-	(22,483)	(38,270)	(60,753)
Depreciation expense	-	(45,985)	(240,588)	(99,165)	(385,738)
Balance at 30 June 2018	625,825	751,237	626,061	436,536	2,439,659
Additions	-	1,646,533	409,486	167,605	2,223,624
Disposals - written down value	-	(5,893)	(10,072)	(178,810)	(194,775)
Depreciation expense	-	(224,707)	(220,562)	(65,397)	(510,666)
Balance at 30 June 2019	<u>625,825</u>	<u>2,167,170</u>	<u>804,913</u>	<u>359,934</u>	<u>3,957,842</u>

**Note 17. Non-current assets - intangible assets**

	<b>Consolidated</b> <b>2019</b> \$	<b>2018</b> \$
Goodwill - at cost	20,211,955	17,847,638
Brand names and intellectual property - at cost	3,300,000	3,300,000
Customer relationships - at cost	7,605,813	6,008,429
Less: Accumulated amortisation	(4,053,672)	(3,356,471)
	<u>3,552,141</u>	<u>2,651,958</u>
Computer software - at cost	218,771	93,904
Less: Accumulated amortisation	(54,970)	(16,643)
	<u>163,801</u>	<u>77,261</u>
	<u>27,227,897</u>	<u>23,876,857</u>

**Note 17. Non-current assets - intangible assets (continued)**

*Reconciliations*

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

Consolidated	Goodwill \$	Brand names and intellectual property \$	Customer relationships \$	Computer Software \$	Total \$
Balance at 1 July 2017	17,847,638	3,300,000	3,240,055	35,353	24,423,046
Additions	-	-	50,710	54,580	105,290
Amortisation expense	-	-	(638,807)	(12,672)	(651,479)
Balance at 30 June 2018	17,847,638	3,300,000	2,651,958	77,261	23,876,857
Additions	-	-	35,750	130,249	165,999
Additions through business combinations (note 39)	2,364,317	-	1,561,634	-	3,925,951
Disposals	-	-	-	(2,297)	(2,297)
Amortisation expense	-	-	(697,201)	(41,412)	(738,613)
Balance at 30 June 2019	<u>20,211,955</u>	<u>3,300,000</u>	<u>3,552,141</u>	<u>163,801</u>	<u>27,227,897</u>

Brand names and intellectual property have indefinite useful lives and are not amortised.

**Impairment testing**

For the purpose of impairment testing, goodwill and other indefinite life intangibles are allocated to cash-generating units ('CGU') which are based on the Group's operating divisions. The aggregate carrying amount of goodwill allocated to each CGU is:

	Consolidated	
	2019 \$	2018 \$
Kelly Partners (Sydney) Pty Ltd	3,538,147	3,538,147
Kelly Partners South West Sydney Partnership	5,246,636	5,001,779
Kelly Partners Wollongong Partnership	3,391,692	3,391,692
Other partnerships	8,035,480	5,916,020
Total	<u>20,211,955</u>	<u>17,847,638</u>

The carrying value of indefinite life intangibles is \$3,300,000 (2018: \$3,300,000).

The recoverable amount of each cash-generating unit above is determined based on value in use calculations. These calculations use cashflow projections over a five year period, based on financial budgets approved by management. These budgets use historical growth rates to project revenue. Costs are calculated taking into account historical gross margins as well as estimated inflation rates over the period which are consistent with inflation rates applicable to the locations in which the CGU operates. With regard to the assessment of the CGU's, management believes that no reasonably possible change in any of the key assumptions used would cause the carrying value of the unit to materially exceed its recoverable amount.



**Note 17. Non-current assets - intangible assets (continued)**

The following assumptions were used in the calculations:

	<b>Consolidated 2019 %</b>	<b>2018 %</b>
Terminal growth rate	2.5%	2.5%
Post tax discount rate	16.5%	16.5%

**Note 18. Non-current assets - other assets**

	<b>Consolidated 2019 \$</b>	<b>2018 \$</b>
Deposits	<u>633,005</u>	<u>698,445</u>

Deposits primarily comprise of amounts used as security for bank guarantees. Refer to note 35 for further information on guarantees.

**Note 19. Current liabilities - trade and other payables**

	<b>Consolidated 2019 \$</b>	<b>2018 \$</b>
Trade payables	352,791	389,572
GST payable	838,331	857,393
Sundry payables and accrued expenses	<u>1,038,716</u>	<u>1,548,985</u>
	<u>2,229,838</u>	<u>2,795,950</u>

Refer to note 32 for further information on financial instruments.

**Note 20. Current liabilities - borrowings**

	<b>Consolidated 2019 \$</b>	<b>2018 \$</b>
Bank overdrafts	2,526,439	1,970,672
Bank loans	<u>3,348,106</u>	<u>2,656,750</u>
	<u>5,874,545</u>	<u>4,627,422</u>

Refer to note 32 for further information on financial instruments, including borrowings

**Note 21. Current liabilities - provisions**

	<b>Consolidated 2019 \$</b>	<b>2018 \$</b>
Employee entitlements	<u>1,480,562</u>	<u>1,181,645</u>

**Note 22. Current liabilities - contingent consideration**

	<b>Consolidated</b>	<b>Consolidated</b>
	<b>2019</b>	<b>2018</b>
	<b>\$</b>	<b>\$</b>
Contingent consideration	-	231,418

Contingent consideration relates to the fair value of the contingent component of the purchase price in relation to the acquisitions.

The contingent consideration liability in the prior period related to acquisition of Kelly Partners Southern Highlands which was paid in August 2018.

Refer to note 26 for movement in contingent consideration.

**Note 23. Current liabilities - other liabilities**

	<b>Consolidated</b>	<b>Consolidated</b>
	<b>2019</b>	<b>2018</b>
	<b>\$</b>	<b>\$</b>
Deferred rent	193,991	152,721

**Note 24. Non-current liabilities - borrowings**

	<b>Consolidated</b>	<b>Consolidated</b>
	<b>2019</b>	<b>2018</b>
	<b>\$</b>	<b>\$</b>
Bank loans	12,753,088	10,139,039

Refer to note 32 for further information on financial instruments.

