

# McMillanShakespeareGroup

McMillan Shakespeare Limited - Australia's leading provider of workplace benefits.



All of the benefits, none of the hassles.

Annual Report 2012

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## ANNUAL GENERAL MEETING

The Annual General Meeting of the members of McMillan Shakespeare Limited A.B.N. 74 107 233 983 will be held on 22 October 2012 at 10:00 am at the State Library of Victoria, Ground Floor, 328 Swanston St, Melbourne, Victoria in the Experimedia room.

## CORPORATE DIRECTORY

### Directors

Ronald Pitcher, AM (Chairman)  
Michael Kay (Managing Director)  
John Bennetts  
Ross Chessari  
Graeme McMahon  
Anthony Podesta

**Company Secretary**  
Mark Blackburn

### Registered Office

Level 21, 360 Elizabeth Street  
Melbourne Victoria 3000  
Tel: +61 3 9097 3000  
Fax: +61 3 9097 3060

### Auditor

Grant Thornton Audit Pty Ltd  
Level 2, 215 Spring Street  
Melbourne Victoria 3000

### Share Registry

Computershare Investor Services  
Pty Limited  
Yarra Falls, 452 Johnston Street  
Abbotsford Victoria 3067  
Tel: +61 3 9415 4000

### Website

[www.mmsg.com.au](http://www.mmsg.com.au)

## DIRECTORS' REPORT

The directors of McMillan Shakespeare Limited (**Company** or **MMS**) present this report on the consolidated entity, consisting of the Company and the entities that it controlled at the end of, and during, the financial year ended 30 June 2012 (**Group** or **Consolidated Group**).

### DIRECTORS

As at the date of this Annual Report, the Directors of the Company are Mr Ronald Pitcher AM (independent Chairman), Mr Michael Kay (Managing Director and Chief Executive Officer), Mr John Bennetts (Non-Executive Director), Mr Ross Chessari (Non-Executive Director), Mr Graeme McMahon (independent Non-Executive Director) and Mr Anthony Podesta (Non-Executive Director) (**Directors**). Each Director held office as a Director throughout the financial year ended 30 June 2012. Details of the qualifications, experience and special responsibilities of the Directors at the date of this Annual Report are set out on pages 4 and 5.

The Directors that are noted above as independent Directors, as determined in accordance with the Company's definition of independence, have been independent at all times throughout the financial year ended 30 June 2012.

### DIRECTORS' MEETINGS

The number of meetings held by the board of Directors (**Board**) (including meetings of committees of the Board) and the number of meetings attended by each of the Directors during the financial year ended 30 June 2012 were as follows:

Director	Board Meetings		Audit Committee Meetings		Remuneration Committee Meetings	
	Eligible to Attend	Attended	Eligible to Attend	Attended	Eligible to Attend	Attended
Mr R. Pitcher, AM (Chairman)	11	11	5	5	5	5
Mr M. Kay (Managing Director and CEO) <sup>1</sup>	11	11	-	-	-	-
Mr J. Bennetts	11	11	5	5	5	5
Mr R. Chessari	11	11	5	5	5	5
Mr G. McMahon	11	11	5	5	5	5
Mr A. Podesta <sup>1</sup>	11	10	-	-	-	-

<sup>1</sup> Mr Kay and Mr Podesta attend Audit Committee and Remuneration Committee meetings by invitation.

### PRINCIPAL ACTIVITIES

The principal activities of the Company and its controlled entities during the course of the financial year ended 30 June 2012 was the provision of remuneration, asset management and finance services to public and private organisations predominantly in Australia.

In the opinion of the Directors, there were no significant changes in the nature of the activities of the Company and its controlled entities during the course of the financial year ended 30 June 2012 that are not otherwise disclosed in this Annual Report.

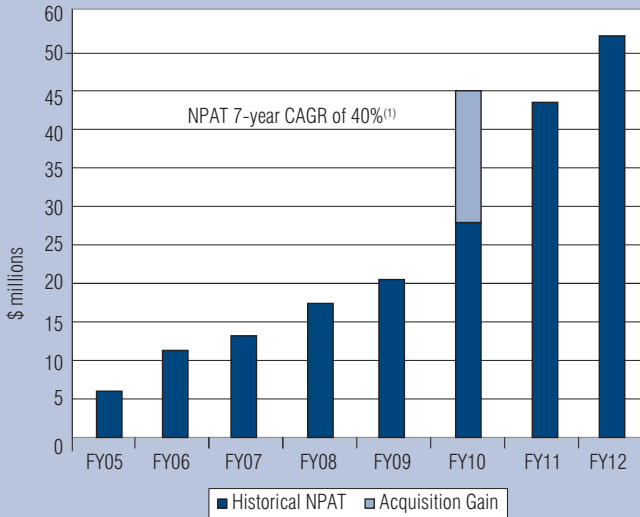
### RESULTS

Details of the results for the financial year ended 30 June 2012 are as follows:

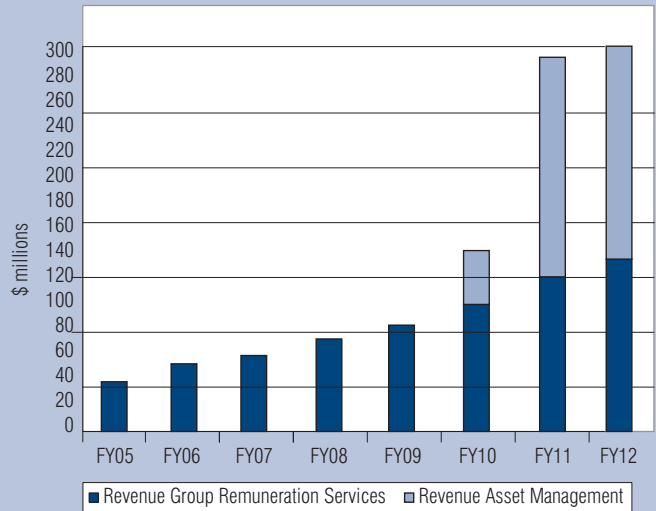
Results	2012	2011
Net profit after income tax ( <b>NPAT</b> )	\$54,305,163	\$43,460,470
Basic earnings per share	76.6 cents	64.0 cents
Earnings per share on a diluted basis	74.1 cents	61.2 cents

# Financial Highlights

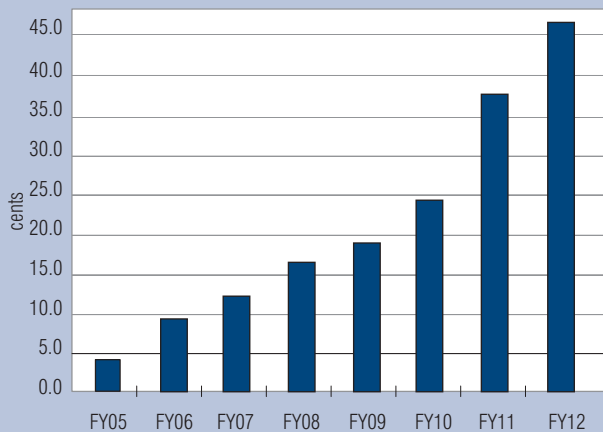
NPAT performance



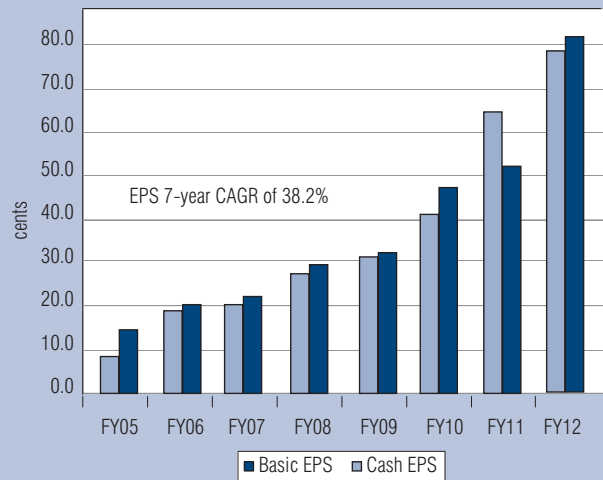
Revenue performance



Total dividends per share



Normalised earnings per share (EPS) (2)



McMillan Shakespeare Limited  
Share price - March 04 to June 12



1 NPAT 7-year CAGR is normalised to exclude the profit recognised on acquisition of Interleasing (Australia) Limited in FY10 (\$17M profit after tax).  
2 Normalised EPS excludes the profit recognised on acquisition of Interleasing (Australia) Limited. Cash EPS includes CAPEX but excludes the investment in Fleet growth.

## DIVIDENDS

Details of dividends declared and/or paid by the Company during the financial year ended 30 June 2012 are as follows:

Dividends	2012 \$	2011 \$
Final dividend for the financial year ended 30 June 2011 of 22.0 cents (2010: 14.0 cents) per ordinary share paid on 14 October 2011 fully franked at the tax rate of 30% (2010: 30%).	15,027,150	9,497,436
Interim dividend for the financial year ended 30 June 2012 of 22.0 cents (2011: 16.0 cents) per ordinary share paid on 30 March 2012 fully franked at the tax rate of 30% (2011: 30%).	16,395,272	10,890,810
<b>Total</b>	<b>31,422,422</b>	<b>20,388,246</b>

Subsequent to the financial year ended 30 June 2012, the Directors declared a final dividend of 25 cents per ordinary share (fully franked at the tax rate of 30%) to be paid on 12 October 2012 out of retained profits as at 30 June 2012, bringing the total dividend to be paid for the financial year ended 30 June 2012 to 47 cents per ordinary share, an increase of 24%.

## REVIEW OF OPERATIONS

In last year's Annual Report, we suggested that the levels of service delivered to our customers and the investments being made in our people and our business would set a platform for profitable growth in 2012. And so it has proved to be. Despite the economic uncertainties globally, and in Australia, shareholders can be well pleased with what was achieved in the 2012 financial year.

Here is a selection of key highlights and activities:

- Financial results were particularly pleasing. MMS delivered a 25% increase in net profit after tax (NPAT) on a 11% increase in revenue. Both business segments performed well. Group Remuneration Services continued to demonstrate its non-cyclical nature with NPAT growth of 27% on 23% revenue growth. The Asset Management business (acquired by MMS in 2010) also had an excellent year, with underlying normalised NPAT growth of 21% i.e. normalising for FY2011 tyre and maintenance release when we changed from the vendor's accounting principles (USGAAP) to IFRS. A strong second hand car market, and consequent profits on the resale of fleet cars, assisted these results.
- Assets under finance increased from \$220m to \$262m, reflecting the increasing momentum in the asset management business.
- 79% of new business and cross sales wins were in the private sector. We believe this vindicates the decision to combine our traditional remuneration services business with an asset manager, through the acquisition of Interleasing in 2010.
- In February 2012, MMS subsidiary, Maxxia, was appointed sole provider to the SA Government for its salary packaging needs. Previously we were one of a panel of three. We believe this is a reflection of our relentless focus on the execution of our strategy, namely, to deliver excellence in customer service and expense management. This enables us to deliver to customers the best product in the industry, at a compelling price.
- Throughout 2012, we rolled out our customer relationship strategy. This is designed to take us beyond a merely transactional relationship with our customers to one of genuine partnership. Better understanding our customers enables us to better craft our services to meet their needs, thus driving greater satisfaction for customers and more revenue for us.
- To augment our desire to get closer to our customers, we have created a new State based structure, where state managers own their customers and their profit and loss account. Such a structure enables us to decentralise service delivery whilst centralising processing for efficiency. It also provides important development opportunities, and satisfying career paths, for talented managers.
- As always, the delivery of excellent service underpinned our performance. All benchmarks were exceeded. Pleasingly, our expense ratio/productivity also improved.
- We are well advanced with the development and roll-out of the new asset management system. This is expected to be delivered in CY2013. Additionally, our new business intelligence capability will be rolled out during FY2013. These are both important investments in the future of our business.
- Credit and treasury have been well-managed. In February, our funding lines were extended to 2015 and on better terms. Additionally, in August 2012 the Group increased its facility from \$180m to \$270m. Careful treasury planning also provided some respite from the impact of declining interest rates on the earnings on our float. Credit losses were less than \$40,000 on a book of \$262m.
- Headcount increased by 124 to over 750. Significant investment continues to be made in the training of our people, the identification of talent and the development of our leaders.

FY2012 was a productive and successful year for our business. Much was achieved, not the least of which was the ongoing investment into the sustainability of our business and the improvement of our business model. Our business has good momentum and, despite the ongoing economic turmoil around the world, we are well placed to deliver another year of profitable growth for shareholders.

## STRATEGY AND PROSPECTS

McMillan Shakespeare Group strategy remains unchanged moving into the 2013 financial year. We will continue to increase participation rates in current employer contracts and win new employer contracts through our unique offering of salary packaging and fleet management services. We will deliver our products and services through a house of brands: Maxxia; RemServ; Interleasing and Holden Leasing. Underpinning our ongoing profitable growth is industry leading customer service, low delivered cost and sophisticated risk management. We believe this combination of capabilities is of high value to customers and is the reason so many employers choose McMillan Shakespeare Group companies as their service providers.

In the year ahead, we will keep our eye firmly focussed on business as usual. We will also look for well priced acquisitions that fit with, and enhance, our business model. We will continue to invest in our business ahead of the growth curve. Ours is a complex business, with over half a million individual salary packaging payments per month in the Group Remuneration Services segment, all of which need to comply with the tax laws. Developing our people, systems and processes is critical to keeping up with the significant compounding growth numbers the business has achieved since listing in 2004. FY2013 will be another year of significant investment, particularly in IT where we are upgrading our fleet management and business intelligence systems.

In summary, our business is clear about its strategy and how it intends to compete. We are well prepared for the challenges of the 2013 financial year and will continue to prepare ourselves for success in the years ahead.

## STATE OF AFFAIRS

There were no significant changes in the state of affairs of the Company and its controlled entities that occurred during the financial year ended 30 June 2012 that are not otherwise disclosed in this Annual Report.

## EVENTS SUBSEQUENT TO BALANCE DATE

As at the date of this Annual Report, the Directors are not aware of any matter or circumstance that has arisen that has significantly affected or may significantly affect the operations of the Company and its controlled entities, the results of those operations or the state of affairs of the Company and its controlled entities in the financial years subsequent to 30 June 2012 that are not otherwise disclosed in this Annual Report.

## LIKELY DEVELOPMENTS

Other than the information disclosed in this Annual Report, information as to the likely developments in the operations of the Company and its controlled entities and the expected results of those operations in subsequent years has not been included in this Annual Report because the Directors believe, on reasonable grounds, that to include such information would be likely to result in unreasonable prejudice to the Company and its controlled entities.

## DIRECTORS' EXPERIENCE & SPECIAL RESPONSIBILITIES

**Name:** Ronald Pitcher *AM, FCA, FCPA*

**Appointed:** 4 February 2004

**Positions:** Chairman of the Board  
Chairman of the Audit Committee (resigned 25 June 2012)  
Member of the Audit Committee  
Chairman of the Remuneration Committee

**Age:** 73

Mr Pitcher is a Chartered Accountant with over 45 years experience in the accounting profession and the provision of business advisory services. Mr Pitcher was until recently a director of National Can Industries Limited (since 1994) and is a director of Reece Australia Limited (since 2003). Under the Company's definition of independence, Mr Pitcher is considered to be independent.

**Name:** Michael Kay *LLB*

**Appointed:** 15 July 2008

**Positions:** Managing Director and Chief Executive Officer

**Age:** 54

Before joining the Company in May 2008, Mr Kay was the Chief Executive Officer of Australian Associated Motor Insurers Limited (**AAMI**). Mr Kay joined AAMI in 1993, and before rising to the position of Chief Executive Officer in 2006, he served as General Manager, Southern Region (comprising Victoria, Tasmania and South Australia) and Executive Chairman, Corporate Affairs and then, from 2002, as the Chief Operating Officer. Before joining AAMI, Mr Kay practised for 10 years as a solicitor.

Mr Kay is a director of RAC Insurance and a former member of the Commonwealth Consumer Affairs Advisory Council, the Administrative Law Committee of the Law Council of Australia, the Victorian Government Finance Industry Council and the Committee for Melbourne.

Mr Kay holds a Bachelor of Laws from the University of Sydney.

**Name:** **Anthony Podesta** *B Ed (Bus), MTMA, FTIA, MAICD*

**Appointed:** 1 December 2003

**Positions:** Non-Executive Director

**Age:** 56

Mr Podesta founded the McMillan Shakespeare business in 1988 and has been instrumental in the growth of its operations and the development of the outsourced salary packaging administration industry in Australia since that time. Mr Podesta is a fellow of the Taxation Institute of Australia, a member of the Australian Institute of Company Directors. Mr Podesta stepped down from his executive responsibilities effective 17 August 2010. Mr Podesta is the company's largest shareholder and is on the Board as a Non-Executive Director.

**Name:** **John Bennetts** *B Ec, LLB*

**Appointed:** 1 December 2003

**Positions:** Non-Executive Director  
Member of the Audit Committee  
Member of the Remuneration Committee

**Age:** 49

Mr Bennetts is an experienced investor and a founder and director of a number of companies, including until recently, Cellestis Limited and private equity investment firm, Mooroolbark Investments Pty Limited (**M-Group**). He has also provided advisory services to a range of companies in Australia and Asia. Prior to the establishment of the M-Group, he was Group Legal Counsel and Company Secretary of Datacraft Limited. Before joining Datacraft Limited, he practised as a solicitor.

**Name:** **Ross Chessari** *LLB, M Tax*

**Appointed:** 1 December 2003

**Positions:** Non-Executive Director  
Member of the Audit Committee (resigned 25 June 2012)  
Member of the Remuneration Committee

**Age:** 51

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

**Name:** **Graeme McMahon** *FCPA, FRAS, FCIT*

**Appointed:** 18 March 2004

**Positions:** Non Executive Director  
Chairman of the Audit Committee (from 25 June 2012)  
Member of the Audit Committee  
Member of the Remuneration Committee

**Age:** 72

A member of the Council at La Trobe University, Mr McMahon was formerly a director of SSSR Holdings Pty Limited and Expo Hire (Aust.) Pty Limited, and a member of the Queensland Australian Football League Commission. Mr McMahon held the position as Chairman of the Essendon Football Club for seven years and was the Managing Director and Chief Executive Officer of Ansett Australia Group until 1996. He is a Fellow of the CPA of Australia, a Fellow of the Royal Aeronautical Society and a Fellow of the Chartered Institute of Logistics and Transport. Under the Company's definition of independence, Mr McMahon is considered to be independent.

## COMPANY SECRETARY

**Mark Blackburn:** Chief Financial Officer and Company Secretary

Mark Blackburn, Dip Bus (Acct), CPA, GAICD joined McMillan Shakespeare Group as Chief Financial Officer in October 2011. Mr Blackburn commenced as Company Secretary on 26 October 2011.

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

**Paul McCluskey:** Chief Financial Officer and Company Secretary (resigned 26 October 2011)

## REMUNERATION REPORT

### Overview

The Group's remuneration policies and practices are designed to align the interests of staff and shareholders while attracting and retaining staff members who are critical to its growth and success. The Board maintains a Remuneration Committee whose objectives are to oversee the formulation and implementation of remuneration policy and make recommendations to the Board on remuneration policies and packages applicable to the Directors and executives. For further details of the composition and responsibilities of the Remuneration Committee, please refer to the Corporate Governance Statement.

### Remuneration Structure – Non-Executive Directors

The Non-Executive Directors are remunerated for their services from the maximum aggregate amount approved by the shareholders of the Company on 19 October 2010 for that purpose (\$600,000 per annum). The Board sets the fees for the Chairman and the other Non-Executive Directors. No additional fees are paid for participation in Board committees.

The Board's policy is to remunerate the Chairman and the Non-Executive Directors at market rates for comparable companies for the time and commitment involved in meeting their obligations.

Neither the Chairman nor the other Non-Executive Directors received or were entitled to any performance related remuneration or options with respect to the financial years ended 30 June 2012 and 30 June 2011. There is no direct link between the remuneration of the Chairman or any other Non-Executive Director and the short term results of the Group because the primary focus of the Board is on the long term strategic direction and performance of the Group.

There are no termination payments payable to the Chairman or the other Non-Executive Directors on their retirement from office other than payments relating to the accrued superannuation entitlements included in their remuneration.

### Remuneration Structure – Executive Directors and Senior Executives

#### Overview

In setting its remuneration arrangements, reference has been made to the current employment market in which the Group operates. The components of remuneration for each executive comprise fixed remuneration (including superannuation and benefits) and long-term equity-linked performance incentives (in the form of options). The Remuneration Committee reviews the fixed remuneration component of each executive's remuneration each year (or on promotion). For the financial year commencing July 2012 the Remuneration Committee has reviewed remuneration based on an analysis of the Top 500 Report (Director and Senior Executive Remuneration) 2012, and *Hewitt The Australian Top Executive Remuneration Reports* for organisations with Annual Revenue \$251-\$500 Million and 301-1,000 employees.

#### Fixed Remuneration

The fixed remuneration component comprises salary, superannuation and, in some cases, non-cash benefits, such as motor vehicle lease payments and car parking benefits.

Fixed remuneration reflects the duties, responsibilities and performance levels of the relevant executive, general market conditions and comparable remuneration offered in related industry sectors. No element of the fixed remuneration component is at risk.

Neither the Chief Executive Officer nor the Chief Financial Officer are remunerated separately for acting as an officer of the Company or any of its controlled entities.

#### Short-term Incentives

The Company does not generally offer contracted cash bonuses as part of a short term incentive program. However, following the acquisition of Interleasing (Australia) Limited in 2010, the Company established a short-term incentive program for three executives. The Remuneration Committee recommended to the Board short term targets to reward business stabilisation, realisation of discount on acquisition, improvement in operating profit and establishment of growth momentum following the acquisition. These short term incentives were paid to the relevant executives in FY2012. This program has now been discontinued now that the integration is complete.

No other contracted cash based short-term incentives were paid to (or were forfeited by) any executives during the financial year ended June 2012.

The Remuneration Committee also has the authority to issue discretionary (as to both award and amount) cash bonuses as a reward for out-performance compared to budgeted targets. Any bonus payable can, at the discretion of the executive, be sacrificed as superannuation. Such bonuses were paid to the majority of individual executives in relation to the year ended 30 June 2012.



### Long-term Incentives

From time to time the Company issues options to certain executives and employees under the McMillan Shakespeare Limited Employee Option Plan. Two types of options have been granted under this plan, performance options and voluntary options.

