McMillanShakespeareGroup

Collectively, the McMillan Shakespeare Group's business divisions provide expertise in novated leasing, salary packaging, associated Fringe Benefits Tax administration and management, operating leases and asset management for 'tool of trade' vehicles and other business assets, retail finance, insurance and warranty. No other provider offers this breadth of service or industry experience.

Financial calendar

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 24 October 2017 at 10am at the State Library of Victoria, Ground Floor, 328 Swanston Street, Melbourne, Victoria in the Theatrette.

www.mmsg.com.au

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Chairman's Report

I am pleased to report McMillan Shakespeare Limited (MMS) has continued to build momentum through the 2017 financial year (FY17) as we optimise existing business performance, consolidate our diversification strategy and further integrate acquired businesses into the Group.

MMS delivered revenue of $513.0 million for FY17, an increase of 1.6%, and underlying net profit after tax and amortisation (UNPATA)[1] of $87.2 million, consistent with the record profit of the previous year. Adjusted to reflect a full year of trading for acquisitions completed during FY17, return on equity was 23.6% and return on capital employed 20.1%.

The final dividend of 35 cents per share brings the total dividend for the year to 66 cents per share fully franked, an increase of 4.8% over the previous year.

Group Performance

Our Group Remuneration Services (GRS) business consolidated its market leading position in FY17 with significant new business wins including the expansion of our relationship with Local Health District (LHD) services in New South Wales and the appointment of RemServ as a novated leasing provider to the Queensland Government panel. This was in addition to RemServ's re-appointment in FY16 as a provider of salary packaging services.

In Australia and New Zealand our Asset Management (AM) business returned to growth with an increase in UNPATA of 5.5% to $13.5 million. The increase in earnings was underpinned by a 9.0% increase in the number of assets under management and enhancements to our realisation of returned assets.

In the United Kingdom, our AM business performed solidly further increasing its customer base through new business wins. CLM's successes included the appointment of its largest single fleet contract since 2011.

Our newly-acquired European Vehicle Contracts Limited (EVC) and Capex Asset Finance Limited (Capex) businesses performed well in their first year of contribution, resulting in an overall 62.2% increase in net amount financed to $506.6 million and a 60.0% increase in UNPATA to $4.0 million. Assets under management increased by 17.4% to 18,900 units.

For the first time within our Retail Financial Services (RFS) business, our net amount financed increased to in excess of $1.0 billion and during the year we increased our broker distribution footprint. However, largely due to changing funding appetite from our banking partners, UNPATA declined to $12.4 million which was below our expectations. Against a backdrop of regulatory and market uncertainty negatively impacting the volume and margin of risk products sold, an impairment to the carrying value of intangibles for the warranty and insurance business was recognised. We remain confident that we are building a sustainable, profitable and market leading business with a strong distribution footprint for growth.

The Regulatory Environment

The Company's risk concerning fringe benefits tax (FBT) arrangements and novated leases remains unchanged with both major Australian political parties continuing their bi-partisan support of the current policy arrangements. With regard to the Company's risk products, we look forward to the Australian Securities and Investments Commission (ASIC) completing its review of finance and add-on insurance products. In the meantime, we are working hard to ensure our operating model remains flexible and adaptable.

1 UNPATA excludes one off payments in relation to transaction costs incurred in acquisitions, amortisation of acquisition intangibles and asset impaiment of acquired intangible assets.

FY17 UNPATA
$87.2 Million

FY17 DIVIDEND PER SHARE
66.0c

Outlook

The Board and senior leadership team will continue to focus on five core strategic drivers:

- Broadening the suite of high quality products and industry leading service to drive organic growth;
- Investing in technology resulting in an improved customer experience;
- Capturing synergy benefits from a fully integrated business;
- Continuing to deliver high returns on capital and free cashflow generation; and
- Selectively approaching acquisitions to complement organic growth.

As the Group continues to expand its digital transaction channels to customers and streamline processes, whilst increasing operational efficiencies, we look forward to further reductions in the average cost to serve our expanding customer base.

In Australia, the continuation of our recent successes in our GRS business in building our customer base, driving increased penetration rates and the extension of our product offering, including Bus Travel and Maxxia Plus, will remain priorities. Within our AM business we will focus on further leveraging our enhanced funding model and expansion in the direct car sales segment. The Group's RFS division will focus on leveraging scale and technology to lift performance while ensuring we develop products and services that enhance our position in a changing market.

In the UK our approach of strategic and accretive acquisitions that enhance scale and leverage core competencies will remain a priority. In addition, the continued rollout of our innovative Lifestyle Lease product following the Her Majesty's Revenue & Customs (HMRC) introduction of new rules for car salary sacrifice schemes from April 2017.