*Total secured liabilities*

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

	<b>Consolidated</b>	<b>Consolidated</b>
	<b>2019</b>	<b>2018</b>
	<b>\$</b>	<b>\$</b>
Bank overdrafts	2,526,439	1,970,672
Bank loans	16,101,194	12,795,789
	<u>18,627,633</u>	<u>14,766,461</u>

*Controlled entities' facilities*

The Group has banking facilities in place with Westpac for all of its operating businesses, with the loans of each operating businesses being non-recourse to the cashflows and assets of the parent entity, except for the two subsidiaries that had entered in to the new facility structure. The facilities consist of overdraft facilities, term loans and bank guarantees. Typically each operating business' debt facilities are granted security by that entity as well as having personal guarantees from the operating business owners.

During the year, the Group commenced restructuring its debt facilities with Westpac. As at 30 June 2019, two subsidiaries had entered into the new facility structure. The revised facilities will offer the Group consistent and improved terms and conditions, consistent and reduced reporting and undertaking requirements, consistent risk margins and a consistent security structure across its subsidiaries. Each subsidiaries debt facilities will be granted security by that entity, the corporate partners of that entity, limited personal guarantees of the operating business owners, and a guarantee provided by the parent over all existing and future assets and undertakings.

**Note 24. Non-current liabilities - borrowings (continued)**

Post balance date, all but one of the controlled entities with debt facilities, have entered into the new facility structure. The final outstanding entity is expected to enter into the new arranged facilities in the first quarter of FY20.

Subsidiaries also have bilateral arrangements in place with Westpac and other financiers for other facilities including credit cards, equipment finance, and bank guarantees. These facilities and their securities are permitted under the Westpac arrangements.

*Parent entity facilities*

In May 19, the parent increased its existing facilities with the addition of a \$2,000,000 revolving line of term credit. The debt facilities are granted security over the parent entity, as well as the guarantor group which comprises Kelly Partners Group Holdings Limited and of each of its wholly owned subsidiaries. The guarantor group must comprise at least 95% of the total consolidated assets and 95% of the total consolidated EBITDA of the Group, and each of its wholly owned subsidiaries. The guarantor group does not include the local owner-driven operating partnerships, as these controlled entities are not wholly owned.

The parent entity also has bilateral arrangements in place with Westpac and other financiers for other facilities including credit cards, equipment finance, and bank guarantees. These facilities and their securities are permitted under the Westpac arrangements.

*Covenants*

The Group's financier have financial covenants in place, which may act to limit the total indebtedness of the Group under certain circumstances, such as if there were a significant drop in earnings. As at balance date, the Group is in compliance with its financial covenants.

*Financing arrangements*

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

	<b>Consolidated</b>	
	<b>2019</b>	<b>2018</b>
	\$	\$
Total facilities		
Bank overdrafts	4,224,506	2,552,000
Bank loans	17,759,989	14,127,364
	<u>21,984,495</u>	<u>16,679,364</u>
Used at the reporting date		
Bank overdrafts	2,526,439	1,970,672
Bank loans	16,101,194	12,795,789
	<u>18,627,633</u>	<u>14,766,461</u>
Unused at the reporting date		
Bank overdrafts	1,698,067	581,328
Bank loans	1,658,795	1,331,575
	<u>3,356,862</u>	<u>1,912,903</u>

**Note 25. Non-current liabilities - provisions**

	<b>Consolidated</b>	
	<b>2019</b>	<b>2018</b>
	\$	\$
Employee entitlements	<u>285,385</u>	<u>270,511</u>

**Note 26. Non-current liabilities - contingent consideration**

	Consolidated 2019 \$	2018 \$
Contingent consideration	544,719	-

A reconciliation of the movement in contingent consideration (current and non-current) for the financial year is set out below:

	Consolidated 2019 \$	2018 \$
Opening balance	231,418	1,432,618
Recognition on acquisition (note 39)	716,513	-
Change in fair value of contingent consideration	(220,463)	(1,201,200)
Settled in cash	(231,418)	-
Unwinding of interest over contingent period	48,669	-
	<u>544,719</u>	<u>231,418</u>

Non-current contingent consideration relates to the fair value of the contingent component of the purchase price in relation to the acquisitions in the current period.

**Note 27. Non-current liabilities - other liabilities**

	Consolidated 2019 \$	2018 \$
Deposits held	46,244	46,244

**Note 28. Equity - issued capital**

	2019 Shares	Consolidated 2018 Shares	2019 \$	2018 \$
Ordinary shares - fully paid	45,495,000	45,497,181	14,169,601	14,171,477

*Movements in ordinary share capital*

Details	Date	Shares	Issue price	\$
Balance	1 July 2017	45,344,181		13,988,051
Shares issued to employees	3 July 2017	153,000	\$1.441	220,473
Transaction costs arising on share issue, net of tax		-	-	(37,047)
Balance	30 June 2018	45,497,181		14,171,477
Share buy-back	14 May 2019	(2,181)	\$0.860	(1,876)
Balance	30 June 2019	<u>45,495,000</u>		<u>14,169,601</u>

*Ordinary shares*

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

## Note 28. Equity - issued capital (continued)

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

### Share buy-back

On 17 April 2019, the Company announced a share buy-back of up to 10% of the minimum number of Company's shares outstanding in the last 12 months (being a buy-back of up to 4,549,718 shares at 17 April 2019). During the financial year ended 30 June 2019, the Company purchased and cancelled 2,181 shares. At 30 June 2019, 4,547,537 shares are authorised for on-market buy-back.

### Capital risk management

Management controls the capital of the Group in order to maintain an acceptable debt to equity ratio, provide the shareholders and partners with adequate returns and ensure that the Group can fund its operations and continue as a going concern. The Group's debt and capital includes ordinary share capital and financial liabilities.