The Board believes that the use of options is the most appropriate form of long-term equity-based performance incentive to reinforce alignment with shareholder interests. All options issued have an exercise price (or strike price) and only become valuable to the extent that the share price rises above the exercise price. Given that options are issued at or above the prevailing market price at the date that the Board approved the grant (other than as disclosed in this Annual Report), it is implied that increased shareholder wealth is required.

The use of earnings per share growth targets for the performance option entitlements has historically been adopted to align the long term interests of the executives with shareholders and ensure appropriate behaviours are adopted for the long term benefit of all stakeholders. However, the Board has determined that use of NPAT targets for the options issued in the financial year ended 30 June 2012 is a more appropriate measure than EPS targets. This was due to the high number of options (6,459,030) due to vest in the year ended 30 June 2012 which had the potential to materially reduce the EPS metric, depending on when the options were elected to be exercised. The majority of these vesting options related to options issued in the financial year ended 30 June 2009 and were based on financial targets that required 20% EPS growth (base year FY2008) for FY2009, FY2010 and FY2011 plus a transformational event target to achieve 100% vesting. The market capitalisation of the Company at the time of these options were issued ranged between \$129 million to \$220 million and the exercise price was set at a premium to the Company's share price at the time of the issue ranging from 45% and 146%. At the time of vesting the market capitalisation of MMS was in excess of \$600m. These vesting options represented over 9% of the shares on issue. Recognising that NPAT targets are not an appropriate measure of performance when there is a change in the capital structure of the Company, the NPAT targets may be adjusted to take account of such changes e.g. an increase in NPAT targets would be made for increased earnings derived from option proceeds or an acquisition where additional shares were issued

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

### Performance Options

Performance options over unissued ordinary shares in the Company are granted for no consideration and are, other than as disclosed in this Annual Report, granted at or above market prices prevailing when the Board approved the issue. Performance options carry no dividend or voting rights. Once exercised, each option is converted into one fully paid ordinary share in the Company.

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

As at 30 June 2012, the Company had made thirteen offers of performance options in March 2004, December 2004, April 2005, August 2005, February 2007, December 2007, July 2008, November 2008, August 2009 and May 2010, August 2011, October 2011 and March 2012. Many of the performance options issued have vested or expired prior to the financial year ended 30 June 2012.

### Voluntary Options

To provide executives with an additional opportunity to invest in MMS the Board provided executives with the opportunity to acquire options at a 25% discount to their fair value up to an investment limit of \$50,000 per executive. The maximum discount to any one executive is therefore limited to \$16,666. During the year, 314,578 options were issued at \$1.32 each and expire on 30 September 2015 (the consideration was set at a 25% discount to the fair value of the options on grant date).

The entitlement to exercise the voluntary options is not contingent upon continued employment with the Company nor are there performance hurdles. However, if the executive leaves employment before 31 August 2014, the executive will forfeit 25% of their entitlement for \$1 (the amount forfeited being equal to the 25% discount to the fair market value that applied to the acquisition price of the option at the date of the conditional offer and acceptance). The vesting date of these options is upon adoption of the Company's Annual Report for the year ended 30 June 2014. No performance hurdles are attached to these options as the executive has paid \$50,000 for the purchase of the options (representing 75% of the fair value of the options on grant date). The Board is of the view that the purchase of options for valuable consideration aligns the interests of Executives with the long term interests of shareholders, especially in light of the forfeit conditions.

**Details for current performance and voluntary options & performance options vested in FY2012**

Options & issue date	Expiry	Conditions	Vested																				
3,750,000 (July 2008)	30 June 2012	<p>(a) Continuity of employment to 30 June 2011</p> <p>(b) Achievement of predetermined targets, of which 75% was based on earnings per share ("EPS") targets over three years, including a cumulative EPS target over the three year period in the event that the maximum EPS target was not achieved in any one year.</p> <p>(c) The EPS growth targets were based on the actual FY2008 EPS achieved as the base year as follows:</p> <p><b>Performance Hurdles</b></p> <table border="1"> <thead> <tr> <th>Performance Hurdles</th> <th>Weighting</th> </tr> </thead> <tbody> <tr> <td>Achievement of FY2009 EPS growth of not less than 15.0%</td> <td>12.50%</td> </tr> <tr> <td>Achievement of FY2009 EPS growth of not less than 17.5%</td> <td>6.25%</td> </tr> <tr> <td>Achievement of FY2009 EPS growth of not less than 20.0%</td> <td>6.25%</td> </tr> <tr> <td>Achievement of FY2010 EPS growth of not less than 15.0%</td> <td>12.50%</td> </tr> <tr> <td>Achievement of FY2010 EPS growth of not less than 17.5%</td> <td>6.25%</td> </tr> <tr> <td>Achievement of FY2010 EPS growth of not less than 20.0%</td> <td>6.25%</td> </tr> <tr> <td>Achievement of FY2011 EPS growth of not less than 15.0%</td> <td>12.50%</td> </tr> <tr> <td>Achievement of FY2011 EPS growth of not less than 17.5%</td> <td>6.25%</td> </tr> <tr> <td>Achievement of FY2011 EPS growth of not less than 20.0%</td> <td>6.25%</td> </tr> </tbody> </table> <p>(d) The balance (25%) was based on the undertaking by the Company of a transformational event resulting in a major diversification for the Company. The transformational event is regarded as having been met through the acquisition of Interleasing (Australia) Ltd.</p>	Performance Hurdles	Weighting	Achievement of FY2009 EPS growth of not less than 15.0%	12.50%	Achievement of FY2009 EPS growth of not less than 17.5%	6.25%	Achievement of FY2009 EPS growth of not less than 20.0%	6.25%	Achievement of FY2010 EPS growth of not less than 15.0%	12.50%	Achievement of FY2010 EPS growth of not less than 17.5%	6.25%	Achievement of FY2010 EPS growth of not less than 20.0%	6.25%	Achievement of FY2011 EPS growth of not less than 15.0%	12.50%	Achievement of FY2011 EPS growth of not less than 17.5%	6.25%	Achievement of FY2011 EPS growth of not less than 20.0%	6.25%	The options vested upon the adoption of the 2011 Annual Report.
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2,600,114 (November 2008) and 327,273 (August 2009)	November 2012 and August 2013	<p>(a) Continuity of employment.</p> <p>(b) Achievement of predetermined targets, of which 100% was based on EPS targets over three years, including a cumulative EPS target over three years in the event that the maximum target was not achieved in any one year.</p> <p>(c) The EPS growth target was based on the actual FY2008 EPS achieved as the base year as follows:</p> <p><b>Performance Hurdles</b></p> <table border="1"> <thead> <tr> <th>Performance Hurdles</th> <th>Weighting</th> </tr> </thead> <tbody> <tr> <td>Achievement of FY2009 EPS growth of not less than 15.0%</td> <td>25.00%</td> </tr> <tr> <td>Achievement of FY2009 EPS growth of not less than 17.5%</td> <td>5.00%</td> </tr> <tr> <td>Achievement of FY2009 EPS growth of not less than 20.0%</td> <td>3.34%</td> </tr> <tr> <td>Achievement of FY2010 EPS growth of not less than 15.0%</td> <td>25.00%</td> </tr> <tr> <td>Achievement of FY2010 EPS growth of not less than 17.5%</td> <td>5.00%</td> </tr> <tr> <td>Achievement of FY2010 EPS growth of not less than 20.0%</td> <td>3.33%</td> </tr> <tr> <td>Achievement of FY2011 EPS growth of not less than 15.0%</td> <td>25.00%</td> </tr> <tr> <td>Achievement of FY2011 EPS growth of not less than 17.5%</td> <td>5.00%</td> </tr> <tr> <td>Achievement of FY2011 EPS growth of not less than 20.0%</td> <td>3.33%</td> </tr> </tbody> </table>	Performance Hurdles	Weighting	Achievement of FY2009 EPS growth of not less than 15.0%	25.00%	Achievement of FY2009 EPS growth of not less than 17.5%	5.00%	Achievement of FY2009 EPS growth of not less than 20.0%	3.34%	Achievement of FY2010 EPS growth of not less than 15.0%	25.00%	Achievement of FY2010 EPS growth of not less than 17.5%	5.00%	Achievement of FY2010 EPS growth of not less than 20.0%	3.33%	Achievement of FY2011 EPS growth of not less than 15.0%	25.00%	Achievement of FY2011 EPS growth of not less than 17.5%	5.00%	Achievement of FY2011 EPS growth of not less than 20.0%	3.33%	Other than options in this tranche which have lapsed due to resignation, the options in this tranche vested during the year upon the adoption of the 2011 Annual Report.
Performance Hurdles	Weighting																						
Achievement of FY2009 EPS growth of not less than 15.0%	25.00%																						
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Achievement of FY2011 EPS growth of not less than 17.5%	5.00%																						
Achievement of FY2011 EPS growth of not less than 20.0%	3.33%																						
537,634 (May 2010)		<p>(a) Entitlement to exercise confirmed during the year upon the Company agreeing to a 36 month employment contract following completion of an 18 month fixed term employment contract.</p> <p>(b) The entitlement is subject to continuity of employment and the achievement of predetermined NPAT targets over three years. *</p> <p>*The targets are established as the same targets for the options issued in August 2011 described immediately below.</p>	Entire issue vests and is exercisable (subject to the achievement of the conditions) on 1 October 2014.																				
1,858,829 (August 2011) and 352,942 (October 2011) and 31,250 (March 2012)	The options expire four years from the relevant date of issue.	<p>The entitlement to exercise these options is subject to continuity of employment and the achievement of predetermined targets, of which 100% is based on NPAT growth targets over three years. The NPAT growth will be based on the actual NPAT achieved for the year ended 30 June 2011 (the 'Base Year'). The NPAT growth target will be based on compounding growth targets from the Base year.</p> <p>In the event that the NPAT target in any one year is not achieved, at the end of the three year period ending 30 June 2014 the actual compound NPAT over the three year period will be calculated, and if the total exceeds the compound EPS target for the three year period, then the executives will be entitled to exercise all the options which have not been forfeited.</p> <p>The Board retains the right to adjust the NPAT targets in the event of a change in the capital structure of the Company that impacts earnings per share. Any change to the NPAT targets will be made having regard to the actual NPAT impact of the change to the capital structure.</p> <p>In the event that the executives take unpaid leave for a period exceeding three months during any of the years ending 30 June 2012, 2013 or 2014, the vesting criteria outlined above with respect to the financial performance of the Company and the executives continued employment will be determined on a pro rate basis to reflect the period of their continuous service during the relevant financial year unless the Board in its discretion determine otherwise.</p> <p>The performance hurdles are as follows.</p> <p><b>Performance Hurdles</b></p> <table border="1"> <thead> <tr> <th>Performance Hurdles</th> <th>Vesting portion</th> </tr> </thead> <tbody> <tr> <td>FY2012 NPAT growth not less than 12.5%</td> <td>33.34%</td> </tr> <tr> <td>FY2013 NPAT growth not less than 15.0%</td> <td>33.33%</td> </tr> <tr> <td>FY2014 NPAT growth not less than 15.0%</td> <td>33.33%</td> </tr> </tbody> </table>	Performance Hurdles	Vesting portion	FY2012 NPAT growth not less than 12.5%	33.34%	FY2013 NPAT growth not less than 15.0%	33.33%	FY2014 NPAT growth not less than 15.0%	33.33%	The entire issue vests upon the adoption of the Company's Annual Report for the financial year ended 30 June 2014.												
Performance Hurdles	Vesting portion																						
FY2012 NPAT growth not less than 12.5%	33.34%																						
FY2013 NPAT growth not less than 15.0%	33.33%																						
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## Retirement Benefits - Executives

No contracted retirement benefits are in place with any of the Company's executives. Retirement benefits may be provided by the Company to executives (including executive directors) from time to time if approved by shareholders (or otherwise provided in accordance with the *Corporations Act 2001* (Cth)).

## Remuneration Details

The senior executives specified in the Remuneration Report as key management personnel (as defined in AASB124 Related Party disclosures) have, either directly or indirectly, authority and responsibility for planning, directing and controlling the activities of the Group. The Directors do not believe that any other senior employees of the Company or its controlled entities are required to be identified.

Details of the remuneration of the Directors and other key management personnel of the Group are set out in the following tables.

The key management personnel of the Group are the Directors of McMillan Shakespeare Limited and the executives listed in the table below.

	Short-term benefits			Post-employment benefits	Long-term benefits	Share-based payments	Total Remuneration	Percentage of Remuneration as options	
	Cash salary/fees <sup>1</sup>	Cash Bonus	Other Benefits <sup>2</sup>	Super	Termination Benefits <sup>3</sup>	Long Service Leave			Options <sup>4</sup>
	\$	\$	\$	\$	\$	\$	\$	%	
<b>2012</b>									
<b>Non-Executive Directors</b>									
Mr R. Pitcher, AM (Chairman)	167,431	-	-	15,069	-	-	182,500	-	
Mr J. Bennetts (Non-Executive Director)	64,220	-	-	5,780	-	-	70,000	-	
Mr R. Chessari (Non-Executive Director)	64,220	-	-	5,780	-	-	70,000	-	
Mr G. McMahon (Non-Executive Director)	60,844	-	-	37,635	-	-	98,479	-	
Mr A. Podesta (Non-Executive Director)	7,729	-	-	62,271	-	-	70,000	-	
<b>Executive Director</b>									
Mr M. Kay (CEO <sup>5</sup> and Managing Director)	970,334	75,000	15,282	50,000	-	4,328	1,630,980	32%	
<b>Other key management personnel</b>									
Mr G. Kruyt (Chief Operating Officer) <sup>6</sup>	286,578	85,000	42,264	15,775	-	24,911	522,421	13%	
Mr P. Lang (Group Executive, Customers and Corporate Affairs) <sup>7</sup>	252,675	60,000	24,200	15,775	-	11,344	428,858	15%	
Mr M. Blackburn (Group CFO and Company Secretary) <sup>11</sup>	214,474	40,000	181,985	29,851	-	32	628,951	26%	
Mr M. Salisbury (Managing Director, Remuneration Services) <sup>9</sup>	232,752	50,000	9,040	18,899	-	2,073	346,747	10%	
Mr A. Tomas (Managing Director, Fleet and Financial Products) <sup>10</sup>	437,615	300,000	76,702	25,020	-	95	954,139	12%	
Mr P. McCluskey (Group CFO and Company Secretary to 26 October 2011) <sup>8</sup>	136,782	-	-	5,157	-	483	145,938	2%	
<b>2011</b>									
<b>Non-Executive Directors</b>									
Mr R. Pitcher, AM (Chairman)	160,550	-	-	14,450	-	-	175,000	-	
Mr J. Bennetts (Non-Executive Director)	64,220	-	-	5,780	-	-	70,000	-	
Mr R. Chessari (Non-Executive Director)	64,220	-	-	5,780	-	-	70,000	-	
Mr G. McMahon (Non-Executive Director)	55,000	-	-	40,000	-	-	95,000	-	
Mr A. Podesta (Non-Executive Director)	38,333	-	-	50,000	-	-	88,333	-	
<b>Executive Directors</b>									
Mr M. Kay (CEO <sup>5</sup> and Managing Director)	899,103	100,000	5,166	50,000	-	4,290	1,341,261	21	
<b>Other key management personnel</b>									
Mr G. Kruyt (Group Executive, Novated Leasing and Fleet Services) <sup>6</sup>	245,619	60,000	39,438	14,944	-	6,323	386,551	5	
Mr P. Lang (Group Executive, Salary Packaging) <sup>7</sup>	197,567	40,000	48,521	23,955	-	8,262	338,533	6	
Mr P. McCluskey (Group CFO and Company Secretary) <sup>8</sup>	404,493	50,000	-	24,023	-	20,122	498,638	-	
Mr M. Cansdale (Group CFO and Company Secretary) until 31 August 2010	59,224	-	25,942	2,781	-	196,923	284,759	-	
Mr M. Salisbury (General Manager, Remuneration Services) <sup>9</sup>	200,742	50,000	13,021	19,838	-	1,494	293,922	3	
Mr A. Tomas (Group Executive, Fleet and Novated Leasing) <sup>10</sup>	399,030	-	74,022	24,999	-	95	609,257	18	

In the case of redundancy, the company Redundancy Policy will apply to the extent that the payment is greater than the payment made to an executive on termination.

1 The amounts shown for the Non-Executive Directors reflect directors' fees only. The amounts shown for the executives reflect cash salary and annual leave entitlements.

2 Other benefits reflect motor vehicle lease payments, investment loan repayments, education expenses, travel benefits and/or car parking benefits.

3 Other than as disclosed in this Annual Report, termination benefits include all annual leave and, where applicable, long service leave entitlements that accrued during the financial years ended 30 June 2011 and 30 June 2012.

4 The equity value comprises the value of options issued. No shares were issued to any Director (and no options were granted to any Director) during the financial years ended 30 June 2011 and 30 June 2012. The value of options issued to executives (as disclosed above) are the assessed fair values (less any payment for the options) at the date that the options were granted to the executives, allocated equally over the period from when the services are provided to vesting date. Fair values at grant date are determined using a binomial option pricing model that takes into account the exercise price, the expected term of the option, the share price at grant date, the expected price volatility of the underlying share, the expected dividend yield and the risk-free interest rate for the term of the option.

The model inputs for options granted to executives during the financial year ended 30 June 2012 included:

Model input	30 June 2012 (August 2011)	30 June 2012 (August 2011)	30 June 2012 (August 2011) <sup>(i)</sup>	30 June 2012 (October 2011)	30 June 2012 (March 2012)
Consideration payable upon grant	Nil	\$1.32	Nil	Nil	Nil
Exercise price	\$7.31	\$7.31	\$7.31	\$8.54	\$9.29
Grant date	16 August 2011	16 August 2011	16 August 2011	26 October 2011	14 March 2012
Expected life	3.2 years	3.2 years	3.2 years	3.0 years	2.8 years
Share price at grant date	\$7.31	\$7.31	\$8.54	\$8.54	\$9.29
Expected price volatility	40%	40%	34%	34%	42%
Expected dividend yield	5.3%	5.3%	4.4%	4.4%	4.1%
Risk-free interest rate	3.9%	3.9%	3.9%	3.9%	3.7%

(i) These options were granted to Mr M. Kay in August 2011 and subsequently approved by shareholders at the Annual General Meeting on 25 October 2011.

5 The current employment agreement between Mr Kay and the Company commenced on 9 September 2011 and is for a fixed term ending 31 August 2014. The agreement provides for termination of employment by either party without cause on the provision of six months' written notice (or, with respect to the Company, payment in lieu). The agreement may also be terminated by the Company for cause without notice or any payment. Mr Kay served as an executive at all times during the financial year ended 30 June 2012.

6 The current employment agreement between Mr Kruyt and the Company commenced on 3 October 2011 and is ongoing. The agreement provides for termination of employment by either party on the provision of six months' written notice (or, with respect to the Company, payment in lieu). The agreement may, however, be terminated by the Company for cause without notice or any payment. Mr Kruyt served as an executive at all times during the financial year ended 30 June 2012.

7 The current employment agreement between Mr Lang and the Company commenced on 12 September 2011 and is ongoing. The agreement provides for termination of employment by either party on the provision of six months' written notice (or, with respect to the Company, payment in lieu). The agreement may, however, be terminated by the Company for cause without notice or any payment. Mr Lang served as an executive at all times during the financial year ended 30 June 2012.

8 The employment agreement between Mr McCluskey and the Company was varied with effect from 1 September 2010 to appoint Mr McCluskey as Group Chief Financial Officer and Company Secretary. Mr McCluskey resigned from this position on 26 October 2011. The agreement provided for termination of employment by either party with two month's notice. The agreement was able to be terminated by the Company for cause without notice or any payment. Mr McCluskey served as an executive until 26 October 2011.

9 The employment agreement between Mr Salisbury and the Company commenced on 1 July 2008 and is ongoing. The agreement provides for termination of employment by either party with 12 weeks' notice. The agreement may, however, be terminated by the Company for cause without notice or any payment. Mr Salisbury served as an executive at all times during the financial year ended 30 June 2012.

10 The current employment agreement between Mr Tomas and the Company commenced on 3 October 2011 and is for a fixed term ending 30 September 2014. The agreement provides for termination of employment by either party without cause with six month's notice in writing (in the case of the Company, subject to a termination payment). The agreement may, however, be terminated by the Company for cause without notice or any payment. Mr Tomas served as an executive at all times during the financial year ended 30 June 2012. Included in cash bonus is \$250,000 that was paid during the year pursuant to the completion of the Interleasing STI program which was established to reward certain achievements in relation to the acquisition of Interleasing (Australia) Limited (see page 6).

11 The employment agreement between Mr Blackburn and the Company commenced on 10 October 2011 and is for a five year fixed term. The agreement provides for termination of employment by either party without cause on the provision of six months' written notice (or, with respect to the Company, payment in lieu). The agreement may also be terminated by the Company for cause without notice or any payment. Mr Blackburn served as an executive from October 2011.

## Remuneration at risk

The relevant proportions of remuneration that are linked to performance and those that are fixed are as follows:

	Fixed remuneration		At risk - STI		At risk - LTI	
	2012	2011	2012	2011	2012	2011
<b>Executive Directors</b>						
Mr M. Kay	64%	72%	4%	7%	32%	21%
<b>Other key management personnel</b>						
Mr G. Kruyt	71%	79%	16%	16%	13%	5%
Mr P. Lang	71%	82%	14%	12%	15%	6%
Mr P. McCluskey <sup>1</sup>	98%	90%	-	10%	2%	-
Mr M. Blackburn <sup>2</sup>	68%	-	6%	-	26%	-
Mr M. Salisbury	76%	80%	14%	17%	10%	3%
Mr A. Tomas	57%	82%	31%	-	12%	18%

<sup>1</sup> Mr McCluskey resigned as Group Chief Financial Officer and Company Secretary on 26 October 2011.

<sup>2</sup> Mr Blackburn commenced as Group Chief Financial Officer on 10 October 2011 and Company Secretary from 26 October 2011.

## Consequences of performance on shareholders' wealth

In addition to the links between remuneration and shareholder value discussed above, when reviewing the Group's performance and benefits for shareholder wealth, and the link to the remuneration policy, the following indices are generally considered:

Indices	2012	2011	2010	2009	2008
Net profit attributable to Company members	\$54,305,163	\$43,460,470	\$44,959,784	\$20,522,752	\$17,368,000
NPAT growth <sup>(1)</sup>	25.0%	55.7%	36.0%	18.2%	31.2%
Dividends paid	\$31,422,422	\$20,388,246	\$13,854,604	\$11,827,100	\$10,451,000
Share price as at 30 June	\$11.82	\$9.58	\$4.69	\$2.92	\$2.46
Earnings per share	76.6 cents	64.0 cents	66.5 cents	30.4 cents	25.8 cents

<sup>1</sup> NPAT growth in 2011 and 2010 have excluded the gain on acquisition of Interleasing (Australia) Limited in April 2010 of \$17,055,000.