There are no externally imposed capital requirements.

Management effectively manages the Group's capital by assessing the Group's financial risks and adjusting its capital structure in response to changes in these risks and the market. These responses include the management of debt levels, distributions to shareholders and partners and share issues.

There have been no changes to the strategy adopted by management to manage the capital of the Group since the prior year.

## Note 29. Earnings per share

	<b>Consolidated</b>	<b>Consolidated</b>
	<b>2019</b>	<b>2018</b>
	<b>\$</b>	<b>\$</b>
Profit after income tax	7,147,654	9,964,034
Non-controlling interest	<u>(4,711,959)</u>	<u>(5,581,380)</u>
Profit after income tax attributable to the owners of Kelly Partners Group Holdings Limited	<u>2,435,695</u>	<u>4,382,654</u>
	<b>Number</b>	<b>Number</b>
Weighted average number of ordinary shares used in calculating basic earnings per share	<u>45,496,894</u>	<u>45,495,923</u>
Weighted average number of ordinary shares used in calculating diluted earnings per share	<u>45,496,894</u>	<u>45,495,923</u>
	<b>Cents</b>	<b>Cents</b>
Basic earnings per share	5.35	9.63
Diluted earnings per share	5.35	9.63

## Note 30. Equity - reserve

	<b>Consolidated</b>	<b>Consolidated</b>
	<b>2019</b>	<b>2018</b>
	<b>\$</b>	<b>\$</b>
Foreign currency reserve	<u>808</u>	<u>-</u>

### Foreign currency reserve

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

**Note 30. Equity - reserve (continued)**

*Movements in reserve*

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

<b>Consolidated</b>	<b>Foreign currency \$</b>
Balance at 1 July 2017	-
Balance at 30 June 2018	-
Foreign currency translation	1,585
Less: share of non-controlling interest	(777)
Balance at 30 June 2019	<u>808</u>

**Note 31. Equity - dividends**

*Dividends*

Dividends paid during the financial year were as follows:

	<b>Consolidated</b>	
	<b>2019</b>	<b>2018</b>
	<b>\$</b>	<b>\$</b>
For the year ended 30 June 2018:		
First interim dividend of \$0.01 per ordinary share, paid on 16 Nov 2017	-	454,972
Second interim dividend of \$0.01 per ordinary share, paid on 16 Feb 2018	-	454,972
Third interim dividend of \$0.01 per ordinary share, paid on 16 May 2018	-	454,972
Final dividend of \$0.01 per ordinary share, paid on 12 Jul 2018	454,972	-
For the year ended 30 June 2019:		
First interim dividend of \$0.011 per ordinary share, paid on 30 Oct 2018	500,469	-
Second interim dividend of \$0.011 per ordinary share, paid on 31 Dec 2018	500,469	-
Third interim dividend of \$0.011 per ordinary share, paid on 29 Mar 2019	500,469	-
	<u>1,956,379</u>	<u>1,364,916</u>

On 1 July 2019, the Company paid the final dividend for the year ended 30 June 2019 of \$0.011 per ordinary share. This dividend equates to a distribution of \$500,445, based on the number of ordinary shares on issue as at 30 June 2019. The financial effect of dividends declared after the reporting date is not reflected in the 30 June 2019 financial statements and will be recognised in subsequent financial reports.

*Franking credits*

	<b>Consolidated</b>	
	<b>2019</b>	<b>2018</b>
	<b>\$</b>	<b>\$</b>
Franking credits available for subsequent financial years	<u>1,678,058</u>	<u>1,464,371</u>

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

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

## Note 32. Financial instruments

### Financial risk management objectives

The Group is exposed to a variety of financial risks through its use of financial instruments: market risk (including interest rate risk and price risk), credit risk and liquidity risk.

The Group's overall risk management plan seeks to minimise potential adverse effects due to the unpredictability of financial markets.

The Group does not use derivative financial instruments or speculate in financial assets.

Risk management is carried out by senior management under policies approved by the Board of Directors ('the Board'). The policies include identification and analysis of the risk exposure of the Group and appropriate procedures, controls and risk limits. Management identifies and evaluates financial risks within the Group's businesses and reports to the Board on a regular basis.

The Group's financial instruments consist mainly of deposits with banks, accounts receivable and payable, bank loans and overdrafts, loans to and from subsidiaries, and leases.

### Market risk

#### Price risk

The Group is not exposed to any significant price risk.

#### Interest rate risk

The Group is exposed to interest rate risk as funds are borrowed at floating and fixed rates. Borrowings issued at fixed rates expose the Group to fair value interest rate risk.

The Group's policy is to minimise interest rate cash flow risk exposures on long-term financing. At the reporting date, the Group is exposed to changes in market interest rates through its bank borrowings, which are subject to variable interest rates.

The following table illustrates the sensitivity on the net result for the year and equity to a reasonably possible change in interest rates of +1% and -1% (2018: +1% and -1%), with effect from the beginning of the year. These changes are considered to be reasonably possible based on observation of current market conditions.

The calculations are based on the financial instruments held at each reporting date. All other variables are held constant.

	Weighted average interest rate %	2019		Weighted average interest rate %	2018	
		+1% \$	-1% \$		+1% \$	-1% \$
<b>Borrowings</b>						
Bank overdrafts	5.07%	(25,264)	25,264	5.02%	(19,980)	19,980
Bank loans	4.73%	(161,012)	161,012	5.24%	(128,637)	128,637

### Credit risk

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

The Group has adopted a lifetime expected loss allowance in estimating expected credit losses to trade receivables through the use of a provisions matrix using fixed rates of credit loss provisioning. These provisions are considered representative across all customers of the Group based on recent sales experience, historical collection rates and forward-looking information that is available.



**Note 32. Financial instruments (continued)**

Generally, trade receivables are written off when there is no reasonable expectation of recovery. Indicators of this include the failure of a debtor to engage in a repayment plan, no active enforcement activity and a failure to make contractual payments for a period greater than 1 year.