Net profit is considered as part of the financial performance targets in setting short term incentives. Dividends, changes in share price, return on equity and earnings per share are all taken into account when setting the 'at risk' components of executive remuneration.

The overall level of executive compensation takes into account the performance of the Group over a number of years. The Group's profit from ordinary activities after tax and earnings per share has grown at a compound annual growth rate (CAGR) of 32.6% per annum over the period from 1 July 2007 until 30 June 2012 (excluding the gain on business combination). Over the same period return on equity (RoE) exceeded 35%.

**Option Details**

No options were granted to, exercised by or lapsed with respect to Non-Executive Directors during the years ended 30 June 2012 or 30 June 2011. The terms and conditions of each grant of options to executives affecting their remuneration in the financial year ended 30 June 2012 and each relevant previous or future financial year are as follows.

Grant Date	Expiry Date	Share price at valuation date	Exercise Price	Value per option at grant date <sup>1</sup>	Date Exercisable
21 December 2007	20 December 2011	\$4.00	\$4.52	\$0.525	100% after 15 September 2008
1 July 2008	30 June 2012	\$2.59	\$4.70	\$0.240	100% after 16 September 2011
24 November 2008	23 November 2012	\$2.10	\$4.70	\$0.090	100% after 24 November 2011
24 November 2008	23 November 2012	\$2.10	\$3.40	\$0.180	100% after 24 November 2011
28 May 2010	1 October 2015	\$3.42	\$3.42	\$0.930	100% after 1 October 2014
16 August 2011	30 September 2015	\$7.31	\$7.31	\$1.759	100% after 7 September 2014
16 August 2011 <sup>(2)</sup>	30 September 2015	\$8.54	\$7.31	\$2.310	100% after 7 September 2014
25 October 2011	30 September 2015	\$8.54	\$8.54	\$1.870	100% after 7 September 2014
14 March 2012	30 September 2015	\$9.29	\$9.29	\$2.400	100% after 7 September 2014

<sup>1</sup> Reflects the value at grant date for options granted as part of remuneration calculated in accordance with AASB 2: Share-based Payment.

<sup>2</sup> These options were issued to the Managing Director on 16 August 2011 and valued on the day of approval by shareholders at the Annual General Meeting on 25 October 2011.

Details of the options granted, vested and exercised during the financial years ended 30 June 2012 and 30 June 2011 with respect to the executives are set out in the table below. No amounts are unpaid on any shares issued on the exercise of options.

Executive Directors	Options granted		Options vested		Ordinary shares issued on exercise of options	
	2012	2011	2012	2011	2012 <sup>(1)</sup>	2011
Mr M. Kay	720,106	-	3,750,000	-	3,750,000	-
<b>Other key management personnel</b>						
Mr G. Kruyt	197,538	-	625,000	-	625,000	90,000
Mr P. Lang	189,556	-	625,000	-	625,000	40,000
Mr P. McCluskey	123,177	-	-	-	-	-
Mr M. Blackburn	352,942	-	-	-	-	-
Mr M. Salisbury	85,276	-	136,364	-	136,364	-
Mr A. Tomas	37,901	-	-	-	-	-

<sup>1</sup> Including options sold by executives prior to exercise.

The percentage of options granted to executives that have vested or were forfeited during the financial year ended 30 June 2012 is set out below:

	Financial year granted	Vested %	Forfeited %	Financial year(s) in which options may vest
<b>Executive Directors</b>				
Mr M. Kay	2009	100%	-	-
Mr M. Kay	2012	-	-	2015
<b>Other key management personnel</b>				
Mr G. Kruyt	2009	100%	-	-
Mr G. Kruyt	2012	-	-	2015
Mr P. Lang	2009	100%	-	-
Mr P. Lang	2012	-	-	2015
Mr M. Salisbury	2009	100%	-	-
Mr M. Salisbury	2012	-	-	2015
Mr M. Blackburn	2012	-	-	2015
Mr P. McCluskey	2012	-	-	2015
Mr A. Tomas	2010	-	-	2015

Details of the value of options granted, exercised or lapsed during the financial year ended 30 June 2012 with respect to the executives are as follows:

	Value at grant date <sup>(1)</sup>	Discount paid at grant date <sup>(2)</sup>	Value at exercise date <sup>(3)</sup>	Value at lapse date <sup>(4)</sup>	Minimum value of option to vest	Maximum value of option to vest
	\$	\$	\$	\$	\$	\$
<b>Executive Directors</b>						
Mr M. Kay	1,663,445	(50,000)	16,730,326	-	-	1,149,310
<b>Other key management personnel</b>						
Mr G. Kruyt	347,469	(50,000)	2,764,204	-	-	211,897
Mr P. Lang	333,429	(50,000)	2,799,894	-	-	201,895
Mr M. Blackburn	660,002	-	-	-	-	497,392
Mr P. McCluskey	216,668	(50,000)	-	-	-	118,723
Mr M. Salisbury	150,000	-	732,885	-	-	106,850
Mr A. Tomas	66,668	(50,000)	-	-	-	261,874

1 Reflects the value at grant date for options granted as part of remuneration during the financial year ended 30 June 2012 calculated in accordance with AASB 2: Share-based Payment.

2 Reflects payments by executives to purchase voluntary options at grant date (refer Voluntary Option note on page 7)

3 Reflects the value at exercise date for options that were granted as part of remuneration and were sold or exercised during the financial year ended 30 June 2012.

4 Reflects the value at lapse date for options that were granted as part of remuneration and lapsed during the financial year ended 30 June 2012.

## OPTIONS GRANTED

During the financial year ended 30 June 2012, options were granted by the Company to directors and key management personnel as part of their remuneration as follows:

	Number granted	Class of option	Date of grant	Exercise price	Expiry date	Issue Price
<b>Executive Directors</b>						
Mr M. Kay	682,206	Performance	25 October 2011	\$7.31	30 September 2015	Nil
Mr M. Kay	37,900	Voluntary	25 October 2011	\$7.31	30 September 2015	\$1.32
<b>Key management personnel</b>						
Mr G. Kruyt	159,637	Performance	16 August 2011	\$7.31	30 September 2015	Nil
Mr G. Kruyt	37,901	Voluntary	16 August 2011	\$7.31	30 September 2015	\$1.32
Mr P. Lang	151,655	Performance	16 August 2011	\$7.31	30 September 2015	Nil
Mr P. Lang	37,901	Voluntary	16 August 2011	\$7.31	30 September 2015	\$1.32
Mr M. Blackburn	352,942	Performance	25 October 2011	\$8.54	30 September 2015	Nil
Mr P. McCluskey	85,276	Performance	16 August 2011	\$7.31	30 September 2015	Nil
Mr P. McCluskey	37,901	Voluntary	16 August 2011	\$7.31	30 September 2015	\$1.32
Mr M. Salisbury	85,276	Performance	16 August 2011	\$7.31	30 September 2015	Nil
Mr A. Tomas	37,901	Voluntary	16 August 2011	\$7.31	30 September 2015	\$1.32

No person holding an option has or had, by virtue of the option, a right to participate in a share issue of any other corporation.

## UNISSUED SHARES

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

Option class	No. of unissued ordinary shares	Exercise price	Expiry date
Performance Options	537,634	\$3.42	1 October 2015
Performance Options	1,858,829	\$7.31	30 September 2015
Voluntary Options	314,578	\$7.31	30 September 2015
Performance Options	352,942	\$8.54	30 September 2015
Performance Options	31,250	\$9.29	30 September 2015
Performance Options <sup>(i)</sup>	121,331	\$11.42	30 September 2015

(i) Performance options issued since the end of the financial year ended 30 June 2012.

## DIRECTORS' INTERESTS

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

Director	Options	Ordinary shares
Mr R. Pitcher, AM (Chairman)	-	41,871
Mr M. Kay (Managing Director)	720,106	1,444,952
Mr J. Bennetts	-	4,184,025
Mr R. Chessari	-	6,225,063
Mr G. McMahon	-	122,000
Mr A. Podesta	-	7,235,000

No Director has, during the financial year ended 30 June 2012, become entitled to receive any benefit (other than a benefit included in the aggregate amount of remuneration received or due and receivable by the Directors shown in the Remuneration Report or the fixed salary of a full time employee of the Company) by reason of a contract made by the Company or a controlled entity with the Director or an entity in which the Director has a substantial financial interest or a firm in which the Director is a member.

## ENVIRONMENTAL REGULATIONS

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

## INDEMNIFICATION AND INSURANCE

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

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

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

## NON-AUDIT SERVICES

Details of the amounts paid or payable to the auditor of the Company, Grant Thornton Audit Pty Ltd and its related practices, for non-audit services provided, during the financial year ended 30 June 2012, is disclosed in Note 4 to the Financial Statements.

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

The Audit Committee has reviewed a summary of non-audit services provided during the financial year ended 30 June 2012 by Grant Thornton Audit Pty Ltd. Given that the only non-audit services related to client contract audits, and vehicle compliance and payroll systems audits the Audit Committee has confirmed that the provision of non-audit services is compatible with the general standard of independence for auditors imposed by the *Corporations Act 2001* (Cth). This has been formally advised to the Board. Consequently, the Directors are satisfied that the provision of non-audit services during the year by the auditor and its related practices did not compromise the auditor independence requirements of the *Corporations Act 2001* (Cth).



## AUDITOR'S INDEPENDENCE DECLARATION

A copy of the auditor's independence declaration, as required under section 307C of the *Corporations Act 2001* (Cth), is set out on page 63 of this Annual Report.

## CORPORATE GOVERNANCE PRACTICES

A Corporate Governance Statement is set out on pages 16 to 20 of this Annual Report.

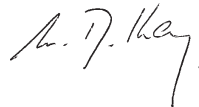
Signed in accordance with a resolution of the Directors.



Ronald Pitcher, AM  
Chairman

6 September 2012

Melbourne, Australia



Michael Kay  
Managing Director

# CORPORATE GOVERNANCE STATEMENT

## INTRODUCTION

This statement outlines the corporate governance policies and practices formally adopted by the Company. These policies and practices are in accordance with the ASX Corporate Governance Council's 'Corporate Governance Principles and Recommendations' (ASX Principles), unless otherwise stated.

## ROLE OF THE BOARD

The role of the Board is to provide strategic guidance for the Group and effective oversight of management. The Board operates in accordance with the Company's Constitution, Board Charter and Delegated Authority Matrix, which describe the Board's composition, functions and responsibilities and designates authority reserved to the Board and that delegated to management. The Board Charter can be accessed on the Company's website ([www.mmsg.com.au](http://www.mmsg.com.au)).

## COMPOSITION OF THE BOARD

As at the date of this Annual Report, the Directors are as follows:

Name	Position	Appointment
Mr R. Pitcher, AM	Independent Chairman	4 February 2004
Mr M. Kay	Managing Director and Chief Executive Officer	15 July 2008
Mr J. Bennetts	Non-Executive Director	1 December 2003
Mr R. Chessari	Non-Executive Director	1 December 2003
Mr G. McMahon	Independent Non-Executive Director	18 March 2004
Mr A. Podesta	Non-Executive Director	1 December 2003

Each Director is a senior executive with the skills and experience necessary for the proper supervision and leadership of the Company. As a team, the Board brings together a broad range of qualifications and experience in remuneration services, financial services, finance, accounting, law, sales and marketing and public company affairs. Details of the Directors, their experience and their special responsibilities with respect to the Company are set out in the Directors' Report.

The Board considers a Director independent if that person is free of management and other business relationships that could materially interfere, or could reasonably be perceived to materially interfere, with the exercise of objective and independent judgement. More information can be obtained from the Group's Policy on the Independence of Directors which can be accessed on the Company's website. The Chairman determines the relevant materiality thresholds on a case by case basis with reference to both quantitative and qualitative bases.

The ASX Guidelines recommend that a listed company should have a majority of directors who are independent. The Board, as currently composed, does not comply with this recommendation. Mr Chessari and Mr Bennetts currently hold, through their controlled entities, approximately 8.4% and 5.8% respectively of the shares in the Company. These Directors have participated in the growth and development of McMillan Shakespeare and have a significant interest in the Company's continued success. Given their history and skills, the Board believes that it is appropriate for each of these Directors to be appointed to the Board.

Despite stepping down as CEO in the year ended 30 June 2008, and resigning as an Executive Director on 17 August 2010, Mr Podesta continues as a Director of the Company. As the founder of the Company, and with over 20 years experience in the remuneration services industry, Mr Podesta brings a wealth of experience and an in-depth knowledge of the Group's operations and customers to the Board. As the Company's largest shareholder, he also has a significant interest in the Company's continued success. As such, the Board believes that it is appropriate for Mr Podesta to remain on the Board as a non-independent Director.

The Company believes that the Board, as currently composed, has the necessary skills and motivation to ensure that it continues to perform strongly notwithstanding that its overall composition does not specifically meet the ASX Principles. Details of the experience of the Directors is contained in the Directors' Report.

The Chairman is responsible for leading the Board ensuring Directors are properly briefed in all matters relevant to their role and responsibilities, facilitating Board discussions and managing the Board's relationships with the Company's senior executives.

The Chief Executive Officer is responsible for implementing Group strategies and policies. The Board Charter specifies that these are separate roles to be undertaken by separate people.

## BOARD PRACTICES

The Board meets regularly to evaluate, control, review and implement the Company's operations and objectives. The Directors receive monthly reports from the Chief Executive Officer, the Chief Financial Officer and operational managers. A Director, subject to prior approval of the Chairman or, in the absence of that approval, the Board may seek independent professional advice (including legal advice) at the Company's expense to assist them in carrying out their duties and responsibilities.

## PERFORMANCE REVIEW

The Board has delegated the responsibility for evaluating the performance of the Board, the Directors and the Board Committees to the Chairman. The performance evaluation includes the examination of the performance of the Board and the individual Directors against the Board Charter. The evaluation may establish goals and objectives for the Board and provide any recommendations for improvement to Board performance as it sees fit. The Chairman undertook the performance appraisal of the Board, the individual Directors and the Board Committees with respect to the financial year ended 30 June 2012 in July 2012.

The Board has delegated the responsibility for evaluating the performance of executive management to the Remuneration Committee and CEO.

Given the size of the Company's operations, the Board has decided against the establishment of a separate nomination committee at this time. As such, the responsibility for the selection and nomination of new Directors remains with the full Board.

## REMUNERATION COMMITTEE

The Board has established a Remuneration Committee, which is structured so that the committee is chaired by an independent director and consists of at least three members all of whom are Non-Executive Directors. Details of names and relevant qualifications of the Directors appointed to the Remuneration Committee, the number of meetings of the committee held during the year ended 30 June 2012 and the attendance record for each relevant member can be found in the Directors' Report.

The Remuneration Committee is empowered to investigate any matter brought to its attention and has direct access to any employee or any independent expert and adviser as it considers appropriate in order to ensure that its responsibilities can be carried out effectively. The Remuneration Committee has a documented charter approved by the Board. The charter can be accessed on the Company's website.

The CEO carries out half-yearly performance reviews with each member of the senior executive team, comparing the individual's performance against their agreed performance targets. This process was completed for the year ended 30 June 2012 with the CEO's report to the 24 July 2012 meeting of the Remuneration Committee. The Remuneration Committee has evaluated the performance of the Chief Executive Officer for the year ended 30 June 2012, taking account of the performance of the Group and other non-financial outcomes.

The ASX Principles recommend that the majority of members of the Remuneration Committee should be independent. The Remuneration Committee, as currently composed, does not comply with this recommendation.

At present, the Remuneration Committee is comprised of four members, two of whom are not independent. Mr Chessari and Mr Bennetts have participated in the growth and development of McMillan Shakespeare and have a significant interest in the Company's continued success. Given their management experience and skills, the Board believes that it is appropriate for each of these Directors to be appointed to the Remuneration Committee.

## AUDIT COMMITTEE

The Board has established an Audit Committee, which is structured so that the committee is chaired by an independent director and consists of at least three members, all of whom are Non-Executive Directors. Details of the names and relevant qualifications of the Directors appointed to the Audit Committee, the number of meetings of the committee held during the year ended 30 June 2012 and the attendance record for each relevant member can be found in the Directors' Report.

The Audit Committee is empowered to investigate any matter brought to its attention and has direct access to any employee, the independent auditors or any other independent experts and advisers as it considers appropriate in order to ensure that its responsibilities can be performed effectively. The Audit Committee has a documented charter approved by the Board. The charter can be accessed on the Company's website.

The ASX Listing Rules require that the majority of members of the Audit Committee should be independent and that a person who is not the Chairman of the Board should chair the committee. The Audit Committee, as composed during the financial year ended 30 June 2012 did not comply with these requirements at all times.

The Board believes that during the financial year ended 30 June 2012, the Audit Committee had appropriate financial expertise with all members being financially literate and having a deep understanding of the industry in which the Company operates. The Audit Committee was comprised of four members, only two of whom were independent. Mr Chessari and Mr Bennetts have participated in the growth and development of McMillan Shakespeare and have a significant interest in the Company's continued success. Given their management experience, skills and the size of their investment in the Company, the Board believed that it was appropriate for each of these Directors to be appointed to the Audit Committee.

In addition, during the financial year ended 30 June 2012, the Audit Committee was chaired by Mr Pitcher who, while independent, is also the Chairman of the Board. Mr Pitcher is a chartered accountant with over 45 years experience in the accounting profession and the provision of business advisory services. Given the Company's highly specialised activities and Mr Pitcher's extensive accounting and business experience, the Board believed that Mr Pitcher was the most appropriate person to chair the Audit Committee.

The external auditor together with the Chief Executive Officer, Chief Financial Officer and Mr Podesta are invited to attend the meetings. The Audit Committee also meets with the external auditor twice a year without management to provide the auditor the opportunity to provide feedback on the conduct of the audit and management.

On 25 June 2012, the composition of the Audit Committee changed and conforms to the ASX Listing Rules. Mr Pitcher resigned as Chairman and Mr McMahon was appointed as the Chairman. Mr Chessari resigned as a member of the Audit Committee. The Audit Committee as currently composed consists of a majority of members that are independent and a person who is not the Chairman of the Board is chair of the Audit Committee.

The Company has adopted procedures for the selection and appointment of the external auditor, and the rotation of external audit engagement partners in line with the *Corporations Act 2001* (Cth).

## FINANCIAL REPORTING & RISK MANAGEMENT

Given the nature and size of the Company's operations, the Board has decided against the establishment of a separate Board risk management committee at this time, and risk management remains a direct responsibility of the full Board. As such, the Board has ultimate responsibility for the integrity of the Company's financial reporting. As part of the Group's risk management processes, senior management attend a monthly Risk and Compliance Committee, which is supported by internal control processes for identifying, evaluating and managing significant financial, operational and compliance risks to the achievement of the Company's objectives, which are subject to Board oversight from time to time. In addition, an independent external party has been appointed to provide internal audit services as required from time to time.

The Company has reviewed its formal Risk Management Policy and Framework during the year, and the Credit Committee and Interest Committee met on a monthly basis during the year. The Risk Management Policy and Framework are accessible to all staff on the Group's intranet and identify the material risks affecting the Company and the manner in which each of those risks will be managed. A copy of the Company's Risk Management Policy can be accessed on the Company's website.

Considerable importance is placed on maintaining a strong control environment. There is an organisation structure with clear lines of accountability and delegation of authority. Adherence to the Director and Employee Codes of Conduct is required at all times and the Board actively promotes a culture of quality and integrity.

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

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

The Company's external auditor has been invited to attend the Annual General Meeting and be available to answer questions from the members of the Company about the conduct of the audit and the preparation and content of the Independent Audit Report.

## REMUNERATION POLICY

The Company's remuneration policy is structured to ensure that the reward for performance is competitive and appropriate for the results delivered. Further, it aims to ensure that remuneration packages properly reflect the duties and responsibilities and level of performance of the staff member and that the remuneration is competitive in attracting, retaining and motivating people of the highest quality.

Non-executive Directors are remunerated by way of fees and do not participate in profit or incentive schemes and do not generally receive options, incentive payments or retirement benefits other than statutory superannuation.

Executive remuneration generally comprises the following elements:

- fixed remuneration, including superannuation and benefits, which is set at a level that reflects the marketplace for each position;
- long-term equity-linked performance incentives, in the form of share options, which incorporate exercise restrictions based on continuity of employment and the achievement of certain individual and financial performance hurdles.

Cash bonuses may also be issued at the discretion of the Board. The Company does not generally offer contracted cash bonuses as part of a short term incentive program, but may do so in special circumstances.

Further details of the Company's remuneration policies and practices in relation to the Directors and executives can be found in the Directors' Report under the heading 'Remuneration Report'.

## COMMUNICATION WITH SHAREHOLDERS AND THE MARKET

The Company's commitment to communicating with its shareholders is embodied in its Shareholder Communication Policy and its Continuous Disclosure Policy, which contain policies and procedures on information and disclosure to facilitate continuous disclosure of any information concerning the Group that a reasonable person would expect to have a material effect on the price of the Company's securities. The Company's Continuous Disclosure Policy and the Shareholder Communication Policy can be accessed on the Company's website. In addition to the distribution of the Annual Report, information is communicated to shareholders via the announcements section of the Company's website.

## ETHICS AND CODES OF CONDUCT

The Company has adopted a Director Code of Conduct that applies to the Directors of the Company. The Director Code of Conduct reflects the commitment of the Company to ethical standards and practices. The Director Code of Conduct can be reviewed on the Company's website.

The Company has also adopted an extensive Employee Code of Conduct that applies to all employees of the Company, which acknowledges the need for, and continued maintenance of, the highest standard of ethics and seeks to ensure that employees act honestly, transparently, diligently and with integrity. A summary of the Employee Code of Conduct can be accessed on the Company's website.

The Company has also implemented a policy on securities trading that binds all of the Group's officers and employees. In addition to ensuring that all officers and employees are aware of the legal restrictions on trading in the Company's securities whilst in possession of unpublished price-sensitive information, the policy also places restrictions on when Directors and employees can deal in the Company's securities and requires the Directors and certain employees to notify the Company Secretary upon dealing in the Company's securities. The policy can be accessed on the Company's website.