**Liquidity risk**

Liquidity risk arises from the Group's management of working capital and the finance charges and principal repayments on its debt instruments. It is the risk that the Group will encounter difficulty in meeting its financial obligations as they fall due.

The Group's policy is to ensure that it will always have sufficient cash to allow it to meet its liabilities when they become due. The Group maintains cash to meet its liquidity requirements for up to a 30-day period.

The Group manages its liquidity needs by carefully monitoring scheduled debt servicing payments for long-term financial liabilities as well as cash-outflows due in day-to-day business.

Liquidity needs are monitored in various time bands, on a day-to-day and week-by-week basis, as well as on the basis of a rolling 30-day projection. Long-term liquidity needs for a 180-day and a 360-day periods are identified monthly.

At the reporting date, these reports indicate that the Group expected to have sufficient liquid resources to meet its obligations under all reasonably expected circumstances.

The Group's liabilities have contractual maturities which are summarised below:

<b>Consolidated - 2019</b>	<b>Weighted average interest rate %</b>	<b>1 year or less \$</b>	<b>Between 1 and 2 years \$</b>	<b>Between 2 and 5 years \$</b>	<b>Over 5 years \$</b>	<b>Remaining contractual maturities \$</b>
<b>Non-derivatives</b>						
<i>Non-interest bearing</i>						
Trade payables	-	352,791	-	-	-	352,791
Other payables	-	1,877,047	-	-	-	1,877,047
Contract liabilities	-	482,572	-	-	-	482,572
Contingent consideration	-	-	544,719	-	-	544,719
<i>Interest-bearing - fixed rate</i>						
Bank overdraft	5.07%	2,526,439	-	-	-	2,526,439
Bank loans*	4.73%	3,348,086	6,295,328	6,457,780	-	16,101,194
<b>Total non-derivatives</b>		<b>8,586,935</b>	<b>6,840,047</b>	<b>6,457,780</b>	<b>-</b>	<b>21,884,762</b>

\* As at 30 June 2019, bank loans of \$3,348,086 represents the current portion of long term debt which is being repaid under scheduled amortisation repayments, and is not expected to be refinanced or face refinance risk.

<b>Consolidated - 2018</b>	<b>Weighted average interest rate %</b>	<b>1 year or less \$</b>	<b>Between 1 and 2 years \$</b>	<b>Between 2 and 5 years \$</b>	<b>Over 5 years \$</b>	<b>Remaining contractual maturities \$</b>
<b>Non-derivatives</b>						
<i>Non-interest bearing</i>						
Trade payables	-	389,572	-	-	-	389,572
Other payables	-	2,406,378	-	-	-	2,406,378
Contingent consideration	-	231,418	-	-	-	231,418
<i>Interest-bearing</i>						
Bank overdrafts	5.02%	1,970,672	-	-	-	1,970,672
Bank loans	5.24%	2,656,750	3,261,459	6,144,861	732,719	12,795,789
<b>Total non-derivatives</b>		<b>7,654,790</b>	<b>3,261,459</b>	<b>6,144,861</b>	<b>732,719</b>	<b>17,793,829</b>

### Note 32. Financial instruments (continued)

#### *Fair value of financial instruments*

The fair value of financial assets and financial liabilities must be estimated for recognition and measurement or for disclosure purposes. The carrying value less impairment provision of trade and other receivables and of trade and other payables is a reasonable approximation of their fair values due to the short-term nature of these balances.

### Note 33. Key management personnel disclosures

#### *Compensation*

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

	<b>Consolidated</b>	
	<b>2019</b>	<b>2018</b>
	<b>\$</b>	<b>\$</b>
Short-term employee benefits	895,142	782,541
Post-employment benefits	46,268	45,304
Long-term benefits	1,205	13,471
	<u>942,615</u>	<u>841,316</u>

#### *Other key management personnel transactions*

For details of other transactions with key management personnel, refer to note 37.

### Note 34. Remuneration of auditors

During the financial year the following fees were paid or payable for services provided by Deloitte Touche Tohmatsu, the auditor of the Company:

	<b>Consolidated</b>	
	<b>2019</b>	<b>2018</b>
	<b>\$</b>	<b>\$</b>
<i>Audit services</i>		
Audit or review of the financial statements	<u>147,000</u>	<u>140,000</u>
<i>Other services</i>		
Other advisory services	<u>7,000</u>	<u>-</u>
	<u>154,000</u>	<u>140,000</u>

### Note 35. Contingent liabilities

Bank guarantees totalling \$766,000 have been provided in relation to the leases of various premises by the Group. These guarantees will only be payable in specific circumstances, such as failure to meet rental liabilities. In the opinion of the directors, no loss will result to the Group as a result of these guarantees.

Guarantees have been provided in relation to the banking facilities of the operating businesses by the parent entity. These guarantees will only be payable in specific circumstances, such as when the operating business is unable to meet its repayment obligations.

Except as noted above, in the opinion of the directors, the Group did not have any contingencies at 30 June 2019 (30 June 2018: None).

**Note 36. Commitments**

	<b>Consolidated</b>	
	<b>2019</b>	<b>2018</b>
	<b>\$</b>	<b>\$</b>
<i>Lease commitments - operating</i>		
Committed at the reporting date but not recognised as liabilities, payable:		
Within one year	2,810,420	2,449,126
One to five years	8,083,628	9,379,540
More than five years	1,002,146	1,500,550
	<u>11,896,194</u>	<u>13,329,216</u>
The above balances are gross of sublease income of:		
Within one year	304,773	295,683
One to five years	258,092	514,401
More than five years	16,413	16,413
	<u>579,278</u>	<u>826,497</u>
<i>Capital commitments</i>		
Committed at the reporting date but not recognised as liabilities, payable:		
Property, plant and equipment	-	1,107,626
Land and buildings	1,332,745	-
	<u>1,332,745</u>	<u>1,107,626</u>

Operating leases relate to office premises and office equipment.