The Company has adopted a Whistleblower Policy, which is designed to ensure that employees of the Group can raise concerns in good faith regarding actual or suspected improper conduct or malpractice in the Group, without fear of reprisal or feeling threatened by doing so. The policy can be accessed on the Company's website.

The Company has an Equal Opportunity & Diversity Policy which assists in confirming the Company's commitment to a diverse workforce, ensuring there is ongoing development and implementation of relevant plans, programs and initiatives to recognise and promote diversity, and in establishing the process for appropriate reporting. The policy can be accessed on the Company's website.

The Board encourages and supports the Company's commitment to ensuring a work environment that provides equal opportunity for all. Equal opportunity protects the principle that every person has the right to be treated fairly. The Company fosters an environment which encourages and values diversity in the workplace. The Company applies merit based policies and practices, and believes that the application of these achieves diversity outcomes.

A number of targeted measurable objectives have been approved by the Board in order to assist monitoring and application of the Company's approved policies. The details of the measurable objectives selected for the financial year 30 June 2012 and the report against them is contained below.

### Objective 1

Appropriate action to be taken on any complaints, breaches or recommendations on issues related to EEO or diversity as set out in the Company's EEO & Diversity Policy ('Diversity Recommendations'). The Company will take action within one week of Diversity Recommendation being raised.

The Company Diversity related issues, complaints or breaches could be raised by way of the Whistleblower Policy (either as a complaint or a recommendation), the incident and breach reporting policy, under the EEO & Diversity policy, or other related policies (for example, as part of performance management).

### Objective 2

100% Diversity Recommendations are to be disclosed in summary form to the Risk & Compliance Committee and the Board.

Report against Objectives 1 and 2:

Number of Diversity Recommendations received	% of Recommendations actioned within 1 week	% of Recommendations reported & considered by the Risk & Compliance Committee and the Board
1	100%	100%

### Objective 3

Bi - annual review to be conducted by the Risk & Compliance Committee and the Board of the workplace gender profile:

- a. As part of the lodgement by MMS of its annual report to the Equal Opportunity for Women in the Workplace Agency on their workplace program for women; and
- b. As part of the annual review by the Board of talent and succession planning.

### Report against Objective 3

The Board confirms it has considered the workplace gender profile bi-annually, including reviewing the workplace profile submitted to the Equal Opportunity for Women in the Workplace Agency and as part of the Company's talent and succession planning process. The Company's Risk & Compliance Committee has considered the workplace gender profile.

The Company's workplace gender profile as at March 2012 is set out below:

	Women		Men		Casual		Total	%	
	Full Time	Part Time	Full Time	Part Time	Women	Men		Women	Men
Senior Executives	2	-	10	-	-	-	12	17%	83%
Senior Management/ Specialists	7	2	16	1	-	-	26	35%	65%
Managers/Specialists	21	4	47	2	-	-	74	34%	66%
Team Leaders	23	-	16	-	-	-	39	59%	41%
Admin/Support Staff	70	13	44	2	-	-	129	64%	36%
Sales Staff	58	5	89	-	-	-	152	41%	59%
Service Staff	135	29	106	6	11	7	294	60%	40%
<b>Total</b>	<b>316</b>	<b>53</b>	<b>328</b>	<b>11</b>	<b>11</b>	<b>7</b>	<b>726</b>	<b>52%</b>	<b>48%</b>

There are currently no female directors on the Company Board. In Board appointments, the Company is committed to merit based selection. In selecting new Directors, the Board has regard to skills, experience and perspectives represented on the Board. The Board has developed an appointment process which takes diversity of background into account (in addition to skills and experience) to fit and enhance the Board's skill mix.

### Objective 4

There will be an Annual Review by the Board of the EEO & Diversity Policy and the measurable objectives.

### Reporting against Objective 4

The Board confirms it has undertaken an annual review of the EEO & Diversity Policy, and to the extent it deems necessary or appropriate, changes have been made. The Board has reviewed the measurable objectives for the financial year ended 30 June 2013, and has determined to maintain the existing measurable objectives for that year.

# STATEMENTS OF COMPREHENSIVE INCOME

## FOR THE YEAR ENDED 30 JUNE 2012

	Note	Consolidated Group		Parent Entity	
		2012 \$'000	2011 \$'000	2012 \$'000	2011 \$'000
Revenue and other income	3	302,030	271,305	16,884	21,133
Employee and director benefit expenses		(65,676)	(55,336)	(557)	(1,018)
Depreciation and amortisation expenses and impairment	4(a)	(71,766)	(68,061)	-	-
Leasing and vehicle management expenses		(50,850)	(52,434)	-	-
Consulting expenses		(2,523)	(1,541)	(49)	(88)
Marketing expenses		(3,004)	(2,671)	-	-
Property and corporate expenses		(5,346)	(4,942)	(262)	(201)
Technology and communication expenses		(7,319)	(5,594)	-	-
Other expenses		(7,811)	(7,250)	-	(131)
Finance costs	4(a)	(10,385)	(11,278)	(766)	(1,814)
<b>Profit before income tax</b>		<b>77,350</b>	<b>62,198</b>	<b>15,250</b>	<b>17,881</b>
Income tax (expense) / benefit	5(b)	(23,045)	(18,738)	438	(217)
<b>Profit attributable to members of the parent entity</b>		<b>54,305</b>	<b>43,460</b>	<b>15,688</b>	<b>17,664</b>
<b>Other comprehensive income</b>					
Changes in fair value of cash flow hedges		(1,135)	(306)	-	-
Exchange differences on translating foreign operations		(3)	-	-	-
Income tax on other comprehensive income		339	92	-	-
<b>Total other comprehensive loss for the period</b>		<b>(799)</b>	<b>(214)</b>	<b>-</b>	<b>-</b>
<b>Total comprehensive income for the period</b>		<b>53,506</b>	<b>43,246</b>	<b>15,688</b>	<b>17,664</b>
Basic earnings per share (cents)	6	76.6	64.0		
Diluted earnings per share (cents)	6	74.1	61.2		

The above statements of comprehensive income should be read in conjunction with the accompanying notes.

# STATEMENTS OF FINANCIAL POSITION

## AS AT 30 JUNE 2012

	Note	Consolidated Group		Parent Entity	
		2012 \$'000	2011 \$'000	2012 \$'000	2011 \$'000
<b>Current assets</b>					
Cash and cash equivalents	8	54,420	15,034	7,319	506
Trade and other receivables	9	18,914	14,031	72	342
Finance lease receivables	10	6,043	3,748	-	-
Inventory		1,980	1,477	-	-
Prepayments		3,238	1,489	-	72
<b>Total current assets</b>		<b>84,595</b>	<b>35,779</b>	<b>7,391</b>	<b>920</b>
<b>Non-current assets</b>					
Finance lease receivables	10	9,518	4,200	-	-
Other financial assets	11	-	-	102,230	100,863
Property, plant and equipment	13	252,966	219,440	-	-
Deferred tax assets	14	1,683	1,240	160	71
Intangible assets	15	42,449	39,849	-	-
<b>Total Non-current assets</b>		<b>306,616</b>	<b>264,729</b>	<b>102,390</b>	<b>100,934</b>
<b>TOTAL ASSETS</b>		<b>391,211</b>	<b>300,508</b>	<b>109,781</b>	<b>101,854</b>
<b>Current liabilities</b>					
Trade and other payables	16	57,771	45,285	42,491	30,990
Current tax liability	17	4,323	6,752	4,323	6,752
Provisions	18	4,830	4,023	-	-
Borrowings	19	-	2,949	-	2,949
<b>Total current liabilities</b>		<b>66,924</b>	<b>59,009</b>	<b>46,814</b>	<b>40,691</b>
<b>Non-current liabilities</b>					
Provisions	18	425	448	-	-
Borrowings	19	155,811	126,539	-	13,917
<b>Total Non-current liabilities</b>		<b>156,236</b>	<b>126,987</b>	<b>-</b>	<b>13,917</b>
<b>TOTAL LIABILITIES</b>		<b>223,160</b>	<b>185,996</b>	<b>46,814</b>	<b>54,608</b>
<b>NET ASSETS</b>		<b>168,051</b>	<b>114,512</b>	<b>62,967</b>	<b>47,246</b>
<b>Equity</b>					
Issued capital	20(a)	56,456	25,053	56,456	25,053
Reserves		573	1,320	1,586	1,534
Retained earnings		111,022	88,139	4,925	20,659
<b>TOTAL EQUITY</b>		<b>168,051</b>	<b>114,512</b>	<b>62,967</b>	<b>47,246</b>

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



# STATEMENTS OF CHANGES IN EQUITY

## FOR THE YEAR ENDED 30 JUNE 2012

<b>Consolidated Group</b>							
<b>2012</b>	<b>Note</b>	<b>Issued capital \$'000</b>	<b>Retained Earnings \$'000</b>	<b>Option Reserve \$'000</b>	<b>Cash flow Hedge Reserve \$'000</b>	<b>Foreign Currency Translation Reserve \$'000</b>	<b>Total \$'000</b>
Equity as at beginning of year		25,053	88,139	1,534	(214)	-	114,512
Profit attributable to members of the parent entity		-	54,305	-	-	-	54,305
Other comprehensive income after tax		-	-	-	(796)	(3)	(799)
<b>Total comprehensive income for the period</b>		-	54,305	-	(796)	(3)	53,506
Issue of shares and options		30,088	-	-	-	-	30,088
Transfer on exercise of options		1,315	-	(1,315)	-	-	-
Option expense		-	-	1,367	-	-	1,367
Dividends paid	7	-	(31,422)	-	-	-	(31,422)
<b>Equity as at 30 June 2012</b>		<b>56,456</b>	<b>111,022</b>	<b>1,586</b>	<b>(1,010)</b>	<b>(3)</b>	<b>168,051</b>
<b>2011</b>							
Equity as at beginning of year		23,066	65,067	1,284	-	-	89,417
Profit attributable to members of the parent entity		-	43,460	-	-	-	43,460
Other comprehensive income after tax		-	-	-	(214)	-	(214)
<b>Total comprehensive income for the period</b>		-	43,460	-	(214)	-	43,246
Issue of shares		1,755	-	-	-	-	1,755
Transfer on exercise of options		232	-	(232)	-	-	-
Option expense		-	-	482	-	-	482
Dividends paid	7	-	(20,388)	-	-	-	(20,388)
<b>Equity as at 30 June 2011</b>		<b>25,053</b>	<b>88,139</b>	<b>1,534</b>	<b>(214)</b>	<b>-</b>	<b>114,512</b>
<b>Parent Entity</b>							
<b>2012</b>	<b>Note</b>	<b>Issued capital \$'000</b>	<b>Retained Earnings \$'000</b>	<b>Option Reserve \$'000</b>	<b>Cash flow Hedge Reserve \$'000</b>	<b>Total \$'000</b>	
Equity as at beginning of year		25,053	20,659	1,534	-	47,246	
Profit attributable to members of the parent entity		-	15,688	-	-	15,688	
Other comprehensive income after tax		-	-	-	-	-	
<b>Total comprehensive income for the period</b>		-	15,688	-	-	15,688	
Issue of shares		30,088	-	-	-	30,088	
Transfer on exercise of options		1,315	-	(1,315)	-	-	
Option expense		-	-	1,367	-	1,367	
Dividends paid	7	-	(31,422)	-	-	(31,422)	
<b>Equity as at 30 June 2012</b>		<b>56,456</b>	<b>4,925</b>	<b>1,586</b>	<b>-</b>	<b>62,967</b>	
<b>2011</b>							
Equity as at beginning of year		23,066	23,383	1,284	-	47,733	
Profit attributable to members of the parent entity		-	17,664	-	-	17,664	
Other comprehensive income after tax		-	-	-	-	-	
<b>Total comprehensive income for the period</b>		-	17,664	-	-	17,664	
Issue of shares		1,755	-	-	-	1,755	
Transfer on exercise of options		232	-	(232)	-	-	
Option expense		-	-	482	-	482	
Dividends paid	7	-	(20,388)	-	-	(20,388)	
<b>Equity as at 30 June 2011</b>		<b>25,053</b>	<b>20,659</b>	<b>1,534</b>	<b>-</b>	<b>47,246</b>	

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

# STATEMENTS OF CASH FLOWS

## FOR THE YEAR ENDED 30 JUNE 2012

	Note	Consolidated Group		Parent Entity	
		2012 \$'000	2011 \$'000	2012 \$'000	2011 \$'000
<b>Cash flows from operating activities</b>					
Receipts from customers		276,610	264,627	-	-
Payments to suppliers and employees		(112,015)	(126,605)	(785)	(1,101)
Proceeds from sale of assets under lease		52,343	43,646	-	-
Payments for assets under lease		(163,620)	(113,181)	-	-
Interest received		1,391	767	94	33
Interest paid		(9,164)	(12,294)	(730)	(2,302)
Dividends received		-	-	16,734	9,500
Income taxes (paid) / received		(25,517)	(21,438)	1	(713)
<b>Net cash from operating activities</b>	22	<b>20,028</b>	<b>35,522</b>	<b>15,314</b>	<b>5,417</b>
<b>Cash flows from investing activities</b>					
Acquisition expenses		-	(216)	-	(216)
Payment for capitalised software	15(b)	(3,370)	(2,694)	-	-
Payments for plant and equipment		(1,830)	(2,875)	-	-
Proceeds from sale of plant and equipment		-	8	-	-
<b>Net cash used in investing activities</b>		<b>(5,200)</b>	<b>(5,777)</b>	<b>-</b>	<b>(216)</b>
<b>Cash flows from financing activities</b>					
Equity contribution		30,088	1,755	30,088	1,755
Dividends paid by parent entity	7	(31,422)	(20,388)	(31,422)	(20,388)
Proceeds from borrowings		61,000	5,000	-	-
Repayment of borrowings		(35,000)	(17,727)	(17,000)	(13,000)
Payment of borrowing costs		(108)	(108)	-	-
Proceeds from controlled entities		-	-	9,833	25,533
<b>Net cash provided by / (used in) financing activities</b>		<b>24,558</b>	<b>(31,468)</b>	<b>(8,501)</b>	<b>(6,100)</b>
<b>Net increase / (decrease) in cash and cash equivalents</b>		<b>39,386</b>	<b>(1,723)</b>	<b>6,813</b>	<b>(899)</b>
Cash and cash equivalents at beginning of year		15,034	16,757	506	1,405
<b>Cash and cash equivalents at end of year</b>	8	<b>54,420</b>	<b>15,034</b>	<b>7,319</b>	<b>506</b>

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

# NOTES TO THE FINANCIAL STATEMENTS

## FOR THE YEAR ENDED 30 JUNE 2012

### 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

#### (a) General information

The financial report of McMillan Shakespeare Limited and its controlled entities for the year ended 30 June 2012 was authorised for issue in accordance with a resolution of the directors on 6 September 2012 and covers McMillan Shakespeare Limited (“the Company” or the “parent entity”) as an individual entity as well as “the Consolidated Group”, consisting of McMillan Shakespeare Limited and its subsidiaries (“the Group”) as required by the Corporations Act 2001.

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

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

#### (b) Basis of preparation

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

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

#### Compliance with IFRS

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

#### (c) Principles of consolidation

The consolidated financial statements comprise the financial statements of the Company and its subsidiaries as at 30 June each year.

Subsidiaries are entities over which the Consolidated Group has the power to govern the financial and operating policies, generally accompanying a shareholding of more than one-half of the voting rights. Potential voting rights that are currently exercisable or convertible are considered when assessing control. Consolidated financial statements include all subsidiaries from the date that control commences until the date that control ceases. The financial statements of subsidiaries are prepared for the same reporting period as the parent entity, using consistent accounting policies.

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

#### (d) Business combinations

The purchase method of accounting is used to account for all business combinations. Cost is measured as the fair value of the assets given, shares issued or liabilities incurred or assumed at the date of exchange. Acquisition costs including advisory, legal, accounting, valuation and other professional consulting fees directly attributable to the acquisition are expensed. Where equity instruments are issued, the value of the equity instruments is their published market price on the date of exchange unless, in rare circumstances, it can be demonstrated that the published price on the date of exchange is an unreliable indicator of fair value and that other evidence and valuation methods provide a more reliable measure of fair value. Transaction costs arising on the issue of equity instruments are recognised directly in equity.

Identifiable assets acquired and liabilities and contingent liabilities assumed in business combinations are initially measured at their fair values at acquisition date. The excess of the cost of acquisition over the fair value of the Consolidated Group’s share of the identifiable net assets acquired is recorded as goodwill (refer Note 1(g)(i)). If the cost of acquisition is less than the Consolidated Group’s share of the fair value of the net assets acquired, the difference is recognised in the Statement of Comprehensive Income, but only after a reassessment of the identification and measurement of the net assets acquired. If the initial accounting for a business combination is incomplete by the time of reporting the period in which the business combination occurred, preliminary estimates are used for items for which accounting is incomplete. These provisional estimates are adjusted in a measurement period that is not to exceed 12 months from the date of acquisition to reflect new information about facts and circumstances that existed at the date of acquisition that had they been known would have affected the amounts recognised at that date.

Where settlement of any part of the cash consideration is deferred, the amounts payable in the future are discounted to the present value at the date of the exchange using the entity’s incremental borrowing rate as the discount rate.

# NOTES TO THE FINANCIAL STATEMENTS

## FOR THE YEAR ENDED 30 JUNE 2012

### (e) Income tax

#### (i) Income tax expense

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

#### (ii) Deferred tax

Deferred tax assets and liabilities are recognised for all temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and their respective tax bases, at the tax rates expected to apply when the assets are recovered or liabilities settled, based on those rates which are enacted or substantially enacted. Deferred tax assets are only recognised for deductible temporary differences and unused tax losses if it is probable that future taxable amounts will be available to utilise those temporary differences and losses. Deferred tax assets and liabilities are not recognised for temporary differences between the carrying amounts and tax bases of investments in subsidiaries where the parent entity is able to control the timing of the reversal of the temporary differences and it is probable that the differences will not reverse in the foreseeable future. Current and deferred tax balances relating to amounts recognised directly in equity are also recognised directly in equity.

#### (iii) Tax consolidation

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

#### (iv) Investment allowances

Companies within the group may be entitled to claim special tax deductions for investments in qualifying assets (investment allowances). The Consolidated Group accounts for such allowances as tax credits, which means that the allowance reduces income tax payable and current tax expense. A deferred tax asset is recognised for unclaimed tax credits.

### (f) Property, plant and equipment

Property, plant and equipment is stated at cost less accumulated depreciation and impairment losses. Cost includes expenditure that is directly attributable to bringing the asset to the location and condition necessary for it to be capable of operating in the manner intended by management. Depreciation on assets is calculated on a straight-line basis over the estimated useful life of the asset as follows:

Class of Fixed Asset	Depreciation Rate
Plant and equipment	20% – 40%
Software	20% – 33%
Motor vehicles under operating lease	25% – 33%

The assets' residual values and useful lives are reviewed and adjusted, if appropriate, at the end of the reporting period. Motor vehicles no longer held under an operating lease are classified as inventory.

### (g) Intangible assets

#### (i) Goodwill

Goodwill represents the excess of the cost of the business combination over the Consolidated Group's share of the net fair value of the identifiable assets, liabilities and contingent liabilities. Goodwill is not amortised but is measured at cost less any accumulated impairment losses. Goodwill is reviewed for impairment annually, or more frequently if events or changes in circumstances indicate that the carrying value may be impaired (refer Note 15(c)). Gains and losses on the disposal of an entity include the carrying amount of goodwill relating to the entity sold. Any impairment is recognised immediately in the Statement of Comprehensive Income and cannot be subsequently reversed.

#### (ii) Capitalised software development costs

Software development costs are recognised when it is probable that future economic benefits attributable to the software will flow to the entity and the cost of the development can be measured reliably. Capitalised software development costs are amortised on a straight line basis over three to five years, during which the benefits are expected to be realised. Capitalised software development costs are reviewed annually for indicators of impairment, and if indicators are identified an impairment test is performed (refer Note 1(h)).

# NOTES TO THE FINANCIAL STATEMENTS

## FOR THE YEAR ENDED 30 JUNE 2012

### (iii) Contract rights

Contract rights acquired and amounts paid for contract rights are recognised at the value of any consideration paid plus any expenditure directly attributable to the transactions. Contracts are amortised over the life of the contract, and reviewed annually for indicators of impairment in line with the Consolidated Group's impairment policy (refer Note 1(h)).

### (iv) Intangible assets acquired in a business combination

Any potential intangible assets acquired in a business combination are identified and recognised separately from goodwill where they satisfy the definition of an intangible asset and their fair value can be measured reliably.

## (h) Impairment of assets

At each reporting date, the Consolidated Group reviews the carrying amounts of its tangible (including operating lease assets) and intangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset being the higher of the asset's fair value less costs to sell and value in use is estimated in order to determine the extent of the impairment loss (if any). Where the asset does not generate cash flows that are independent from other assets, the Consolidated Group estimates the recoverable amount of the cash-generating unit to which the asset belongs.

Goodwill is tested for impairment annually and whenever there is an indication that the asset may be impaired. An impairment of goodwill is not subsequently reversed. Recoverable amount is the higher of fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset for which the estimates of future cash flows have not been adjusted.

If the recoverable amount of an asset (or cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (cash-generating unit) is reduced to its recoverable amount. An impairment loss is recognised in the Statement of Comprehensive Income immediately, unless the relevant asset is carried at fair value, in which case the impairment loss is treated as a revaluation decrease, except where it exceeds a previous revaluation increment, in which case it is recognised in the profit or loss.

Where an impairment loss, other than one relating to goodwill, subsequently reverses, the carrying amount of the asset (cash-generating unit) is increased to the revised estimate of its recoverable amount, but only to the extent that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset (cash-generating unit) in prior years. A reversal of an impairment loss is recognised in profit or loss immediately, unless the relevant asset is carried at fair value, in which case the reversal of the impairment loss is treated as a revaluation increase.

Operating lease assets are reviewed for impairment on an ongoing basis and at reporting date using both internal and external sources of information.

## (i) Financial instruments

### Recognition and de-recognition

Regular purchases and sales of financial assets and liabilities are recognised on trade date, the date on which the Consolidated Group commits to the financial assets or liabilities. Financial assets are derecognised when the rights to receive cash flows from the financial assets have expired or have been transferred and the Consolidated Group has transferred substantially all the risks and rewards of ownership.

### (i) Cash and cash equivalents

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

### (ii) Trade and other receivables

All receivables are classified as 'loans and receivables' under the requirements of AASB 139 Financial Instruments: Recognition and Measurement and are recognised initially at fair value, and subsequently at amortised cost, less provision for impairment. All trade and other receivables are classified as current as they are due for settlement within the agreed credit terms of settlement which are usually no more than 30 days from the date of recognition. Cash flows relating to short-term receivables are not discounted if the effect of discounting is immaterial.

The Directors establish an allowance for impairment when there is objective evidence that the Consolidated Group will not be able to collect all amounts due according to the original terms of the receivables. The provision consists of allowances for specific doubtful amounts.

The allowance account for receivables is used to record impairment losses unless the Consolidated Group is satisfied that there is no possible recovery of the amount, at which point it is written off directly against the amount owing. The impairment loss and any subsequent reversal thereof, is recognised in the Statement of Comprehensive Income within other expenses. There have been no amounts recorded for impairment for the parent entity.

# NOTES TO THE FINANCIAL STATEMENTS

## FOR THE YEAR ENDED 30 JUNE 2012

### (iii) Other financial assets

#### Investments in subsidiaries

Investments in subsidiaries are carried at cost and adjusted for any share based payments in the separate financial statements of the Company, under AASB 127: Consolidated and Separate Financial Statements.

### (iv) Other financial liabilities

#### Trade and other payables

Trade and other payables, including accruals, are recorded initially at fair value, and subsequently at amortised cost. Trade and other payables are non-interest bearing.

## (j) Employee benefits

### (i) Wages and salaries, annual leave and long service leave

Provision is made for the Consolidated Group's liability for employee benefits arising from services rendered by employees to reporting date. Employee benefits expected to be settled within one year together with benefits arising from wages and salaries and annual leave which will be settled after one year, have been measured at amounts expected to be paid when the liability is settled plus related on-costs. Other employee benefits payable later than one year have been measured at the present value of the estimated future cash outflows to be made for those benefits. Consideration is given to expected future wage and salary levels, experience of employee departures and periods of service. Expected future payments are discounted using interest rates attaching to national government guaranteed securities with terms to maturity that match, as closely as possible, the estimated future cash outflows.

### (ii) Superannuation

The amount charged to the Statement of Comprehensive Income in respect of superannuation represents the contributions made by the Consolidated Group to superannuation funds.

### (iii) Bonuses

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

## (k) Revenue

Revenue is recognised at the fair value of consideration received or receivable. Amounts disclosed as revenue are shown net of returns, trade allowances and duties, amortisation of pre-paid fee discounts included in deferred contract establishment costs, and taxes paid. The following specific criteria must also be met before revenue is recognised:

### (i) Rendering of services

Revenue from services provided is recognised when the service is provided to the customer.

### (ii) Interest

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

### (iii) Dividends

Revenue from dividends is recognised when the Consolidated Group's right to receive payment is established.

### (iv) Lease revenue (property, plant and equipment)

Operating lease revenue is made up of operating lease interest and revenue from the principal that forms the net investment in the leased asset. Interest included in operating lease instalments is calculated on a straight-line basis for each customer contract based on the effective rate method using the interest rate in the lease contract, the net investment value of the leased asset and the residual value. The principal portion upon receipt reduces the net investment in the leased asset.

# NOTES TO THE FINANCIAL STATEMENTS

## FOR THE YEAR ENDED 30 JUNE 2012

(v) **Sale of leased assets**

Revenue includes the proceeds from the routine sale of motor vehicles previously leased and included within property, plant and equipment following the cessation of the rental of these assets by a customer.

(vi) **Vehicle maintenance services**

Revenues from maintenance service contracts are recognised for services rendered when it is probable that economic benefits from the transaction will flow to the Consolidated Group. When the amounts are uncollectable or recovery is not considered probable, an expense is recognised immediately. Revenue is recognised for each reporting period by reference to the stage of completion when the outcome of the service contracts can be estimated reliably. The stage of completion of service contracts is based on the proportion that costs incurred to date bear to total estimated costs. When the outcome cannot be measured reliably, revenue is deferred and recognised 60 days after the contract terminates.

**(l) Goods and services tax**

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

**(m) Leasing**

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

(i) **Finance lease receivable portfolio**

Lease contracts with customers are recognised as finance lease receivables at the Consolidated Group's net investment in the lease which equals the net present value of the future minimum lease payments. Finance lease income is recognised as income in the period to reflect a constant periodic rate of return on the Consolidated Group's remaining net investment in respect of the lease.

(ii) **Operating lease portfolio – the Group as lessor**

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

**(n) Share-based payments**

The fair values of options granted are recognised as an employee benefit expense with a corresponding increase in equity (share option reserve). The fair value is measured at grant date and recognised over the period during which the employees become unconditionally entitled to the options. Fair value is determined using a binomial option pricing model. In determining fair value, no account is taken of any performance conditions other than those related to the share price of the Company ("market conditions"). The cumulative expense recognised between grant date and vesting date is adjusted to reflect the Directors' best estimate of the number of options that will ultimately vest because of internal conditions attached to the options, such as the employees having to remain with the Consolidated Group until vesting date, or such that employees are required to meet internal targets. No expense is recognised for options that do not ultimately vest because internal conditions were not met. An expense is still recognised for options that do not ultimately vest because a market condition was not met.

**(o) Issued capital**

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

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

**(p) Dividends**

Provision is made for the amount of any dividend declared, being appropriately authorised and no longer at the discretion of the Consolidated Group, on or before the end of the financial year but not distributed at balance date.

# NOTES TO THE FINANCIAL STATEMENTS

## FOR THE YEAR ENDED 30 JUNE 2012

### (q) Earnings per share

#### Basic earnings per share

Basic earnings per share is calculated by dividing the profit attributable to members of the Company by the weighted average number of ordinary shares outstanding during the financial year, adjusted for bonus elements in ordinary shares during the year.

#### Diluted earnings per share

Earnings and the weighted average number of shares used in calculating basic earnings per share is adjusted for the following to calculate diluted earnings per share:

- the after-tax effect of interest and any other financing costs associated with dilutive potential ordinary shares; and
- the weighted average number of additional shares that would have been outstanding assuming the conversion of all dilutive potential ordinary shares.

### (r) Segment reporting

Operating segments are reported in a manner consistent with internal reporting provided to the chief operating decision maker. The chief operating decision maker, who is responsible for allocating resources and assessing the performance of the operating segments, has been identified as the Chief Executive Officer.

### (s) Provisions

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

#### Restructurings

A restructuring provision is recognised when the Consolidated Group has developed a plan for the restructuring and has communicated with those affected that it will carry out the plan. The provision is measured based on the direct cost arising from and necessary to undertake the restructuring plan and not with the ongoing activities of the Group.

### (t) Inventories

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

### (u) Operating cash flow

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

### (v) Borrowings

Borrowings are initially recorded at fair value, net of transaction costs and subsequently measured at amortised cost using the effective interest rate method. The effective interest rate method exactly discounts the estimated cash flows through the expected life of the borrowing.

### (w) Derivative financial instruments

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

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

Derivative financial instruments are recognised at fair value at the date of inception and subsequently remeasured at fair value at reporting date. The resulting gain or loss is recognised in profit or loss unless the derivative or amount thereof is designated and effective as a hedging instrument, in which case the gain or loss is taken to equity and subsequently recognised in the Statement of Comprehensive Income to match the timing and relationship with the amount that the instrument was intended to hedge.



# NOTES TO THE FINANCIAL STATEMENTS

## FOR THE YEAR ENDED 30 JUNE 2012

### (x) Foreign currency translation

The consolidated financial statements of the Consolidated Group are presented in Australian dollars which is the functional and presentation currency. The financial results and affairs of foreign operations are translated into the presentation currency using the closing rate method where assets and liabilities are translated at prevailing rates at reporting date and the results for the period at exchange rates at the date of the transactions. Exchange differences arising from the translation at reporting date are recognised in other comprehensive income and accumulated in equity.

### (y) Critical judgements and significant accounting estimates

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

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

All significant judgements, estimates and assumptions made during the year have been considered for significance. Key assumptions used for value-in-use calculations to determine the recoverable amount of assets in impairment tests are discussed in Note 15(d).

Estimates of significance are used in determining the residual values of operating lease and rental assets at the end of the contract date and income from maintenance services, which is recognised on a percentage stage of completion. In determining residual values, critical judgements include the future value of the asset lease portfolio at the time of sale, economic and vehicle market conditions and dynamics. For income from maintenance contracts, judgement is made in relation to expected realisable margins. The estimates and underlying assumptions are reviewed on an ongoing basis.

No other judgements, estimates or assumptions are considered significant.

### (z) New accounting standards and interpretations

None of the new standards and amendments to standards and interpretations that are mandatory for the first time for the financial year beginning 1 July 2011 affected any of the amounts recognised in the current period or any prior period and are not likely to affect future periods.

The following new accounting standards, amendments to standards and interpretations (Standards) have been issued and are effective for annual reporting periods beginning after 30 June 2012, but have not been applied in preparing this financial report. None of these are expected to have a significant effect on the financial report of the Consolidated Group unless otherwise noted in the Standards below. The Consolidated Group has not or does not plan to adopt these Standards early and the extent of their impact has not been fully determined.

#### (i) AASB 9 Financial Instruments (effective for annual reporting periods on or after 1 January 2015)

AASB 9 aims to replace AASB 139 Financial Instruments: Recognition and Measurement in its entirety. To date, the chapters dealing with recognition, classification, measurement and de-recognition of financial assets and liabilities have been issued.

#### (ii) AASB 10 Consolidation (effective for annual reporting periods on or after 1 January 2013)

AASB 10 replaces all previous guidance on control and consolidation in AASB 127 'Consolidated and Separate Financial Statements'. It revises the definition of control and therefore, affects whether an investee is consolidated.

#### (iii) AASB 11 Joint Arrangements (effective for annual reporting periods on or after 1 January 2013)

This Standard replaces AASB 131 'Interests in Joint Ventures' and introduces a principles based approach to accounting for joint arrangements. The emphasis is no longer on the legal structure of the joint arrangement, but rather on how rights and obligations are shared by parties under the contractual agreement and then account for those rights and obligations in accordance with the type of joint arrangement entered into being either joint operation or joint venture.

#### (iv) AASB 12 Disclosure of Interest in Other Entities (effective for annual reporting periods on or after 1 January 2013)

AASB 12 integrates the disclosure requirements for various types of investments, including unconsolidated structured entities. It introduces new disclosure requirements about the risks to which an entity is exposed from its involvement with structured entities.

#### (v) AASB 13 Fair Value Measurement (effective for annual reporting periods on or after 1 January 2013)

AASB 13 does not affect which items are required to be fair-valued, but clarifies the definition of fair value.

# NOTES TO THE FINANCIAL STATEMENTS

## FOR THE YEAR ENDED 30 JUNE 2012

(vi) **AASB 119 Employee Benefits (effective for annual reporting periods on or after 1 January 2013)**

Changes to AASB 119 relate to defined benefit plans and as the Group has no defined benefit plans amendments to this Standard is not expected to have any impact on the Consolidated Group's financial report.

(vii) **AASB 124 Related Party Disclosure (effective for annual reporting periods on or after 1 July 2013)**

AASB 124 clarifies the definition of related party and specifically requires the disclosure of commitments involving related parties. The Standard also introduces a partial exemption from the disclosure requirements for government-related entities which is not applicable to the Consolidated Group.

(viii) **AASB 2011-4 Amendments to Australian Accounting Standards to Remove Individual Key Management Personnel Disclosure Requirements (effective for annual reporting periods on or after 1 January 2013)**

AASB 2011-4 make amendments to AASB 124 "Related Party Disclosures" to remove individual key management personnel disclosure requirements to achieve consistency with the international equivalent and remove duplication with the *Corporations Act 2011*.

(ix) **AASB 127 Separate Financial Statements (2011) (effective for annual reporting periods on or after 1 January 2013)**

This Standard deals with the requirements of separate financial statements, which have been carried over largely unchanged from AASB 127 'Consolidated and Separate Financial Statements'.

(x) **AASB 128 Investments in Associates and Joint Ventures (2011) (effective for annual reporting periods on or after 1 January 2013)**

This Standard supersedes AASB 128 'Investments in Associates' and prescribes the accounting for investments in associates.

(xi) **AASB 101 Presentation of Financial Reports and AASB 2011-7 "Amendments to Australian Accounting Standards – Presentation of Items of Other Comprehensive Income" (effective for annual reporting periods on or after 1 July 2012)**

The amendment to this Standard requires additional disclosure in the other comprehensive income section of items that will be or will not be re-classified to profit or loss including separate disclosure of associated tax.

(xii) **Interpretation 20 Stripping Costs (effective for annual reporting periods on or after 1 January 2013)**

As the Consolidated Group does not incur any production stripping costs this interpretation is not expected to have any impact on the Consolidated Group's financial report.

### **(aa) Changes in accounting policies**

In the current year, the Consolidated Group has adopted all of the new and revised Standards and Interpretations issues by the Australian Accounting Standards Board that are relevant to its operations and effective for the current annual reporting period.

There have been no significant effects on current, prior or future periods arising from the first time application of the standards in respect of presentation, recognition and measurement in the current year financial statements.

### **(ab) Parent entity accounts**

In accordance with Class order C010/654 the Consolidated Group will continue to include parent entity financial statements in the financial report.

### **(ac) Rounding of amounts**

The Company is of a kind referred to in Class order C098/100, issued by the Australian Securities and Investments Commission, relating to the "rounding off" of amounts in the financial report. Amounts in the financial report have been rounded off in accordance with that Class Order to the nearest thousand dollars, or in certain cases, the nearest dollar.

# NOTES TO THE FINANCIAL STATEMENTS

## FOR THE YEAR ENDED 30 JUNE 2012

### 2 FINANCIAL RISK MANAGEMENT

The Consolidated Group's overall risk management approach is to identify the risks and implement safeguards which seek to profit from and minimise potential adverse effects on the financial performance of the Group. The Board is responsible for monitoring and managing the financial risks of the Consolidated Group. The Board monitors these risks through monthly board meetings, via regular reports from the Risk and Compliance Committee and ad hoc discussions with senior management, should the need arise. A risk register is presented to the Board at least quarterly and Credit and Treasury reports are provided to the Interest Committee and Credit Committee respectively, by the Group Treasurer and Credit Manager, including sensitivity analysis in the case of interest rate risk and ageing / exposure reports for credit risk. These committee reports are discussed at Board meetings monthly, along with management accounts. All exposures to risk and management strategies are consistent with prior year, other than as noted below.

#### (a) Liquidity risk

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

##### Liquidity management strategy

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

The Consolidated Group's policy is to ensure that there is sufficient liquidity through access to committed available funds to meet at least twelve months of average net asset funding requirements. This level is expected to cover any short term financial market constraint for funds.

The Consolidated Group monitors monthly positive operating cash flows and forecasts cash flows for each twelve month period. Significant cash deposits have been maintained which enable the Consolidated Group to settle obligations as they fall due without the need for short term financing facilities. The Chief Financial Officer and the Group Treasurer monitor the cash position of the Consolidated Group daily.

##### Financing arrangements

During the year the Consolidated Group re-negotiated its borrowing arrangements for Interleasing (Australia) Limited to extend the original facility by a further year to 31 March 2015 on improved terms.

The Consolidated Group's total borrowing facilities at reporting date was \$180m of which \$24m was undrawn. Subsequent to balance date (refer Note 29) the Consolidated Group increased its aggregate facilities by a further \$90m. The level and type of funding will be reviewed on an on-going basis to ensure they meet the Group's on-going requirements.

The facilities at reporting date may be drawn at any time. Details of each facility are as follows:

Facility A: This amortising facility was fully repaid ahead of schedule during the year (2011 balance \$17m).

Facility C: The \$180m revolving facility that is drawn to \$156m at reporting date expires on 31 March 2015 (2011: \$130m revolving facility that could be stepped up by \$20m to \$150m on 1 July 2011 and by \$50m to \$180m on 1 October 2011).

##### Maturities of financial liabilities

The table below analyses the Consolidated Group's and the parent entity's financial liabilities into relevant maturity groupings based on their contractual maturities and based on the remaining period to the expected settlement date.

The amounts disclosed in the table are the contractual undiscounted cash flows. Balances due within 12 months equal their carrying value as the impact of discounting is not significant.

Consolidated Group – at 30 June 2012: Contractual maturities of financial liabilities

	Less than 6 mths	6-12 mths	1-2 years	2-5 years	Over 5 years	Total contractual cash flows	Carrying Amount (assets)/liabilities
	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
Trade payables	57,771	-	-	-	-	57,771	57,771
Borrowings	3,235	2,973	5,759	160,212	-	172,179	155,811
	61,006	2,973	5,759	160,212	-	229,950	213,582

# NOTES TO THE FINANCIAL STATEMENTS

## FOR THE YEAR ENDED 30 JUNE 2012

Consolidated Group – at 30 June 2011: Contractual maturities of financial liabilities

	Less than 6 mths	6-12 mths	1-2 years	2-5 years	Over 5 years	Total contractual cash flows	Carrying Amount (assets)/liabilities
	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
Trade payables	45,285	-	-	-	-	45,285	45,285
Borrowings	4,644	7,593	22,620	118,905	-	153,762	129,488
	49,929	7,593	22,620	118,905	-	199,047	174,773

Parent – at 30 June 2012: Contractual maturities of financial liabilities

	Less than 6 mths	6-12 mths	1-2 years	2-5 years	Over 5 years	Total contractual cash flows	Carrying Amount (assets)/liabilities
	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
Trade payables	46,816	-	-	-	-	46,816	46,129
Financial guarantee contracts	3,235	2,973	5,759	160,212	-	172,179	-
Borrowings	-	-	-	-	-	-	-
	50,051	2,973	5,759	160,212	-	218,995	46,129

Parent – at 30 June 2011: Contractual maturities of financial liabilities

	Less than 6 mths	6-12 mths	1-2 years	2-5 years	Over 5 years	Total contractual cash flows	Carrying Amount (assets)/liabilities
	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
Trade payables	30,990	-	-	-	-	30,990	30,990
Financial guarantee contracts	3,966	3,923	7,867	118,905	-	134,661	-
Borrowings	678	3,670	14,753	-	-	19,101	16,866
	35,634	7,593	22,620	118,905	-	184,752	47,856

### (b) Credit risk

Credit risk is the risk of financial loss to the Consolidated Group if a customer or counter-party to a financial instrument fails to meet its contractual obligations. The Company and Consolidated Group have exposure to credit risk through the receivables' balances, customer leasing commitments and deposits with banks. Credit risk for the Consolidated Group arising from total receivables is \$34,475,000 (2011: \$21,979,000) and \$54,416,000 (2011: \$15,031,000) arising from total deposits with banks. Credit risk for the parent entity arising from total receivables is \$72,000 (2011: \$342,000) and \$7,319,000 (2011: \$506,000) arising from total deposits with banks. The Asset Management business has exposure to credit risk from assets leased to corporate customers, mainly from finance lease receivables of \$15,561,000 (2011: \$7,948,000) and the amortisation of operating lease vehicles of \$244,023,000 (2011: \$210,661,000) that have yet to be invoiced as future lease rentals. Such assets are secured against underlying assets.

#### Credit risk management strategy

Credit risk arises from cash and cash equivalents and deposits with banks as well as exposure from outstanding receivables and unbilled rentals for leased vehicles. For deposits with banks, only independently rated institutions with upper investment-grade ratings are used.

Credit risk relating to the leasing of assets is managed pursuant to the Board approved Credit Policy by the Group CFO and the Group Treasurer and Credit Manager. The policy is reviewed annually and prescribes minimum criteria in the credit assessment process that includes credit risk of the customer, concentration risk parameters, type and intended use of the asset under lease and the value of the exposure. A two tiered Credit Committee structure is in place to stratify credit applications for assessment; a Local Credit Committee and an Executive Credit Committee reviewing applications based on volume and value of the application. All minutes of Credit Committee meetings are reported to the Board. Additionally, the Board and the Credit Committee meet periodically to review and set concentration limits to effectively spread the risks as widely as possible across asset classes, client base, industries and asset manufacturer. There are no significant concentrations of credit risk through the Consolidated Group's exposure to individual customers, industry sectors, asset manufacturers or regions.

# NOTES TO THE FINANCIAL STATEMENTS

## FOR THE YEAR ENDED 30 JUNE 2012

Where customers are independently rated, these ratings are taken into account. If there is no independent official rating, management assesses the credit quality of the customer, taking into account information from independent national credit bureau, its financial position, business segment, past experience and other factors using an application scorecard or other risk-assessment tools. The overall debtor ageing position is reviewed monthly by the Board, as is the provision for any impairment in the trade receivables balance.

### (c) Market risk

#### (i) Interest rate risk

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

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

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

Borrowings issued at variable rates expose the Consolidated Group to repricing interest rate risk. As at the end of the reporting period, the Consolidated Group had \$156,000,000 (2011: \$113,000,000) variable rate borrowings under long-term revolving facilities attributable to the Asset Management business and no borrowings (2011: \$17,000,000) for other Consolidated Group requirements. The weighted average interest rate was 5.07% (2011: 5.06%) for the \$156,000,000 (2011: \$113,000,000) which is used as an input to asset repricing decisions. An analysis of maturities is provided in note 2(a).

To mitigate the cash flow volatility arising from interest rate movements, the Group has entered into interest rate swaps, to exchange, at specified periods, the difference between fixed and variable rate interest amounts calculated on contracted notional principal amounts. The contracts require settlement of net interest receivable or payable on a quarterly basis. These swaps are designated to hedge underlying borrowing obligations and match the interest-repricing profile of the lease portfolio in order to preserve the contracted net interest margin. At 30 June 2012, the Consolidated Group's borrowings for the Asset Management business of \$156,000,000 (2011: \$113,000,000) were covered by interest rate swaps at a fixed rate of interest of 5.58% (2011: 5.25%).

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

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

	30 June 2012		30 June 2011	
	Consolidated Group		Parent Entity	
	Weighted average interest rate	Balance \$'000	Weighted average interest rate	Balance \$'000
Cash and deposits	5.05%	54,420	4.19%	15,034
Bank loans (Group other)	-	-	5.06%	(17,000)
Bank loans (Asset Management segment)	5.07%	(156,000)	5.06%	(113,000)
Interest rate swaps (notional amounts)	5.58%	187,000	5.25%	123,000
Net exposure to cash flow interest rate risk		85,420		8,034

Of the \$187,000,000 of swaps contracted at reporting date, \$39,000,000 are effective post balance date and designated as hedges against forecast future borrowings.