Capital commitments relate to two property purchases made in FY2020. Refer to note 43 for details.

**Note 37. Related party transactions**

*Parent entity*

Kelly Partners Group Holdings Limited is the parent entity.

*Subsidiaries*

Interests in subsidiaries are set out in note 40.

*Key management personnel*

Disclosures relating to key management personnel are set out in note 33 and the remuneration report included in the directors' report.

*Transactions with related parties*

Transactions between related parties are on normal commercial terms and conditions no more favourable than those available to other parties unless otherwise stated.

On 28 June 2019, a property owned by an associated entity of Brett Kelly, was leased to Kelly Partners Central Tablelands on a 12 month term. The Board of Directors approved the related party transaction noting that the lease terms were considered to be on normal commercial terms.

On 27 June 2019, the Board of Directors also resolved and approved the purchase of this property by Kelly Partners (Central Tablelands) Property Trust, from an associated entity of Brett Kelly for \$599,000 with settlement on 13 August 2019. This transaction was at market value.

*Loans to related parties*

There were no loans to or from related parties at the current and previous reporting date other than those set out in note 12 and note 15.

**Note 37. Related party transactions (continued)**

*Direct interest in subsidiaries*

The following related parties hold a direct interest in the respective subsidiary of the Group:

Related party	Subsidiary	2019 Interest held	2018 Interest held
Pauline Michelakis*	Kelly Partners Private Wealth Sydney	-	7.50%
Paul Kuchta	Kelly Partners Norwest Partnership	25.50%	25.50%

\* Up to the date of resignation, 26 March 2019

**Note 38. Parent entity information**

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

*Statement of profit or loss and other comprehensive income*

	2019 \$	2018 \$
Profit after income tax	2,265,359	3,164,443
Total comprehensive income	2,265,359	3,164,443

*Statement of financial position*

	2019 \$	2018 \$
Total current assets	5,297,300	5,849,107
Total assets	24,283,099	23,966,944
Total current liabilities	3,104,086	3,449,523
Total liabilities	8,463,297	8,454,246
Net assets	15,819,802	15,512,698
Equity		
Issued capital	14,169,601	14,171,477
Retained profits	1,650,201	1,341,221
Total equity	15,819,802	15,512,698

*Guarantees entered into by the parent entity in relation to the debts of its subsidiaries*

During the year, the Group commenced restructuring its debt facilities with Westpac. As at 30 June 2019, two subsidiaries had entered into the new facility structure. The revised facilities will offer the Group consistent and improved terms and conditions, consistent and reduced reporting and undertaking requirements, consistent risk margins and a consistent security structure across its subsidiaries. Each subsidiaries debt facilities will be granted security by that entity, the corporate partners of that entity, limited personal guarantees of the operating business owners, and a guarantee provided by the parent over all existing and future assets and undertakings.

Post balance date, all but one of the controlled entities with debt facilities, have entered into the new facility structure. The final outstanding entity is expected to enter into the new arranged facilities in the first quarter of FY20.

As at 30 June 2018, the parent entity had no guarantees in relation of the debts of its subsidiaries.

**Note 38. Parent entity information (continued)**

*Contingent liabilities*

The parent entity had no contingent liabilities as at 30 June 2019 and 30 June 2018.

*Capital commitments - Property, plant and equipment*

The parent entity had no capital commitments for property, plant and equipment as at 30 June 2019 and 30 June 2018.

*Significant accounting policies*

The accounting policies of the parent entity are consistent with those of the Group, as disclosed in note 2, except for the following:

- Investments in subsidiaries are accounted for at cost, less any impairment, in the parent entity.

**Note 39. Business combinations**

***Kelly Partners North Sydney***

On 1 September 2018, Kelly Partners (North Sydney) Pty Ltd acquired an accounting business in North Sydney, NSW.

The goodwill is attributable to synergies expected to be achieved from integrating the business into the Kelly Partners North Sydney business.

The acquired business contributed revenues of \$965,688 and profit before tax of \$123,080 to the Group for the period from 1 September 2018 to 30 June 2019.

Details of the acquisition are as follows:

	<b>Fair value</b>
	<b>\$</b>
Customer relationships	835,023
Deferred tax liabilities	(117,112)
Employee benefits	(30,277)
	<hr/>
Net assets acquired	687,634
Goodwill	822,551
	<hr/>
Acquisition-date fair value of the total consideration transferred	<u><u>1,510,185</u></u>
Representing:	
Cash to vendor	1,289,722
Contingent consideration	220,463
	<hr/>
	<u><u>1,510,185</u></u>

**Note 39. Business combinations (continued)**

***Kelly Partners Inner West***

On 4 September 2018, Kelly Partners (Inner West) Pty Ltd acquired an accounting business in Rozelle, NSW.

The goodwill is attributable to synergies expected to be achieved from integrating the business into the Kelly Partners Inner West business.

The acquired business contributed revenues of \$879,493 and profit before tax of \$120,764 to the Group for the period from 4 September 2018 to 30 June 2019.

Details of the acquisition are as follows:

	<b>Fair value</b> \$
Customer relationships	437,958
Deferred tax liabilities	(66,812)
Employee benefits	(61,424)
	<hr/>
Net assets acquired	309,722
Goodwill	788,065
	<hr/>
Acquisition-date fair value of the total consideration transferred	<u>1,097,787</u>
Representing:	
Cash paid to vendor	825,147
Contingent consideration	272,640
	<hr/>
	<u>1,097,787</u>

***Kelly Partners Northern Beaches***

On 3 December 2018, Kelly Partners (Northern Beaches) Pty Ltd acquired an accounting business in Warriewood, NSW.

The goodwill is attributable to synergies expected to be achieved from integrating the business into the Kelly Partners Northern Beaches business.

The acquired business contributed revenues of \$502,857 and profit before tax of \$42,609 to the Group for the period from 3 December 2018 to 30 June 2019.