# NOTES TO THE FINANCIAL STATEMENTS

## FOR THE YEAR ENDED 30 JUNE 2012

### Sensitivity analysis – floating interest rates:

At 30 June 2012, the Consolidated Group's and parent entity's cash and cash equivalents give rise to credit and interest rate risk. If the Australian interest rate weakened or strengthened by 100 basis points, being the Consolidated Group's view of possible fluctuation, and all other variables were held constant, the Consolidated Group's post-tax profit for the year would have been \$597,940 (2011: \$56,238) higher or lower and the parent entity \$51,233 (2011: \$115,458) higher or lower, depending on which way the interest rates moved based on the cash and cash equivalents and borrowings balances at reporting date.

#### (ii) Foreign currency risk

The Consolidated Group's transactions are pre-dominantly denominated in Australian dollars which is the functional and presentation currency.

#### (iii) Other market price risk

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

### (d) Asset risk

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

The Consolidated Group continuously reviews the portfolio's residual values via a Residual Value Committee comprising experienced senior staff with a balance of disciplines and responsibilities, who measure and report all matters of risk that could potentially affect residual values and maintenance costs and matters that can mitigate the Consolidated Group from these exposures. The asset risk policy sets out a framework to measure and factor into their assessment such critical variables as used car market dynamics, economic conditions, government policies, the credit market and the condition of assets under lease. At reporting date, the portfolio of motor vehicles under operating lease of \$244,023,000 (2011: \$210,661,000) included a residual value provision of \$1,907,000 (2011: \$1,303,000).

### (e) Fair value measurements

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

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

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

	Level 1 \$'000	Level 2 \$'000	Level 3 \$'000	Total \$'000
<b>30 June 2012</b>				
Liabilities				
Interest rate swap contracts – cash flow hedge	-	(1,438)	-	(1,438)
<b>30 June 2011</b>				
Liabilities				
Interest rate swap contracts – cash flow hedge	-	(306)	-	(306)

Refer to notes 8 to 10 for details of the fair value of assets and 16 to 19 for the fair value of liabilities.

# NOTES TO THE FINANCIAL STATEMENTS

## FOR THE YEAR ENDED 30 JUNE 2012

	Consolidated Group		Parent Entity	
	2012 \$'000	2011 \$'000	2012 \$'000	2011 \$'000
<b>3 REVENUE</b>				
Revenue from continuing operations				
Remuneration services <sup>1</sup>	137,284	111,648	-	-
Lease rental services	115,758	118,848	-	-
Proceeds from sale of leased assets	47,584	40,042	-	-
Dividends received	-	-	16,734	21,100
Interest – other persons	1,404	767	150	33
Total revenue	302,030	271,305	16,884	21,133
<sup>1</sup> Included in remuneration services revenue is fee income derived from the holding of trust funds	12,710	11,064	-	-
<b>4 EXPENSES</b>				
<b>Profit before income tax includes the following specific</b>				
<b>(a) expenses</b>				
Finance costs				
Interest – financial institutions	10,385	11,278	766	1,814
Depreciation and amortisation expense and impairment				
Software development	967	786	-	-
Contract rights acquired	928	964	-	-
Assets under operating lease	66,440	62,558	-	-
Plant and equipment	2,827	2,716	-	-
Residual value impairment loss	604	1,037	-	-
	71,766	68,061	-	-
Rental expense on operating leases				
Minimum lease payments	4,296	3,670	-	-
Superannuation				
Defined contribution superannuation expense	3,506	3,035	-	-
	\$	\$	\$	\$
<b>(b) Auditor's remuneration</b>				
Remuneration of the auditor (Grant Thornton Audit Pty Ltd) of the parent entity for:				
Audit or review of the financial statements	167,000	157,500	-	5,000
Audits for customer contracts	26,500	22,000	-	-
Agreed upon procedures to review vehicle compliance and payroll systems	45,000	-	-	-
Review of subsidiary	-	25,000	-	-
Network firm of the parent entity's auditor	-	-	-	-

# NOTES TO THE FINANCIAL STATEMENTS

## FOR THE YEAR ENDED 30 JUNE 2012

	Consolidated Group		Parent Entity	
	2012 \$'000	2011 \$'000	2012 \$'000	2011 \$'000
<b>5 INCOME TAX EXPENSE/(BENEFIT)</b>				
<b>(a) Components of tax expense / (benefit)</b>				
Current tax expense / (benefit)	23,958	19,760	(470)	(1,139)
Adjustments for current tax of prior years	(299)	-	(2)	1,183
Deferred tax	(614)	(1,022)	34	173
Income tax expense / (benefit)	23,045	18,738	(438)	217
<b>(b) The prima facie tax payable on profit before income tax is reconciled to the income tax expense/(benefit) as follows:</b>				
Profit before income tax	77,350	62,198	15,250	17,881
Prima facie tax payable on profit before income tax at 30% (2011: 30%)	23,205	18,659	4,575	5,364
Add tax effect of:				
- share based payments	403	145	-	-
- non-deductible costs	65	17	7	-
- research & development	(330)	(83)	-	-
- overseas tax rate differential of subsidiaries	1	-	-	-
- previously recognised tax losses now unrecognised in deferred tax assets	211	-	-	-
- (over) / under provision for tax from prior year	(510)	-	-	1,183
	23,045	18,738	4,582	6,547
Less tax effect of:				
- dividends received	-	-	(5,020)	(6,330)
Income tax expense / (benefit)	23,045	18,738	(438)	217

	Consolidated Group	
	2012 \$'000	2011 \$'000
<b>6 EARNINGS PER SHARE</b>		
<b>Basic earnings per share</b>		
Basic EPS – cents per share	76.6	64.0
Net profit after tax	\$54,305	\$43,460
Weighted average number of ordinary shares outstanding during the year used in the calculation of basic EPS	70,864	67,903
<b>Diluted earnings per share</b>		
Diluted EPS – cents per share	74.1	61.2
Earnings used to calculate basic earnings per share (EPS)	\$54,305	\$43,460
Weighted average number of ordinary shares outstanding during the year used in the calculation of basic EPS	70,864	67,903
Weighted average number of options on issue outstanding	2,416	3,088
Weighted average number of ordinary shares outstanding during the year used in the calculation of diluted EPS	73,280	70,991



# NOTES TO THE FINANCIAL STATEMENTS

## FOR THE YEAR ENDED 30 JUNE 2012

	Consolidated Group		Parent Entity	
	2012 \$'000	2011 \$'000	2012 \$'000	2011 \$'000
<b>7 DIVIDENDS</b>				
Final fully franked ordinary dividend for the year ended 30 June 2011 of \$0.22 (2010: \$0.14) per share franked at the tax rate of 30% (2010: 30%)	15,027	9,497	15,027	9,497
Interim fully franked ordinary dividend for the year ended 30 June 2012 of \$0.22 (2011: \$0.16) per share franked at the tax rate of 30% (2011: 30%)	16,395	10,891	16,395	10,891
	31,422	20,388	31,422	20,388
Franking credits available for subsequent financial years based on a tax rate of 30% (2011 – 30%)	37,110	32,764	37,110	32,990

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

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

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

The impact on the franking account of the dividends recommended by the Directors since year end, but not recognised as a liability at year end, will be a reduction in the franking account of \$7,984,711 (2011: \$6,421,829).

	Consolidated Group		Parent Entity	
	2012 \$'000	2011 \$'000	2012 \$'000	2011 \$'000
<b>8 CASH AND CASH EQUIVALENTS</b>				
Cash on hand	4	3	-	-
Bank balances	9,018	14,119	781	506
Short term deposits	45,398	912	6,538	-
	54,420	15,034	7,319	506

Cash and cash equivalents are subject to interest rate risk as they earn interest at floating rates. Cash at bank is invested at floating rates. In 2012, the floating interest rates for the Consolidated Group and parent entity were between 1.50% and 5.38% (2011: 1.50% and 5.22%). The short term deposits are also subject to floating rates, which in 2012 were between 4.71% and 5.18% (2011: 4.96% and 5.43%). These deposits have an average maturity of 90 days (2011: 90 days).

	Consolidated Group		Parent Entity	
	2012 \$'000	2011 \$'000	2012 \$'000	2011 \$'000
<b>9 TRADE AND OTHER RECEIVABLES</b>				
<b>Current</b>				
Trade receivables	8,627	6,444	-	-
Other receivables	10,287	7,587	72	342
	18,914	14,031	72	342

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

# NOTES TO THE FINANCIAL STATEMENTS

## FOR THE YEAR ENDED 30 JUNE 2012

### (a) Ageing and impairment losses

The ageing of trade receivables for the Consolidated Group at reporting date was:

	2012			2011		
	Total	Amount impaired	Amount not impaired	Total	Amount impaired	Amount not impaired
	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
Not past due	8,218	-	8,218	6,196	-	6,196
Past due 30 days	93	-	93	178	(54)	124
Past due 31-60 days	92	-	92	30	(2)	28
Past due 61-90 days	273	(54)	219	114	(23)	91
Past due >90 days	224	(219)	5	145	(140)	5
<b>Total</b>	<b>8,900</b>	<b>(273)</b>	<b>8,627</b>	<b>6,663</b>	<b>(219)</b>	<b>6,444</b>

### (b) Concentration of risk

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

Approximately 38% (2011: 25%) of the Consolidated Group's trade receivables relate to customers for the supply of vehicle leasing related services. Management have assessed this concentration of risk and are satisfied with the strategies employed in ensuring the exposure to this risk is minimal. Management considers that no other significant concentrations of risk within trade receivables exist.

### (c) Other receivables

These amounts generally arise from transactions outside the usual operating activities of the Consolidated Group. None of the other current receivables are impaired or past due.

### (d) Doubtful debts policy

Refer Note 1(i).

	Consolidated Group		Parent Entity	
	2012 \$'000	2011 \$'000	2012 \$'000	2011 \$'000
<b>10 FINANCE LEASE RECEIVABLES</b>				
Current finance lease receivables	6,043	3,748	-	-
Non-current finance lease receivables	9,518	4,200	-	-
	15,561	7,948	-	-

As current finance lease receivables are short term their carrying amount is equal to their fair value. The fair value of non-current finance lease receivables is estimated to be \$9,208,000 (2011:\$4,736,004) using an 8.55% (2011:8.4%) discount rate.

	Consolidated Group			
	Minimum lease payments	Present value of lease payments	Minimum lease payments	Present value of lease payments
	2012 \$'000	2012 \$'000	2011 \$'000	2011 \$'000
<b>Amounts receivable under finance lease receivables</b>				
Within one year	6,656	6,043	4,198	3,748
Later than one but not more than five years	13,686	9,518	4,792	4,200
	20,342	15,561	8,990	7,948
Less: unearned finance income	4,781	-	1,075	-
Present value of minimum lease payments	15,561	15,561	7,948	7,948

There were no unguaranteed residual values of assets leased under finance leases at reporting date (2011: nil).

# NOTES TO THE FINANCIAL STATEMENTS

## FOR THE YEAR ENDED 30 JUNE 2012

	Note	Consolidated Group		Parent Entity	
		2012 \$'000	2011 \$'000	2012 \$'000	2011 \$'000
<b>11 OTHER FINANCIAL ASSETS</b>					
Shares in subsidiaries at cost	12	-	-	102,230	100,863

### 12 SUBSIDIARIES

The consolidated financial statements incorporate the assets, liabilities and results of the following subsidiaries in accordance with the accounting policy described in Note 1(c).

Name	Country of Incorporation	Percentage Owned 2012	Percentage Owned 2011
<b>Parent entity</b>			
McMillan Shakespeare Limited	Australia		
<b>Subsidiaries of parent entity</b>			
Maxxia Pty Limited *	Australia	100%	100%
Remuneration Services (Qld) Pty Limited *	Australia	100%	100%
Easilease Pty Limited	Australia	100%	100%
Interleasing (Australia) Ltd *	Australia	100%	100%
CARILA Pty Ltd *	Australia	100%	100%
TVPR Pty Ltd *	Australia	100%	100%
Maxxia Limited	New Zealand	100%	100%
Maxxia Fleet Limited (incorporated on 12 October 2011)	New Zealand	100%	-

\* These subsidiaries have been granted relief from the necessity to prepare financial reports in accordance with Class Order 98/1418 issued by the Australian Securities and Investments Commission. For further information refer to Note 28.

	Consolidated Group		Parent Entity	
	2012 \$'000	2011 \$'000	2012 \$'000	2011 \$'000
<b>13 PROPERTY, PLANT AND EQUIPMENT</b>				
<b>(a) Plant and equipment</b>				
At cost	20,161	17,069	-	-
Less accumulated depreciation	(11,218)	(8,290)	-	-
	8,943	8,779	-	-
Assets under operating lease				
At cost	369,707	279,855	-	-
Less accumulated depreciation	(125,684)	(69,194)	-	-
	244,023	210,661	-	-
<b>Total plant and equipment</b>	<b>252,966</b>	<b>219,440</b>	<b>-</b>	<b>-</b>

# NOTES TO THE FINANCIAL STATEMENTS

## FOR THE YEAR ENDED 30 JUNE 2012

### (b) Movements in cost and accumulated depreciation

Consolidated entity	Plant and equipment \$'000	Assets under operating lease \$'000	Total \$'000
<b>Year ended 30 June 2012</b>			
Balance at the beginning of year	8,779	210,661	219,440
Additions <sup>(1)</sup>	3,147	136,802	139,949
Disposals / transfers to assets held for sale	(156)	(36,396)	(36,552)
Impairment loss <sup>(2)</sup>	-	(604)	(604)
Depreciation expense	(2,827)	(66,440)	(69,267)
<b>Balance at 30 June</b>	<b>8,943</b>	<b>244,023</b>	<b>252,966</b>
<b>Year ended 30 June 2011</b>			
Balance at the beginning of year	7,358	202,471	209,829
Additions <sup>(1)</sup>	4,165	104,212	108,377
Disposals / transfers to assets held for sale	(28)	(32,427)	(32,455)
Impairment loss	-	(1,037)	(1,037)
Depreciation expense	(2,716)	(62,558)	(65,274)
<b>Balance at 30 June</b>	<b>8,779</b>	<b>210,661</b>	<b>219,440</b>

(1) Included in additions of \$3,147,000 (2011: \$4,165,000) were reimbursements by the lessor of \$1,235,000 (2011: \$895,000).

(2) Accumulated provision for impairment loss at reporting date is \$1,907,000.

### (c) Security

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

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

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

	Consolidated Group		Parent Entity	
	2012 \$'000	2011 \$'000	2012 \$'000	2011 \$'000
<b>14 DEFERRED TAX ASSETS</b>				
<b>(a) Asset/(Liability)</b>				
The balance comprises temporary differences attributable to:				
Amounts recognised in profit or loss				
Doubtful debts	82	65	-	-
Provisions	1,925	1,622	101	-
Property, plant and equipment	(7,185)	(5,955)	-	-
Accrued expenses	4,654	3,612	25	17
Other receivables/prepayments	(206)	(699)	-	-
Finance leases	2,249	2,851	-	-
Other	283	481	34	54
Contract rights	(550)	(829)	-	-
Derivatives	431	92	-	-
<b>Closing balance at 30 June</b>	<b>1,683</b>	<b>1,240</b>	<b>160</b>	<b>71</b>
Recognised as:				
Deferred tax asset	9,624	8,723	160	71
Deferred tax liability	(7,941)	(7,483)	-	-
	1,683	1,240	160	71

# NOTES TO THE FINANCIAL STATEMENTS

## FOR THE YEAR ENDED 30 JUNE 2012

	Consolidated Group		Parent Entity	
	2012 \$'000	2011 \$'000	2012 \$'000	2011 \$'000
<b>(b) Movement</b>				
Opening balance at 1 July	1,240	126	71	1,427
(Credited / Charged) to Statement of Comprehensive Income	104	1,022	89	(1,356)
Charged to equity	339	92	-	-
Closing balance at 30 June	1,683	1,240	160	71

### 15 INTANGIBLE ASSETS

#### (a) Carrying values

##### Goodwill

Cost	33,328	33,328	-	-
Impairment loss	(36)	(36)	-	-
Net carrying value	33,292	33,292	-	-

##### Software development costs

Cost <sup>(i)</sup>	12,371	9,001	-	-
Accumulated amortisation	(6,174)	(5,207)	-	-
Net carrying value	6,197	3,794	-	-

##### Contract rights

Cost	9,472	7,672	-	-
Accumulated amortisation	(6,512)	(4,909)	-	-
Net carrying value	2,960	2,763	-	-

Total Intangibles	42,449	39,849	-	-
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(i) Software includes capitalised internal costs

#### (b) Reconciliation of net book amount

2012	Consolidated Group			Total \$'000
	Goodwill \$'000	Software development costs \$'000	Contract rights \$'000	
Net book amount				
Balance beginning of year	33,292	3,794	2,763	39,849
Additions	-	3,370	1,800	5,170
Amortisation	-	(967)	(1,603)	(2,570)
Balance end of year	33,292	6,197	2,960	42,449
<b>2011</b>				
Net book amount				
Balance beginning of year	33,292	1,886	3,727	38,905
Additions	-	2,694	-	2,694
Amortisation	-	(786)	(964)	(1,750)
Balance end of year	33,292	3,794	2,763	39,849

# NOTES TO THE FINANCIAL STATEMENTS

## FOR THE YEAR ENDED 30 JUNE 2012

### (c) Impairment test for goodwill

Goodwill is allocated to the Consolidated Group's cash-generating units (CGUs) identified arising from the acquisitions of subsidiaries. The carrying amount of goodwill allocated to each CGU:

	Consolidated Group	
	2012 \$'000	2011 \$'000
Maxxia Pty Limited	24,190	24,190
Remuneration Services (Qld) Pty Limited	9,102	9,102
	33,292	33,292

The recoverable amount of each CGU above is determined based on value-in-use calculations. These calculations use the present value of cash flow projections based on financial budgets approved by management covering a five-year period.

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

	Discount rate	
	2012 %	2011 %
Maxxia Pty Limited	17.54	16.20
Remuneration Services (Qld) Pty Limited	17.54	16.20

The budgets use historical average growth rates to project revenue. Costs are determined taking into account historical margins and estimated cost increases. Cash flows beyond the five-year period are extrapolated using a zero growth rate for conservatism. The growth rate does not exceed the long-term average growth rate for the business in which the CGU operates.

In performing the value-in-use calculations for each CGU, the Consolidated Group has applied pre-tax discount rates to discount the forecast future attributable pre-tax cash flows. The equivalent pre-tax discount rates are disclosed above. The discount rates used reflect specific risks relating to the relevant business each subsidiary is operating in.

These assumptions have been used for the analysis of each CGU within each subsidiary.

The recoverable amounts of the CGUs exceed the carrying amounts by substantial margins. Consequently, a sensitivity analysis of possible changes in key assumptions is not considered necessary.

	Consolidated Group		Parent Entity	
	2012 \$'000	2011 \$'000	2012 \$'000	2011 \$'000
<b>16 TRADE AND OTHER PAYABLES</b>				
Unsecured liabilities				
Trade payables	13,501	13,561	-	-
GST payable	827	1,211	-	-
Sundry creditors and accruals	31,661	20,619	440	508
Maintenance instalments received in advance	6,622	6,306	-	-
Receivables in advance	3,722	3,282	-	-
Derivative financial instruments	1,438	306	-	-
Amounts payable to wholly owned entities	-	-	42,051	30,482
	57,771	45,285	42,491	30,990

Trade and other payables are non-interest bearing. These are short-term liabilities and the carrying value is representative of the fair value.

# NOTES TO THE FINANCIAL STATEMENTS

## FOR THE YEAR ENDED 30 JUNE 2012

	Consolidated Group		Parent Entity	
	2012 \$'000	2011 \$'000	2012 \$'000	2011 \$'000
<b>17 CURRENT TAX LIABILITY</b>				
Income tax	4,323	6,752	4,323	6,752
<b>18 PROVISIONS</b>				
Current				
Employee benefits	4,830	4,023	-	-
Non current				
Employee benefits	425	448	-	-
Aggregate employee benefits liability	5,255	4,471	-	-
<b>19 BORROWINGS</b>				
Current				
Bank loans	-	2,949	-	2,949
Non-current				
Bank loans	155,811	126,539	-	13,917

### (a) Security

The parent entity guarantees a bank loan of a subsidiary of \$156,000,000 (2011: \$113,000,000).

Fixed and floating charges are provided by the Consolidated Group in respect to financing facilities.

The Consolidated Group's loans are also secured by other pledges by the Interleasing Group receiving the loans to the following financial undertakings:

- (i) Negative pledge that imposes certain covenants including a restriction to provide other security over its assets, incurring further debt other than with the existing financier, disposal of a substantial part of its business, reduction of its capital; and
- (ii) Financial undertakings that include the maintenance of gearing of no less than 75% and certain asset management portfolio performance indicators.

### (b) Fair value disclosures

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

### (c) Risk exposures

Details of the Consolidated Group's exposure to risks arising from current and non-current borrowings are set out in Note 2.

# NOTES TO THE FINANCIAL STATEMENTS

## FOR THE YEAR ENDED 30 JUNE 2012

	Consolidated Group		Parent Entity	
	2012 \$'000	2011 \$'000	2012 \$'000	2011 \$'000
<b>20 ISSUED CAPITAL</b>				
<b>(a) Share capital</b>				
74,523,965 (2011: 68,081,810) fully paid ordinary shares	56,456	25,053	56,456	25,053

**(b) Reconciliation of movement in issued capital**

	Number of shares	Issue price \$	Ordinary shares \$'000
<b>Balance at 1 July 2011</b>	68,081,810		25,053
Options exercised during the year			
Fully paid shares issued on the exercise of employee options:			
- Granted in 2007	69,313	4.52	313
- Granted in 2008 and 2009	5,932,689	4.70	27,884
- Granted in 2008 and 2009	440,153	3.40	1,496
Proceeds from issue of employee options	-		415
Transfer from option reserve	-		1,315
Total shares issued	6,442,155		31,423
Less: transaction costs	-		(20)
<b>Balance at 30 June 2012</b>	74,523,965		56,456
<b>Balance at 1 July 2010</b>	67,677,977		23,066
Options exercised during the year			
Fully paid shares issued on the exercise of employee options:			
- Granted in 2007	95,520	3.80	362
- Granted in 2007	308,313	4.52	1,393
Transfer from option reserve	-		232
Total shares issued	403,833		1,987
<b>Balance at 30 June 2011</b>	68,081,810		25,053

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



# NOTES TO THE FINANCIAL STATEMENTS

## FOR THE YEAR ENDED 30 JUNE 2012

### (c) Options

At 30 June 2012, there were 3,095,233 (2011: 7,186,454) unissued ordinary shares for which options were outstanding. The Company issued the following options over ordinary shares to staff and executives in 2012.

Date of issue	Number of options	Exercise price	Option expiry date
15 August 2011	2,002,443	\$7.31	30 September 2015
15 August 2011 (i)	314,578	\$7.31	30 September 2015
26 October 2011	352,942	\$8.54	30 September 2015
14 March 2012	31,250	\$9.29	30 September 2015
Options issued in 2012	2,701,213		

(i) Options issued and fully paid at \$1.32 each.

Details relating to options issued, exercised and lapsed during the year and options outstanding at the end of the reporting period is set out in Note 27 on page 55.

### (d) Capital management strategy

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

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

The Consolidated Groups' gearing ratio was 38% (2011: 50%) calculated as net debt of \$101,391,000 (2011: \$114,454,000) divided by total capital of \$269,442,000.

The parent entity's borrowing facility included the maintenance of the Consolidated Group's equity that was no less than \$65,000,000 and the dividend payout to earnings after tax ratio to not exceed 65%. During the year the banking facility covenants of the parent entity were complied with. Following the parent entity's repayment of the facility during the year, these borrowing covenants were no longer required at the end of the reporting period.

The Consolidated Group's Risk and Compliance Committee reviews the capital structure of the Consolidated Group on an on-going basis. As part of this review the committee considers the cost of capital and the risks associated with each class of capital.

## 21 RESERVES

### (a) Option reserve

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

### (b) Cash flow hedge reserve

	Consolidated Group		Parent Entity	
	2012 \$'000	2011 \$'000	2012 \$'000	2011 \$'000
Revaluation - gross	(1,441)	(306)	-	-
Deferred tax	431	92	-	-
Balance at 30 June 2012	1,010	(214)	-	-

# NOTES TO THE FINANCIAL STATEMENTS

## FOR THE YEAR ENDED 30 JUNE 2012

	Consolidated Group		Parent Entity	
	2012 \$'000	2011 \$'000	2012 \$'000	2011 \$'000
<b>22 CASH FLOW INFORMATION</b>				
Reconciliation of cash flow from operations with profit from operating activities after income tax				
Profit for the year	54,305	43,460	15,688	17,664
Non cash flows in profit from operating activities				
Amortisation	1,603	964	-	-
Impairment loss	604	1,037	-	-
Depreciation	70,234	66,060	-	-
Option expense	1,367	482	-	-
Net loss on disposal of plant and equipment	-	19	-	-
Purchase of assets under lease	(163,620)	(113,181)	-	-
Written down value of assets sold	36,837	33,527	-	-
Changes in assets and liabilities, net of the effects of purchase of subsidiaries				
(Increase)/decrease in trade receivables and other assets	(6,632)	(9,213)	77	(414)
Increase/(decrease) in trade payables and accruals	27,418	14,331	473	(11,510)
(Decrease)/increase in income taxes payable	(2,429)	(1,679)	(808)	(1,679)
(Decrease)/increase in deferred taxes	(443)	(1,114)	(116)	1,356
Increase in provisions	784	829	-	-
<b>Net cash from operating activities</b>	<b>20,028</b>	<b>35,522</b>	<b>15,314</b>	<b>5,417</b>
<b>23 COMMITMENTS</b>				
<b>(a) Capital expenditure commitments</b>				
Capital expenditure commitments contracted for:				
Property, plant and equipment	2,213	1,537	-	-
<b>(b) Operating lease commitments</b>				
Non cancellable operating leases contracted for but not capitalised in the financial statements:				
Payable minimum lease payments				
- Not later than 12 months	5,538	3,970	-	-
- Between 12 months and 5 years	20,612	14,665	-	-
- Greater than 5 years	15,084	11,634	-	-
	41,234	30,269	-	-

The property leases are non cancellable leases with varying terms, with rent payable monthly in advance. Individual rental agreements specify each rental adjustment. A new lease was entered into during the year securing office premises for 10 years, with an option of a further 5 years. The equipment leases are non cancellable leases with varying terms, with rent payable quarterly in arrears.

# NOTES TO THE FINANCIAL STATEMENTS

## FOR THE YEAR ENDED 30 JUNE 2012

### 24 SEGMENT REPORTING

#### Reportable segments

#### (a) Description of Segments

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

Two reportable segments have been identified "Group Remuneration Services" and "Asset Management", in accordance with AASB8 "Operating Segments" based on aggregating operating segments taking into account the nature of the business services and products sold and the associated business and financial risks and how they affect the pricing and rates of return.

Group Remuneration Services - This segment provides administrative services in respect of salary packaging and facilitates the settlement of motor vehicle novated leases for customers, but does not provide financing. The segment also provides ancillary services associated with motor vehicle novated lease products.

Asset Management - This segment provides financing and ancillary management services associated with motor vehicles, commercial vehicles and equipment.

#### (b) Segment information provided to the Chief Decision Maker

The following is an analysis of the Consolidated Group's revenue and results from operations by reportable segment.

	Segment revenue		Segment profit after tax	
	2012 \$'000	2011 \$'000	2012 \$'000	2011 \$'000
Group Remuneration Services	137,284	111,648	40,265	31,658
Asset Management	163,342	158,890	14,268	13,460
Total for segment operations	300,626	270,538	54,533	45,118
Corporate administration and directors' fees			(870)	(831)
Integration costs			-	(491)
Interest expense			(861)	(1,814)
Interest income			1,404	767
Tax on unallocated items			99	711
Profit after tax from continuing operations for the year			54,305	43,460

#### (c) Other segment information

##### (i) Segment revenue

Segment revenue is reconciled to the Statement of Comprehensive Income as follows:

	2012 \$'000	2011 \$'000
Total segment revenue	300,626	270,538
Interest revenue	1,404	767
Total revenue per Consolidated Statement of Comprehensive Income	302,030	271,305

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

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

Included in the revenue for the Group Remuneration Services segment are revenues of \$52,989,000 (2011: \$41,319,000) from the Consolidated Group's largest customer.

The Consolidated Group's operations and its customers are located predominantly in Australia.

# NOTES TO THE FINANCIAL STATEMENTS

## FOR THE YEAR ENDED 30 JUNE 2012

### (ii) Segment depreciation and amortisation

	2012 \$'000	2011 \$'000
Group Remuneration Services	4,366	4,275
Asset Management	67,400	63,786
	71,766	68,061

### (iii) Segment assets and liabilities

The segment information with respect to total assets is measured in a consistent manner with that of the financial statements. These assets are allocated based on the operations of the segment and the physical location of the asset.

The parent entity's borrowings are not considered to be segment liabilities.

Segment profits are now reported to include income tax instead of being stated before tax as was the case in the previous year to reflect the Chief Decision Maker's current basis of review. Consequently, segment assets and liabilities in 2011 have been re-stated to include deferred tax asset in segment assets (2011: Group Remuneration Services \$1,068,000, Asset Management \$172,000) and income tax provision (2011: Group Remuneration Services \$4,399,000, Asset Management \$2,353,000) in segment liabilities with corresponding adjustments to unallocated assets and unallocated liabilities respectively.

The reportable segments' assets and liabilities are reconciled to total assets as follows:

	2012 \$'000	2011 \$'000
<b>Segment assets</b>		
Group Remuneration Services	54,467	62,469
Asset Management	282,324	223,005
Segment assets	336,791	285,474
Non-segment assets		
Unallocated assets <sup>(1)</sup>	54,420	15,034
Consolidated assets per statement of financial position	391,211	300,508
<b>Segment liabilities</b>		
Group Remuneration Services	38,605	31,478
Asset Management	184,555	137,652
Segment liabilities	223,160	169,130
Non-segment liabilities		
Unallocated liabilities <sup>(2)</sup>	-	16,866
Consolidated liabilities per statement of financial position	223,160	185,996

All assets and liabilities are located in Australia.

(1) Unallocated assets comprise cash and bank balances of the Consolidated Group, maintained as part of the centralised treasury and funding function.

(2) Unallocated liabilities comprise parent company borrowings that are employed by the whole group.

# NOTES TO THE FINANCIAL STATEMENTS

## FOR THE YEAR ENDED 30 JUNE 2012

	2012 \$'000	2011 \$'000
<b>Additions to non-current assets</b>		
Group Remuneration Services	5,726	4,886
Asset Management	139,393	106,185
	145,119	111,071

	Consolidated Group		Parent Entity	
	2012 \$'000	2011 \$'000	2012 \$'000	2011 \$'000
<b>25 CONTINGENT LIABILITIES</b>				
Estimates of the potential financial effect of contingent liabilities that may become payable:				
Guarantees provided for the performance of contractual obligations. A term deposit supports the contractual guarantees.	-	623	-	-
Guarantee provided for the performance of a contractual obligation not supported by term deposit.	10,643	20	50	-
Guarantees provided in respect of property leases.	4,275	3,953	-	380
	14,918	4,596	50	380

## 26 RELATED PARTY TRANSACTIONS

### (a) Wholly owned group

Transactions between the Company and other entities within the wholly owned group during the years ended 30 June 2012 and 2011 consisted of:

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

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

	Consolidated Group		Parent Entity	
	2012 \$'000	2011 \$'000	2012 \$'000	2011 \$'000
Dividend revenue	-	-	16,734	21,100
Aggregate amounts payable to entities within the wholly owned group at balance date:				
Current payables	-	-	42,051	30,482
	\$	\$	\$	\$
<b>(b) Key management personnel compensation</b>				
Compensation				
Short-term employment benefits	3,855,127	3,294,212	1,998,301	1,926,251
Post-employment benefits	287,012	276,549	211,543	192,814
Long-term employment benefits	43,266	40,476	4,843	24,301
Termination benefits	-	196,923	-	196,923
Share-based payments	963,608	443,096	682,161	282,702
	5,149,013	4,251,256	2,896,848	2,622,991

# NOTES TO THE FINANCIAL STATEMENTS

## FOR THE YEAR ENDED 30 JUNE 2012

### (c) Equity instrument disclosures relating to key management personnel

#### Shareholding

The number of shares in the Company held during the financial year ended 30 June 2012 and 30 June 2011 by each Director and each of the Key Management Personnel of the Consolidated Group, including their personally related parties, are set out below:

Year ended 30 June 2012	Balance at the start of the year	Shares acquired through option exercise <sup>(i)</sup>	Other changes during the year	Balance held at balance date
<b>Non-Executive Directors</b>				
R Pitcher	105,100	-	-	105,100
G McMahon	122,000	-	-	122,000
J Bennetts	4,568,025	-	(250,000)	4,318,025
R Chessari	6,225,063	-	-	6,225,063
A Podesta	11,235,000	-	-	11,235,000
<b>Executive Directors</b>				
M Kay	4,164	3,750,000	(2,309,212)	1,444,952
	22,259,352	3,750,000	(2,559,212)	23,450,140
<b>Other key management personnel</b>				
G Kruyt	119,172	625,000	(524,568)	219,604
P Lang	6,452	625,000	(625,000)	6,452
M Salisbury	-	136,364	(136,364)	-
M Blackburn (commenced 26 October 2011) <sup>(ii)</sup>	-	-	1,250	1,250
P McCluskey (removed as KMP on 26 October 2011) <sup>(iii)</sup>	912	-	3,000	3,912
A Tomas	-	-	-	-
	126,536	1,386,364	(1,281,682)	231,218

(i) Includes employee options vested during the year and sold before the exercise for shares

(ii) Pre-existing balance of shares held prior to becoming KMP

(iii) Balance of shares on termination as KMP

#### Year ended 30 June 2011

<b>Non-Executive Directors</b>				
R Pitcher	105,100	-	-	105,100
G McMahon	122,000	-	-	122,000
J Bennetts	4,718,025	-	(150,000)	4,568,025
R Chessari	6,425,063	-	(200,000)	6,225,063
<b>Executive Directors</b>				
A Podesta <sup>(1)</sup>	11,235,000	-	-	11,235,000
M Kay	4,164	-	-	4,164
	22,609,352	-	(350,000)	22,259,352
<b>Other key management personnel</b>				
M Cansdale (until 31 August 2010)	-	-	-	-
G Kruyt	370,348	90,000	(341,176)	119,172
P Lang	101,001	40,000	(134,549)	6,452
M Salisbury	-	-	-	-
P McCluskey (commenced 1 September 2010)	130	-	782	912
A Tomas	-	-	-	-
	471,479	130,000	(474,943)	126,536

(1) Mr Podesta resigned as an executive director with effect from 17 August 2010, but continues in the role of a non-executive director.

# NOTES TO THE FINANCIAL STATEMENTS

## FOR THE YEAR ENDED 30 JUNE 2012

### Options

The number of options to acquire shares in the Company held during the financial year ended 30 June 2012 and 30 June 2011 by each of the other key management personnel of the Consolidated Group, including their personally related parties, are set out below. No options are held by Non-Executive Directors.

<b>Year ended 30 June 2012</b>	<b>Balance at the start of the year</b>	<b>Issued</b>	<b>Exercised or sold</b>	<b>Lapsed</b>	<b>Balance held at balance date</b>
M Kay	3,750,000	720,106	(3,750,000)	-	720,106
M Blackburn (commenced 26 October 2011)	-	352,942	-	-	352,942
G Kruyt	625,000	197,538	(625,000)	-	197,538
P Lang	625,000	189,556	(625,000)	-	189,556
M Salisbury	136,364	85,276	(136,364)	-	85,276
P McCluskey (removed as KMP on 26 October 2011)	-	123,177	-	-	123,177
A Tomas	537,634	37,901	-	-	575,535
	5,673,998	1,706,496	(5,136,364)	-	2,244,130
<b>Year ended 30 June 2011</b>					
M Kay	3,750,000	-	-	-	3,750,000
M Cansdale (until 31 August 2010)	725,000	-	-	(725,000)	-
G Kruyt	715,000	-	(90,000)	-	625,000
P Lang	665,000	-	(40,000)	-	625,000
M Salisbury	136,364	-	-	-	136,364
P McCluskey (commenced 1 September 2010)	-	-	-	-	-
A Tomas	537,634	-	-	-	537,634
	6,528,998	-	(130,000)	(725,000)	5,673,998

## 27 SHARE-BASED PAYMENTS

The Company issued options to certain executives and employees under the McMillan Shakespeare Limited Employee Option Plan. Two types of options have been granted under this plan, performance options and voluntary options.

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

### Performance Options

Performance options over unissued ordinary shares in the Company are granted for no consideration and are, other than as disclosed in this Annual Report, granted at or above market prices prevailing when the Board approved the issue. Performance options carry no dividend or voting rights. Once exercised, each option is converted into one fully paid ordinary share in the Company.

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

As at 30 June 2012, the Company had made thirteen offers of performance options in March 2004, December 2004, April 2005, August 2005, February 2007, December 2007, July 2008, November 2008, August 2009 and May 2010, August 2011, October 2011 and March 2012. Many of the performance options issued have vested or expired prior to the financial year ended 30 June 2012.

### Voluntary Options

Voluntary options were first granted during the year. 314,578 options were issued at \$1.32 each and expire on 30 September 2015 (the consideration was set at a 25% discount to the fair value of the options on grant date) up to an investment limit of \$50,000 per executive. The maximum discount to any one executive is therefore limited to \$16,666.

The entitlement to exercise the voluntary options is not contingent upon continued employment with the Company nor are there performance hurdles. However, if the executive leaves employment before 31 August 2014, the executive will forfeit 25% of their entitlement for \$1 (the amount forfeited being equal to the 25% discount to the fair market value that applied to the acquisition price of the option at the date of the conditional offer and acceptance). The vesting date of these options is upon adoption of the Company's 2014 Annual Report. No performance hurdles are attached to these options as the executive has paid \$50,000 for the purchase of the options (representing 75% of the fair value of the options on grant date).

# NOTES TO THE FINANCIAL STATEMENTS

## FOR THE YEAR ENDED 30 JUNE 2012

### Details for current performance and voluntary options & performance options vested in FY2012

Options & issue date	Expiry	Conditions	Vested																				
3,750,000 (July 2008)	30 June 2012	<p>(a) Continuity of employment to 30 June 2011</p> <p>(b) Achievement of predetermined targets, of which 75% was based on earnings per share ("EPS") targets over three years, including a cumulative EPS target over the three year period in the event that the maximum EPS target was not achieved in any one year.</p> <p>(c) The EPS growth targets were based on the actual FY2008 EPS achieved as the base year as follows:</p> <table border="1"> <thead> <tr> <th>Performance Hurdles</th> <th>Weighting</th> </tr> </thead> <tbody> <tr> <td>Achievement of FY2009 EPS growth of not less than 15.0%</td> <td>12.50%</td> </tr> <tr> <td>Achievement of FY2009 EPS growth of not less than 17.5%</td> <td>6.25%</td> </tr> <tr> <td>Achievement of FY2009 EPS growth of not less than 20.0%</td> <td>6.25%</td> </tr> <tr> <td>Achievement of FY2010 EPS growth of not less than 15.0%</td> <td>12.50%</td> </tr> <tr> <td>Achievement of FY2010 EPS growth of not less than 17.5%</td> <td>6.25%</td> </tr> <tr> <td>Achievement of FY2010 EPS growth of not less than 20.0%</td> <td>6.25%</td> </tr> <tr> <td>Achievement of FY2011 EPS growth of not less than 15.0%</td> <td>12.50%</td> </tr> <tr> <td>Achievement of FY2011 EPS growth of not less than 17.5%</td> <td>6.25%</td> </tr> <tr> <td>Achievement of FY2011 EPS growth of not less than 20.0%</td> <td>6.25%</td> </tr> </tbody> </table> <p>(d) The balance (25%) was based on the undertaking by the Company of a transformational event resulting in a major diversification for the Company. The transformational event is regarded as having been met through the acquisition of Interleasing (Australia) Ltd.</p>	Performance Hurdles	Weighting	Achievement of FY2009 EPS growth of not less than 15.0%	12.50%	Achievement of FY2009 EPS growth of not less than 17.5%	6.25%	Achievement of FY2009 EPS growth of not less than 20.0%	6.25%	Achievement of FY2010 EPS growth of not less than 15.0%	12.50%	Achievement of FY2010 EPS growth of not less than 17.5%	6.25%	Achievement of FY2010 EPS growth of not less than 20.0%	6.25%	Achievement of FY2011 EPS growth of not less than 15.0%	12.50%	Achievement of FY2011 EPS growth of not less than 17.5%	6.25%	Achievement of FY2011 EPS growth of not less than 20.0%	6.25%	The options vested in full upon the adoption of the 2011 Annual Report.
Performance Hurdles	Weighting																						
Achievement of FY2009 EPS growth of not less than 15.0%	12.50%																						
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Achievement of FY2011 EPS growth of not less than 20.0%	6.25%																						
2,600,114 (November 2008) and 327,273 (August 2009)	November 2012 and August 2013	<p>(a) Continuity of employment.</p> <p>(b) Achievement of predetermined targets, of which 100% was based on EPS targets over three years, including a cumulative EPS target over three years in the event that the maximum target was not achieved in any one year.</p> <p>(c) The EPS growth target was based on the actual FY2008 EPS achieved as the base year as follows:</p> <table border="1"> <thead> <tr> <th>Performance Hurdles</th> <th>Weighting</th> </tr> </thead> <tbody> <tr> <td>Achievement of FY2009 EPS growth of not less than 15.0%</td> <td>25.00%</td> </tr> <tr> <td>Achievement of FY2009 EPS growth of not less than 17.5%</td> <td>5.00%</td> </tr> <tr> <td>Achievement of FY2009 EPS growth of not less than 20.0%</td> <td>3.34%</td> </tr> <tr> <td>Achievement of FY2010 EPS growth of not less than 15.0%</td> <td>25.00%</td> </tr> <tr> <td>Achievement of FY2010 EPS growth of not less than 17.5%</td> <td>5.00%</td> </tr> <tr> <td>Achievement of FY2010 EPS growth of not less than 20.0%</td> <td>3.33%</td> </tr> <tr> <td>Achievement of FY2011 EPS growth of not less than 15.0%</td> <td>25.00%</td> </tr> <tr> <td>Achievement of FY2011 EPS growth of not less than 17.5%</td> <td>5.00%</td> </tr> <tr> <td>Achievement of FY2011 EPS growth of not less than 20.0%</td> <td>3.33%</td> </tr> </tbody> </table>	Performance Hurdles	Weighting	Achievement of FY2009 EPS growth of not less than 15.0%	25.00%	Achievement of FY2009 EPS growth of not less than 17.5%	5.00%	Achievement of FY2009 EPS growth of not less than 20.0%	3.34%	Achievement of FY2010 EPS growth of not less than 15.0%	25.00%	Achievement of FY2010 EPS growth of not less than 17.5%	5.00%	Achievement of FY2010 EPS growth of not less than 20.0%	3.33%	Achievement of FY2011 EPS growth of not less than 15.0%	25.00%	Achievement of FY2011 EPS growth of not less than 17.5%	5.00%	Achievement of FY2011 EPS growth of not less than 20.0%	3.33%	Other than options in this tranche which have lapsed due to resignation, the options in this tranche vested in full upon the adoption of the 2011 Annual Report.
Performance Hurdles	Weighting																						
Achievement of FY2009 EPS growth of not less than 15.0%	25.00%																						
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Achievement of FY2011 EPS growth of not less than 20.0%	3.33%																						
537,634 (May 2010)		<p>(a) Entitlement to exercise confirmed during the year upon the Company agreeing to a 36 month employment contract following completion of an 18 month fixed term employment contract.</p> <p>(b) The entitlement is subject to continuity of employment and the achievement of predetermined NPAT targets over three years. *</p> <p>*The targets are established as the same targets for the options issued in August 2011 described immediately below.</p>	Entire issue vests and is exercisable (subject to the achievement of the conditions) on 1 October 2014.																				
1,858,829 (August 2011) and 352,942 (October 2011) and 31,250 (March 2012)	The options expire four years from the relevant date of issue.	<p>The entitlement to exercise these options is subject to continuity of employment and the achievement of predetermined targets, of which 100% is based on NPAT growth targets over three years. The NPAT growth will be based on the actual NPAT achieved for the year ended 30 June 2012 (the 'Base Year'). The NPAT growth target will be based on compounding growth targets from the Base year.</p> <p>In the event that the NPAT target in any one year is not achieved, at the end of the three year period ending 30 June 2014 the actual compound NPAT over the three year period will be calculated, and if the total exceeds the compound EPS target for the three year period, then the executives will be entitled to exercise all the options which have not been forfeited.</p> <p>The Board retains the right to adjust the NPAT targets in the event of a change in the capital structure of the Company that impacts earnings per share. Any change to the NPAT targets will be made having regard to the actual NPAT impact of the change to the capital structure.</p> <p>In the event that the executives take unpaid leave for a period exceeding three months during any of the years ending 30 June 2012, 2013 and 2014, the vesting criteria outlined above with respect to the financial performance of the Company and the executives continued employment will be determined on a pro rate basis to reflect the period of his continuous service during the relevant financial year, unless the Board in its discretion determine otherwise.</p> <p>The performance hurdles are as follows.</p> <table border="1"> <thead> <tr> <th>Performance Hurdles</th> <th>Vesting portion</th> </tr> </thead> <tbody> <tr> <td>FY2012 NPAT growth not less than 12.5%</td> <td>33.34%</td> </tr> <tr> <td>FY2013 NPAT growth not less than 15.0%</td> <td>33.33%</td> </tr> <tr> <td>FY2014 NPAT growth not less than 15.0%</td> <td>33.33%</td> </tr> </tbody> </table>	Performance Hurdles	Vesting portion	FY2012 NPAT growth not less than 12.5%	33.34%	FY2013 NPAT growth not less than 15.0%	33.33%	FY2014 NPAT growth not less than 15.0%	33.33%	The entire issue vests upon the adoption of the Company's Annual Report for the financial year ended 30 June 2014.												
Performance Hurdles	Vesting portion																						
FY2012 NPAT growth not less than 12.5%	33.34%																						
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FY2014 NPAT growth not less than 15.0%	33.33%																						



# NOTES TO THE FINANCIAL STATEMENTS

## FOR THE YEAR ENDED 30 JUNE 2012

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

### Economic and parent entity - 2012

Grant date	Expiry date	Exercise price	Balance at start of the year	Granted during the year	Exercised or sold during the year	Forfeited during the year	Balance at end of the year	Exercisable at end of the year
4 February 2007	3 February 2011	\$3.80	-	-	-	-	-	-
21 December 2007	20 December 2011	\$4.52	114,688	-	(69,313)	(45,375)	-	-
1 July 2008	30 June 2012	\$4.70	3,750,000	-	(3,750,000)	-	-	-
24 November 2008	23 November 2012	\$3.40	306,819	-	(306,819)	-	-	-
24 November 2008	23 November 2012	\$4.70	1,988,750	-	(1,988,750)	-	-	-
14 August 2009	13 August 2012	\$3.40	133,334	-	(133,334)	-	-	-
14 August 2009	13 August 2012	\$4.70	193,939	-	(193,939)	-	-	-
28 May 2010	1 October 2015	\$3.42	698,924	-	-	(161,290)	537,634	-
16 August 2011 <sup>(1)</sup>	30 September 2015	\$7.31	-	2,002,443	-	(143,614)	1,858,829	-
16 August 2011 <sup>(2)</sup>	30 September 2015	\$7.31	-	314,578	-	-	314,578	-
25 October 2011	30 September 2015	\$8.54	-	352,942	-	-	352,942	-
14 March 2012	30 September 2015	\$9.29	-	31,250	-	-	31,250	-
			7,186,454	2,701,213	(6,442,155)	(350,279)	3,095,233	-
Weighted average exercise price			\$4.49	\$7.49	\$4.61	\$5.16	\$6.79	

(1) Performance options including 682,206 options granted to the Managing Director following approval by shareholders at the Annual General Meeting on 25 October 2011.