Details of the acquisition are as follows:

	<b>Fair value</b> \$
Customer relationships	130,947
Deferred tax liabilities	(43,591)
Employee benefits	(18,365)
	<hr/>
Net assets acquired	68,991
Goodwill	607,359
	<hr/>
Acquisition-date fair value of the total consideration transferred	<u>676,350</u>
Representing:	
Cash paid to vendor	488,409
Contingent consideration	187,941
	<hr/>
	<u>676,350</u>

**Note 39. Business combinations (continued)**

**Kelly Partners Oran Park**

On 1 February 2019, Kelly Partners (Oran Park) Pty Ltd acquired an accounting business in South West Sydney, NSW.

The goodwill is attributable to synergies expected to be achieved from integrating the business into the Kelly Partners Oran Park business.

The acquired business contributed revenues of \$158,758 and a net loss before tax of \$16,076 to the Group for the period from 1 February 2019 to 30 June 2019.

Details of the acquisition are as follows:

	<b>Fair value</b> \$
Customer relationships	157,706
Deferred tax liabilities	(7,619)
Employee benefits	<u>(36,467)</u>
Net assets acquired	113,620
Goodwill	<u>146,342</u>
Acquisition-date fair value of the total consideration transferred	<u><u>259,962</u></u>
Representing:	
Cash paid to vendor	224,493
Contingent consideration	<u>35,469</u>
	<u><u>259,962</u></u>

**Note 40. Interests in subsidiaries**

**(a) Subsidiaries**

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	Principal place of business / Country on incorporation	Ownership interest	
		2019 %	2018 %
KP GH NS Pty Limited	Australia	100.00%	100.00%
Kelly Partners North Sydney Partnership	Australia	58.50%	58.50%
KP GH CC Pty Limited	Australia	100.00%	100.00%
Kelly Partners Central Coast Partnership	Australia	50.10%	50.10%
KP GH WS Pty Limited	Australia	100.00%	100.00%
Kelly Partners (Western Sydney) Partnership	Australia	51.00%	51.00%
KP GH SWS Pty Limited	Australia	100.00%	100.00%
Kelly Partners South West Sydney Partnership	Australia	50.50%	50.50%
Kelly Partners Management Services Pty Limited	Australia	100.00%	100.00%
Kelly Partners Services Trust	Australia	100.00%	100.00%
KP GH NW Pty Limited	Australia	100.00%	100.00%
Kelly Partners Norwest Partnership	Australia	51.00%	51.00%
KP GH TC Pty Limited	Australia	100.00%	100.00%
Kelly Partners Tax Consulting Partnership	Australia	51.00%	51.00%
Kelly Partners Strategy Consulting Pty Ltd	Australia	100.00%	100.00%
KP GH CT Pty Limited	Australia	100.00%	100.00%
Kelly Partners Central Tablelands Partnership	Australia	68.00%	51.00%
KP GH WO Pty Limited	Australia	100.00%	100.00%

Note 40. Interests in subsidiaries (continued)

Name	Principal place of business / Country on incorporation	Ownership interest	
		2019 %	2018 %
Kelly Partners Wollongong Partnership	Australia	51.00%	51.00%
KP GH NB Pty Limited	Australia	100.00%	100.00%
Kelly Partners Northern Beaches Partnership	Australia	51.00%	51.00%
KP GH SH Pty Limited	Australia	100.00%	100.00%
Kelly Partners Southern Highlands Partnership	Australia	51.00%	51.00%
Kelly Partners (South West Sydney) Trust	Australia	50.50%	50.50%
Kelly Partners Oran Park Partnership	Australia	25.30%	25.30%
Super Certain Pty Limited	Australia	50.50%	50.50%
Kelly Partners Management Services (Hong Kong) Limited	Hong Kong	51.00%	51.00%
KP GH FIN Pty Ltd	Australia	100.00%	100.00%
KP GH WM Pty Ltd	Australia	100.00%	100.00%
KP GH HK Pty Limited	Australia	100.00%	100.00%
Kelly Partners Finance Partnership	Australia	51.00%	51.00%
Kelly Partners Private Wealth Sydney Partnership (previously Kelly Partners Wealth Management Partnership)	Australia	51.00%	51.00%
Kelly Partners Marketing Advisory Pty Ltd (previously Round 12 Collective Pty Ltd)	Australia	51.00%	51.00%
Kelly Partners Property (Central Coast) Pty Ltd	Australia	51.00%	51.00%
Kelly Partners Property Group Holdings Pty Ltd	Australia	100.00%	100.00%
Kelly Property Group Pty Ltd	Australia	100.00%	100.00%
Kelly Partners (Central Coast) Property Trust	Australia	51.00%	51.00%
KP GH SYD CBD Pty Ltd	Australia	100.00%	100.00%
Kelly Partners (Sydney) Pty Limited	Australia	50.50%	50.50%
KP GH IW Pty Limited	Australia	100.00%	100.00%
Kelly Partners Inner West Partnership	Australia	51.00%	51.00%
Kelly Partners (Tax Legal) Pty Ltd	Australia	51.00%	51.00%
Kelly Partners (Sydney) Audit Partnership	Australia	50.04%	50.04%
KP GH LM Pty Ltd (deregistered)	Australia	-	100.00%
Kelly Partners Lifestyle Management Services Partnership (deregistered)	Australia	-	51.00%
Kelly Partners Private Wealth Group Holdings Pty Ltd	Australia	100.00%	100.00%
KP GH WM MCBD Pty Ltd	Australia	100.00%	100.00%
Kelly Partners Private Wealth Melbourne Partnership	Australia	51.00%	51.00%
KP GH CA Pty Ltd	Australia	100.00%	100.00%
Kelly Partners Corporate Advisory Partnership	Australia	51.00%	51.00%
KP GH NZ Pty Ltd	New Zealand	100.00%	100.00%
Kelly Partners New Zealand Partnership	New Zealand	51.00%	51.00%
KP GH GII Pty Ltd	Australia	100.00%	100.00%
Kelly Partners Government, Incentives & Innovation Partnership	Australia	51.00%	51.00%
Kelly Partners SMSF Advisory Pty Ltd	Australia	100.00%	100.00%
Kelly Partners (Investment Office) Pty Ltd	Australia	75.50%	75.50%
Kelly Partners Legacy Team Pty Ltd	Australia	100.00%	100.00%
Kelly Partners (Sports & Entertainment) Pty Ltd	Australia	100.00%	100.00%
Kelly Partners (Private Wealth) Pty Ltd	Australia	100.00%	100.00%
KP GH MEL Pty Ltd	Australia	100.00%	100.00%
Kelly Partners Melbourne CBD Partnership	Australia	51.00%	51.00%
Kelly Partners Private Wealth (Melbourne) Pty Ltd	Australia	100.00%	-
Kelly Partners Private Wealth (International) Pty Ltd	Australia	100.00%	-
Kelly Partners (Family Office) Pty Ltd	Australia	100.00%	-