(2) Voluntary options including 37,900 options granted to the Managing Director following approval by shareholders at the Annual General Meeting on 25 October 2011.

### Economic and parent entity - 2011

4 February 2007	3 February 2011	\$3.80	95,522	-	(95,522)	-	-	-
21 December 2007	20 December 2011	\$4.52	425,001	-	(308,313)	(2,000)	114,688	114,688
1 July 2008	30 June 2012	\$4.70	4,375,000	-	-	(625,000)	3,750,000	-
24 November 2008	23 November 2012	\$3.40	306,819	-	-	-	306,819	-
24 November 2008	23 November 2012	\$4.70	2,088,750	-	-	(100,000)	1,988,750	-
14 August 2009	13 August 2012	\$3.40	133,334	-	-	-	133,334	-
14 August 2009	13 August 2012	\$4.70	193,939	-	-	-	193,939	-
28 May 2010	1 October 2015	\$3.42	698,924	-	-	-	698,924	-
			8,317,289	-	(403,835)	(727,000)	7,186,454	114,688
Weighted average exercise price			\$4.50	-	\$4.35	\$4.70	\$4.49	\$4.52

Of the forfeited options 16,875 represented expired options (2011: none).

The weighted average share price at the date of exercise of options during the year ended 30 June 2012 was \$4.61 (2011: \$4.35).

The weighted average remaining contractual life of options outstanding at the end of the year was 3.2 years (2011: 1.4 years).

# NOTES TO THE FINANCIAL STATEMENTS

## FOR THE YEAR ENDED 30 JUNE 2012

### Fair value of options granted

The assessed fair value at grant date of options granted during the year (2011: none) is disclosed in the table below. The fair value at grant date is determined using a binomial option pricing model that takes into account the exercise price, the term of the option, the share price at the grant date, the expected price volatility of the underlying share, the expected dividend yield and the risk-free interest rate for the term of the option.

Model input	August 2011	August 2011	August 2011	October 2011	March 2012
Consideration payable upon grant	Nil	\$1.32	Nil	Nil	Nil
Exercise price	\$7.31	\$7.31	\$7.31	\$8.54	\$9.29
Grant date	16 August 2011	16 August 2011	16 August 2011	25 October 2011	14 March 2012
Expected life	3.2 years	3.2 years	3.2 years	3.0 years	2.8 years
Share price at grant date	\$7.31	\$7.31	\$8.54	\$8.54	\$9.29
Expected price volatility	40%	40%	34%	34%	42%
Expected dividend yield	5.3%	5.3%	4.4%	4.4%	4.1%
Risk-free interest rate	3.9%	3.9%	3.9%	3.9%	3.7%

The expected price volatility is based on historic volatility (based on the remaining life of the options), adjusted for any expected changes to future volatility due to publicly available information.

### Expenses arising from share-based payment transactions

Total expenses arising from share-based payment transactions recognised during the year as part of employee and Director benefits expense were as follows:

	Consolidated Group		Parent Entity	
	2012 \$'000	2011 \$'000	2012 \$'000	2011 \$'000
Options issued under Employee Option Plan	1,367	482	-	-

## 28 DEED OF CROSS GUARANTEE

McMillan Shakespeare Limited, Maxxia Pty Ltd and Remuneration Services (Qld) Pty Ltd are parties to a deed of cross guarantee entered into during the year ended 30 June 2009 and Interleasing (Australia) Ltd, CARILA Pty Ltd and TVPR Pty Ltd (Interleasing Group) entered into deeds of cross guarantee in the year ended 30 June 2010. Under the deeds, each company guarantees the debts of the others and is relieved from the requirement to prepare a financial report and directors' report under Class Order 98/1418 (as amended) issued by the Australian Securities and Investments Commission.

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

Set out below is a statement of comprehensive income, statement of financial position and a summary of movements in consolidated retained profits for the year ended 30 June 2012 of the Closed group consisting of McMillan Shakespeare Limited, Maxxia Pty Ltd and Remuneration Services (Qld) Pty Ltd, Interleasing (Australia) Ltd, CARILA Pty Ltd and TVPR Pty Ltd.

# NOTES TO THE FINANCIAL STATEMENTS

## FOR THE YEAR ENDED 30 JUNE 2012

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

	2012 \$'000	2011 \$'000
<b>Statement of Comprehensive Income</b>		
Revenue and other income	302,022	271,297
Employee and director benefits expenses	(65,676)	(55,336)
Depreciation and amortisation expenses and impairment	(71,766)	(68,024)
Leasing and vehicle management expenses	(50,850)	(52,470)
Consulting cost expenses	(2,523)	(1,541)
Marketing expenses	(3,004)	(2,671)
Property and corporate expenses	(5,346)	(4,942)
Technology and communication expenses	(7,319)	(5,594)
Finance costs	(10,385)	(11,278)
Other expenses	(7,811)	(7,250)
Profit before income tax	77,342	62,191
Income tax expense	(23,043)	(18,735)
Profit attributable to members of the parent entity	54,299	43,456
<b>Other comprehensive income</b>		
Other comprehensive income/(loss) for the period after tax	(799)	(214)
Total comprehensive income for the period	53,500	43,242
<b>Summary of movements in consolidated retained profits</b>		
Retained profits at the beginning of the financial year	87,902	64,834
Profits for the year	54,299	43,456
Dividends paid	(31,422)	(20,388)
Retained profits at the end of the financial year	110,779	87,902

# NOTES TO THE FINANCIAL STATEMENTS

## FOR THE YEAR ENDED 30 JUNE 2012

### (b) Consolidated Statement of Financial Position

	2012 \$'000	2011 \$'000
<b>Current assets</b>		
Cash and cash equivalents	54,213	14,833
Trade and other receivables	22,095	15,462
Finance lease receivables	6,043	3,748
Inventory	1,980	1,477
<b>Total current assets</b>	<b>84,331</b>	<b>35,520</b>
<b>Non current assets</b>		
Property, plant and equipment	252,966	220,050
Intangible assets	42,450	39,849
Deferred tax asset	1,683	1,248
Finance lease receivables	9,518	4,200
<b>Total non current assets</b>	<b>306,617</b>	<b>265,347</b>
<b>TOTAL ASSETS</b>	<b>390,948</b>	<b>300,867</b>
<b>Current liabilities</b>		
Trade and other payables	57,751	45,881
Current tax liability	4,323	6,752
Provisions	4,830	4,023
Borrowings	-	2,949
<b>Total current liabilities</b>	<b>66,904</b>	<b>59,605</b>
<b>Non current liabilities</b>		
Provisions	425	448
Borrowings	155,811	126,539
<b>Total non current liabilities</b>	<b>156,236</b>	<b>126,987</b>
<b>TOTAL LIABILITIES</b>	<b>223,140</b>	<b>186,592</b>
<b>NET ASSETS</b>	<b>167,808</b>	<b>114,275</b>
<b>EQUITY</b>		
Issued capital	56,456	25,053
Reserves	573	1,320
Retained earnings	110,779	87,902
<b>TOTAL EQUITY</b>	<b>167,808</b>	<b>114,275</b>

### 29 SUBSEQUENT EVENTS

Subsequent to reporting date, the Group increased its Asset Management funding facility from \$180m to \$270m. The facility provides the company with additional liquidity and funding diversification to support future growth. It has been re-priced to reduce cost and extended until August 2015.

## DIRECTORS' DECLARATION

The Directors are of the opinion that:

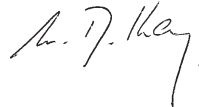
1. the financial statements and notes on pages 21 to 58 are in accordance with the Corporations Act 2001(Cth), including:
  - (a) compliance with Accounting Standards, the Corporations Regulations 2001 (Cth) and other mandatory professional reporting requirements;
  - (b) giving a true and fair view of the consolidated entity's financial position as at 30 June 2012 and financial performance for the financial year ended on that date; and
  - (c) compliance with International Financial Reporting Standards as disclosed in Note 1.
2. there are reasonable grounds to believe that the Company will be able to pay its debts as and when they become due and payable, and
3. at the date of this declaration, there are reasonable grounds to believe that the members of the extended closed group identified in Note 28 will be able to meet any obligations or liabilities to which they are, or may become, subject by virtue of the deed of cross guarantee described in the note.

The Directors have been given the declarations by the Chief Executive Officer and Chief Financial Officer required by section 295A of the Corporations Act 2001 (Cth).

This declaration is made in accordance with a resolution of the Directors.



Ronald Pitcher, AM  
Chairman



Michael Kay  
Managing Director

6 September 2012  
Melbourne, Australia

# INDEPENDENT AUDIT REPORT

## AS AT 30 JUNE 2012



Grant Thornton Audit Pty Ltd  
ACN 130 913 594

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### **Independent Auditor's Report To the Members of McMillan Shakespeare Limited**

#### **Report on the financial report**

We have audited the accompanying financial report of McMillan Shakespeare Limited ("the Company"), which comprises the consolidated statement of financial position as at 30 June 2012, and the consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year ended on that date, a summary of significant accounting policies, other explanatory notes to the financial report and the Directors' declaration of the consolidated entity comprising the Company and the entities it controlled at the year's end or from time to time during the financial year.

#### **Directors responsibility for the financial report**

The Directors of the Company are responsible for the preparation and fair presentation of the financial report in accordance with Australian Accounting Standards and the Corporations Act 2001. This responsibility includes establishing and maintaining internal controls relevant to the preparation and fair presentation of the financial report that are free from material misstatement, whether due to fraud or error. The Directors also state, in the notes to the financial report, in accordance with Accounting Standard AASB 101 *Presentation of Financial Statements*, that compliance with the Australian equivalents to International Financial Reporting Standards ensures that the financial report, comprising the financial statements and notes, complies with International Financial Reporting Standards.

#### **Auditor's responsibility**

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

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# INDEPENDENT AUDIT REPORT

## AS AT 30 JUNE 2012



An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial report. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial report, whether due to fraud or error.

In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial report in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the Directors, as well as evaluating the overall presentation of the financial report.

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

#### **Electronic presentation of audited financial report**

This auditor's report relates to the financial report of McMillan Shakespeare Limited and its controlled entities for the year ended 30 June 2012 included on McMillan Shakespeare Limited's web site. The Company's Directors are responsible for the integrity of McMillan Shakespeare Limited's web site. We have not been engaged to report on the integrity of McMillan Shakespeare Limited's web site. The auditor's report refers only to the statements named above. It does not provide an opinion on any other information which may have been hyperlinked to/from these statements. If users of this report are concerned with the inherent risks arising from electronic data communications they are advised to refer to the hard copy of the audited financial report to confirm the information included in the audited financial report presented on this web site.

#### **Independence**

In conducting our audit, we have complied with the independence requirements of the Corporations Act 2001.

#### **Auditor's opinion**

In our opinion:

- a the financial report of McMillan Shakespeare Limited is in accordance with the Corporations Act 2001, including:
  - i giving a true and fair view of the company's and the consolidated entity's financial position as at 30 June 2012 and of their performance for the year ended on that date; and
  - ii complying with Australian Accounting Standards and the Corporations Regulations 2001; and
- b the financial report also complies with International Financial Reporting Standards as disclosed in the notes to the financial statements.

# INDEPENDENT AUDIT REPORT

AS AT 30 JUNE 2012



## **Report on the remuneration report**

We have audited the remuneration report included in pages 6 to 14 of the Directors' report for the year ended 30 June 2012. 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.

## **Auditor's opinion on the remuneration report**

In our opinion the remuneration report of McMillan Shakespeare Limited for the year ended 30 June 2012, complies with section 300A of the Corporations Act 2001.

A handwritten signature in black ink, appearing to read "Grant Thornton".

GRANT THORNTON AUDIT PTY LTD  
Chartered Accountants

A handwritten signature in black ink, appearing to read "Simon Trivett".

Simon Trivett  
Partner - Audit & Assurance

Melbourne, 6 September 2012



# AUDITOR'S INDEPENDENCE DECLARATION

AS AT 30 JUNE 2012



Grant Thornton Audit Pty Ltd  
ACN 130 913 594

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## **Auditor's Independence Declaration To the Directors of McMillan Shakespeare Limited**

In accordance with the requirements of section 307C of the Corporations Act 2001, as lead auditor for the audit of McMillan Shakespeare Limited for the year ended 30 June 2012, I declare that, to the best of my knowledge and belief, there have been:

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

A handwritten signature in cursive script that reads "Grant Thornton".

GRANT THORNTON AUDIT PTY LTD  
Chartered Accountants

A handwritten signature in cursive script that reads "Simon Trivett".

Simon Trivett  
Partner - Audit & Assurance

Melbourne, 6 September 2012

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# SHAREHOLDER INFORMATION

Additional information required by the ASX Listing Rules and not disclosed elsewhere in this Annual Report is set out below:

## SUBSTANTIAL SHAREHOLDINGS

As at 31 August 2012, the number of shares held by substantial shareholders and their associates is as follows:

No.	Name	Number of Ordinary Shares	Percentage of Ordinary Shares <sup>1</sup>
1.	J P Morgan Nominees Australia Limited	11,718,997	15.73
2.	National Nominees Limited	9,162,823	12.30
3.	Meddiscope Pty Limited <sup>(1)</sup>	7,235,000	9.71
4.	HSBC Custody Nominees (Aust) Ltd	6,842,014	9.18
5.	Chessari Holdings Pty Limited <sup>(2)</sup>	6,225,063	8.35
6.	Asia Pac Technology Pty Limited <sup>(3)</sup>	4,318,025	5.79

<sup>1</sup> Meddiscope Pty Limited is a company associated with Mr Anthony Podesta, a Non-Executive Director. Meddiscope Pty Limited has a deemed relevant interest in the shares held by Cobax Pty Limited, as both entities are controlled by Mr Podesta.

<sup>2</sup> Chessari Holdings Pty Limited is a company associated with Mr Ross Chessari, a Non-Executive Director.

<sup>3</sup> Asia Pac Technology Pty Limited is a company associated with Mr John Bennetts, a Non-Executive Director.

## NUMBER OF SHARE & OPTION HOLDERS

As at 31 August 2012, the number of holders of ordinary shares and options in the Company was as follows:

Class of Security	Number of Holders
Fully paid ordinary shares	3,213
Options exercisable at \$3.42 and expiring on 1 October 2015	1
Options exercisable at \$7.31 and expiring on 30 September 2015	20
Options exercisable at \$8.54 and expiring on 30 September 2015	1
Options exercisable at \$9.29 and expiring on 30 September 2015	1
Options exercisable at \$11.42 and expiring on 30 September 2015	3

## VOTING RIGHTS

In accordance with the Constitution of the Company and the Corporations Act 2001 (Cth), every member present in person or by proxy at a general meeting of the members of the Company has:

- on a vote taken by a show of hands, one vote; and
- on a vote taken by a poll, one vote for every fully paid ordinary share held in the Company.

A poll may be demanded at a general meeting of the members of the Company in the manner permitted by the Corporations Act 2001 (Cth).

## DISTRIBUTION OF SHARE & OPTION HOLDERS

As at 31 August 2012, the distribution of share and option holders in the Company was as follows:

Distribution of Shares & Options	Number of Holders of Ordinary Shares
1 – 1,000	1,382
1,001 – 5,000	1,297
5,001 – 10,000	293
10,001 – 100,000	197
100,000+	41

As at 31 August 2012 there were 48 shareholders who held less than a marketable parcel of 41 fully paid ordinary shares in the Company.

## TOP 20 SHAREHOLDERS

As at 31 August 2012, the details of the top 20 shareholders in the Company are as follows:

No.	Name	Number of Ordinary Shares	Percentage of Ordinary Shares <sup>1</sup>
1.	J P Morgan Nominees Australia Limited	11,718,997	15.73
2.	National Nominees Limited	9,162,823	12.30
3.	HSBC Custody Nominees (Aust) Ltd	6,842,014	9.18
4.	Meddiscope Pty Limited <sup>(2)</sup>	6,800,000	9.12
5.	Chessari Holdings Pty Limited <sup>(3)</sup>	6,225,063	8.35
6.	Asia Pac Technology Pty Limited <sup>(4)</sup>	4,318,025	5.79
7.	BNP Paribas Noms Pty Ltd <Master Cust DRP>	3,538,228	4.75
8.	Aust Executor Trustees SA Ltd <Tea Custodians Ltd>	1,844,213	2.47
9.	Citicorp Nominees Pty Limited	1,776,972	2.38
10.	Ann Leslie Ryan	1,258,418	1.69
11.	UBS Nominees Pty Ltd <PB SEG A/C>	1,240,140	1.66
12.	UBS Nominees Pty Ltd	1,057,363	1.42
13.	J P Morgan Nominees Australia Limited <Cash Income A/C>	646,812	0.87
14.	RBC Investor Services Australia Nominees Pty Ltd <BKCUST A/C>	634,129	0.85
15.	Citicorp Nominees Pty Limited <Colonial First State investment A/C>	582,884	0.78
16.	COBAX Pty Ltd <Podesta Super Fund A/c>	435,000	0.58
17.	Bond Street Custodians Ltd <RXN-V57322 A/C>	400,000	0.54
18.	Emily Kay Investments Pty Ltd <Emily Kay Invest A/C> <sup>(5)</sup>	360,197	0.48
19.	Michael Gordon Kay Investments Pty Ltd <Michael Gordon Invest A/C> <sup>(5)</sup>	360,197	0.48
20.	Nonie Kay Investments Pty Ltd <Nonie Kay Investment A/C> <sup>(5)</sup>	360,197	0.48
<b>Totals: Top 20 holders of issued capital</b>		<b>59,561,672</b>	<b>79.92</b>
<b>Total Remaining Holders Balance</b>		<b>14,962,293</b>	<b>20.08</b>

<sup>1</sup> As at 31 August 2012, 74,523,965 fully paid ordinary shares have been issued by the Company.

<sup>2</sup> Meddiscope Pty Limited is a company associated with Mr Anthony Podesta, a Non-Executive Director. Meddiscope Pty Limited has a deemed relevant interest in the shares held by Cobax Pty Limited, as both entities are controlled by Mr Podesta.

<sup>3</sup> Chessari Holdings Pty Limited is a company associated with Mr Ross Chessari, a Non-Executive Director.

<sup>4</sup> Asia Pac Technology Pty Limited is a company associated with Mr John Bennetts, a Non-Executive Director.

<sup>5</sup> Emily Kay Investments Pty Ltd, Michael Gordon Kay Investments Pty Ltd and Nonie Kay Investments Pty Ltd are companies associated with Mr Michael Kay, an executive director.

## RESTRICTED SECURITIES

As at the date of this Annual Report, there are no securities in the Company subject to voluntary escrow or any other restrictions.

## UNQUOTED SECURITIES

As at the date of this Annual Report, the details of unquoted securities in the Company are as follows:

Class	Number of Securities	Number of Holders
Options exercisable at \$3.42 and expiring on 1 October 2015	537,634	1
Options exercisable at \$7.31 and expiring on 30 September 2015	2,173,407	20
Options exercisable at \$8.54 and expiring on 30 September 2015	352,942	1
Options exercisable at \$9.29 and expiring on 30 September 2015	31,250	1
Options exercisable at \$11.42 and expiring on 30 September 2015	121,331	3
Options do not carry a right to vote		

## ON-MARKET BUY BACK

The Company does not have a current on-market buy-back.

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