The percentage of ownership interest held is equivalent to the percentage voting rights for all subsidiaries.



**Note 40. Interests in subsidiaries (continued)**

The Group has control over the Kelly Partners Oran Park Partnership because it controls the controlling partner of the partnership, the Kelly Partners (South West Sydney) Trust.

**(b) Subsidiaries with non-controlling interests**

The following table summarises the aggregate financial information in relation to the share of the Group's subsidiaries held by non-controlling interests. The information is before inter-company eliminations with other companies within the Group.

	<b>Consolidated</b>	
	<b>2019</b>	<b>2018</b>
	<b>\$</b>	<b>\$</b>
Revenue	18,745,766	19,569,897
Profit attributable to non-controlling interests	4,711,959	5,581,380
Distributions to non-controlling interests	4,748,003	4,496,782
Current assets	4,472,327	7,320,580
Non-current assets	15,320,414	12,455,315
Current liabilities	(1,878,047)	(3,255,324)
Non-current liabilities	(6,322,736)	(4,931,628)
Net assets	11,591,958	11,588,943

**(c) Consequences of changes in a parent's ownership in a subsidiary that do not result in a loss of control**

There were no material changes to the parent entity's ownership in subsidiaries during the current and prior financial year.

**(d) Significant restrictions**

There are no significant restrictions on the ability of the holding company or its subsidiaries to access or use the assets and settle the liabilities of the Group.

**Note 41. Reconciliation of profit after income tax to net cash from operating activities**

	<b>Consolidated</b>	
	<b>2019</b>	<b>2018</b>
	<b>\$</b>	<b>\$</b>
Profit after income tax expense for the year	7,147,654	9,964,034
Adjustments for:		
Depreciation and amortisation	1,249,279	1,037,217
Loss on disposals	26,971	60,753
Shares issued to employees	-	220,473
Net fair value (gain)/loss on other financial assets	(701)	213
Change in fair value of contingent consideration	(220,463)	(1,201,200)
Unwinding of interest on contingent consideration	48,669	-
Other non-cash movements	-	460,499
Change in operating assets and liabilities:		
Decrease/(increase) in trade and other receivables	1,772,387	(2,293,083)
Decrease/(increase) in deferred tax assets	(650,093)	521,013
Increase/(decrease) in trade and other payables	126,573	(2,194,825)
Increase in provision for income tax	473,175	29,818
Net cash from operating activities	<u>9,973,451</u>	<u>6,604,912</u>

**Note 42. Changes in liabilities arising from financing activities**

<b>Consolidated</b>	<b>Bank loans \$</b>
Balance at 1 July 2017	12,931,778
Proceeds from borrowings	3,695,310
Repayment of borrowings	<u>(3,831,299)</u>
Balance at 30 June 2018	12,795,789
Proceeds from borrowings	6,506,684
Repayment of borrowings	<u>(3,201,279)</u>
Balance at 30 June 2019	<u><u>16,101,194</u></u>

**Note 43. Events after the reporting period**

*Banking restructure*

During the year, the Group commenced restructuring its debt facilities with Westpac. As at 30 June 2019, Kelly Partners Group Holdings Limited and two controlled entities had entered into the new facility structure. Post balance date, all but one of the controlled entities with debt facilities, have entered into the new facility structure. The final outstanding entity is expected to enter into the new arranged facilities in the first quarter of FY20. Refer note 24 for further details.

*Property purchases*

On 28 July 2019, Kelly Partners (Central Coast) Property Trust purchased a property in Central Coast NSW for \$780,000. Kelly Partners (Central Coast) Pty Ltd will occupy the premise to operate its business.

On 27 June 2019, the Board of Directors resolved and approved Kelly Partners (Central Tablelands) Property Trust to purchase a property in Bathurst for \$599,000, with settlement on 13 August 2019.

Apart from the dividend declared as disclosed in note 31, no other matter or circumstance has arisen since 30 June 2019 that has significantly affected, or may significantly affect the Group's operations, the results of those operations, or the Group's state of affairs in future financial years.

In the directors' opinion:

- the attached financial statements and notes comply with the Corporations Act 2001, the Accounting Standards, the Corporations Regulations 2001 and other mandatory professional reporting requirements;
- the attached financial statements and notes comply with International Financial Reporting Standards as issued by the International Accounting Standards Board as described in note 2 to the financial statements;
- the attached financial statements and notes give a true and fair view of the Group's financial position as at 30 June 2019 and of its performance for the financial year ended on that date; and
- there are reasonable grounds to believe that the Company will be able to pay its debts as and when they become due and payable.

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

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

On behalf of the directors



\_\_\_\_\_  
Brett Kelly  
Executive Chairman and Chief Executive Officer

20 August 2019  
Sydney

## Independent Auditor's Report to the Members of Kelly Partners Group Holdings Limited

### Report on the Audit of the Financial Report

#### *Opinion*

We have audited the financial report of Kelly Partners Group Holdings Limited (the "Entity") 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, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, and notes to the 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:

- (i) giving a true and fair view of the Group's financial position as at 30 June 2019 and of their financial performance for the year then ended; and
- (ii) 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 confirm that the independence declaration required by the *Corporations Act 2001*, which has been given to the directors of the Company, would be in the same terms if given to the directors as at the time of this auditor's report.

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

#### *Key Audit Matters*

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the financial report for 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 the scope of our audit responded to the Key Audit Matter
<p><b>Recoverability of Goodwill and Intangible Assets</b></p> <p>As at 30 June 2019 the Group has goodwill totalling \$20,211,955 and other intangibles of \$3,552,141 recognised on its statement of financial position as a result of acquisitions over a number of years as disclosed in Note 17.</p> <p>The directors' assessment of the recoverability of goodwill and intangible assets requires the exercise of significant judgement, including:</p> <ul style="list-style-type: none"> <li>• Identifying the cash generating units (CGU's) to which the goodwill has been allocated; and</li> <li>• Estimating the future growth rates, discount rates and expected cash flows of each CGU.</li> </ul>	<p>Our procedures included, but were not limited to:</p> <ul style="list-style-type: none"> <li>• Assessing the Group's identification of CGU's and the basis of allocation of goodwill to the carrying value of the CGU's based on our understanding of the Group's business;</li> <li>• Challenging management's ability to accurately forecast cash flows by assessing the precision of the prior year forecasts against actual outcomes; and</li> <li>• With the assistance of our valuation specialists:               <ul style="list-style-type: none"> <li>○ Comparing the discount rate utilised by management to an independently calculated discount rate,</li> <li>○ Comparing the Group's forecast cash flows for each CGU to the budgets, challenging the growth rates used,</li> <li>○ Performing sensitivity analysis on the growth and discount rates, and</li> <li>○ Testing the mathematical accuracy and mechanics of the impairment model.</li> </ul> </li> <li>• We also assessed the appropriateness of the disclosures in Note 17 to the financial statements.</li> </ul>

### Other Information

The directors are responsible for the other information. The other information comprises the Directors' Report, Corporate Directory and Shareholder Information, which we obtained prior to the date of this auditor's report, and also includes additional information which will be included in the Group's annual report (but does not include the financial report and our auditor's report thereon), which is expected to be made available to us after that date.

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.

When we read the additional other information, if we conclude that there is a material misstatement therein, we are required to communicate the matter to the directors and use our professional judgement to determine the appropriate action.

## *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 ability of the Group 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 has 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.

As part of an audit in accordance with the Australian Auditing Standards, we exercise professional judgement and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial report, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.
- Conclude on the appropriateness of the directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial report or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial report, including the disclosures, and whether the financial report represents the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the financial report. We are responsible for the direction, supervision and performance of the Group's audit. We remain solely responsible for our audit opinion.

We communicate with the directors regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide the directors with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with the directors, we determine those matters that were of most significance in the audit of the financial report of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

## **Report on the Remuneration Report**

### *Opinion on the Remuneration Report*

We have audited the Remuneration Report included in pages 10 to 14 of the Directors' Report for the year ended 30 June 2019.

In our opinion, the Remuneration Report of Kelly Partners Group Holdings Limited, for the year ended 30 June 2019, complies with section 300A of the *Corporations Act 2001*.

### *Responsibilities*

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



DELOITTE TOUCHE TOHMATSU



Cheryl Kennedy  
Partner  
Chartered Accountants  
Sydney, 20 August 2019

The shareholder information set out below was applicable as at 1 August 2019.

### Distribution of equitable securities

Analysis of number of equitable security holders by size of holding:

	Number of holders of ordinary shares	Number of holders of options over ordinary shares
1 to 1,000	202	-
1,001 to 5,000	130	-
5,001 to 10,000	74	-
10,001 to 100,000	142	-
100,001 and over	37	-
	<u>585</u>	<u>-</u>
Holding less than a marketable parcel	<u>21</u>	<u>-</u>

### Equity security holders

#### Twenty largest quoted equity security holders

The names of the twenty largest security holders of quoted equity securities are listed below:

	Ordinary shares Number held	% of total shares issued
Kelly Investments 1 Pty Ltd	23,253,378	51.11
HSBC Custody Nominees (Australia) Limited	5,778,220	12.70
National Nominees Limited	1,272,946	2.80
Sargon Ct Pty Ltd	942,645	2.07
Kalumic Pty Ltd	636,000	1.40
Hampton Pty Ltd	609,400	1.34
BNP Paribas Nominees Pty Ltd Hub24 Custodial Serv Ltd DRP	521,915	1.15
Gildale Family Company Pty Ltd	466,420	1.03
David Bullock + Kay Bullock + Anthony Bullock	458,984	1.01
Eric Golf Pty Ltd	409,162	0.90
Dr David John Ritchie + Dr Gillian Joan Ritchie	400,000	0.88
Kenneth Ko	393,504	0.86
Mikalu Pty Ltd	364,000	0.80
Brojo Investments Pty Ltd	326,767	0.72
BRJT Accounting Pty Ltd	286,120	0.63
Winda Holdings Pty Ltd	278,172	0.61
David Bullock + Kay Bullock + Anthony Bullock	264,263	0.58
Scott Elwin Family Co Pty Ltd	264,263	0.58
Mrs Penelope Alice Marjorie Seidler	250,054	0.55
Invia Custodian Pty Limited	250,000	0.55
	<u>37,426,213</u>	<u>82.27</u>

#### Unquoted equity securities

There are no unquoted equity securities.



### Substantial holders

Substantial holders in the Company are set out below:

	Ordinary shares	
	Number held	% of total shares issued
Kelly Investments 1 Pty Ltd	23,253,378	51.11
HSBC Custody Nominees (Australia) Limited	5,778,220	12.70

### Voting rights

The voting rights attached to ordinary shares are set out below:

#### *Ordinary shares*

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

There are no other classes of equity securities.

# **KELLY PARTNERS GROUP HOLDINGS LIMITED**

*Office - Level 8/32 Walker Street, North Sydney, NSW 2060*