Whilst we expect competitive market conditions and varying consumer confidence to remain, the markets we operate in continue to be attractive and offer growth and an ability to generate high returns on capital employed. When combined with what we hope will be a more certain regulatory environment moving forward we anticipate delivering growth in profits and dividends in the year ahead.

I would like to thank all our people for their dedication and hard work during FY17. Our people are high achievers who are committed to delivering the best services to our customers and are very well led by our Managing Director and Chief Executive Officer Mike Salisbury and his executive leadership team. We are also grateful to our customers and shareholders for your ongoing support.

Tim Poole
Chairman

Chief Executive Officer's Report

As we enter a new financial year, I am pleased to report we have matched last years' record breaking result, despite the challenges faced during FY17.

During the year our traditional salary packaging and novated leasing (GRS) businesses demonstrated both resilience and capacity for growth, with significant new business wins and the renewal and extension of existing contracts. Both our Asset Management (AM) businesses in Australia and New Zealand, and in the United Kingdom enjoyed market share gains and solid results, whilst the RFS segment has invested in strengthening the leadership structure, and redefined the distribution model in preparation for FY18 and beyond.

During the financial year our efforts continued to focus on producing organic growth across all business segments, supported by increased cross-selling opportunities, new product offerings and further investment in digital initiatives.

MMS operates in a diverse and complex environment, impacted by political and regulatory factors, competitive forces, moving consumer sentiment and structural industry changes both in Australia and in the United Kingdom.

This was evident no more so than in FY17. Our RFS segment experienced uncertainty amid a regulatory review of the broader financial services industry, specifically, the review of flex commissions and add-on insurances. Contractual restraints impacted our novated lease volumes in the first half, and in the UK we witnessed the Government's review of car salary sacrifice schemes and the challenges of a material devaluation of the Pound Sterling.

Pleasingly however the resilience of our businesses has withstood these challenges and ultimately placed the Group in a positive position to take advantage of opportunities emanating from this evolving landscape. Our results this year demonstrate the value of our consistent focus on diversification and the resilience and talent of our people.

Segment performance

At the beginning of FY17, we outlined five key initiatives for the year to drive growth and build long term shareholder value. Our business segments have performed well in delivering on these initiatives.

In Australia our GRS business once again proved to be a cornerstone of company performance. An increase in pre-tax profitability was underpinned by new business wins, increases in participation rates and improvements in productivity. Our organic customer growth over the past two years has been outstanding and confirms our position as the market leader in this segment.

The appointment of RemServ to the Queensland Government novated leasing panel further reinforces our long-standing partnership and the strength of the RemServ brand in that State. The initial uptake of RemServ's new Bus Travel Salary Packaging Benefit has been encouraging and we are exploring options to introduce this benefit in other parts of Australia off the back of its early success.

Maxxia has also gained significant wins, achieving more contract renewals and further increasing its coverage in the New South Wales health sector. Our point of difference to our customers has long been our investment in personalised service and our commitment to education.

This year our people visited worksites in metropolitan, regional and remote locations and conducted over 20,000 educational activities. The rapid expansion of business in New South Wales has enabled us to establish a dedicated regional customer education team to better service our clients' employees with local Customer Education Managers.

Our AM business in Australia and New Zealand continued to deliver strong results, with a 5.5% increase in UNPATA, a 9.5% increase in asset book value, and a 9.0% increase in assets under management. The development of the capital light funding model offered greater flexibility in FY17.

As noted earlier, the RFS segment underwent a period of change. We have rationalised the number of customer-facing brands, refocused resources to better concentrate our marketing efforts and put in place a new leadership structure. We continue to work with regulators in regards to their review of practices in this sector and we remain positive for the future prospects of our businesses within this segment.

Synergy and cross-selling opportunities from further segment integration remains a focus for FY18. Our Maxxia Plus offering has continued to gain market acceptance since being introduced last year, enabling improved integration of our retail finance business with our core GRS business. In addition, we incorporated retail finance into our Just Honk car yard (established in December 2016) by offering financing and insurance products from our own RFS businesses, as well as sourcing stock from our AM business.

This year saw a continuation of growth in the UK, including the addition of two new businesses in our asset finance segment. Geographic and product expansion in that market has been a stated strategy for several years now. Our businesses have performed well with our asset values increasing by 15.6% and key revenue drivers recording solid increases. Uncertainty in the region around HMRC regulation has now been resolved, and all regulatory approvals are now in place for the roll-out of our Lifestyle Lease product.

Innovation through technology

Our investment in digital solutions has been a significant factor in our result this year and provides a solid platform for future productivity enhancements. Our broker aggregation business saw the successful introduction of a multi-funder portal (Horizon 2), which has addressed a clear need in the market and further cemented our standing as an industry leader.

For our salary packaging customers we introduced our new innovative card payment offering, the Maxxia and RemServ Wallet, which was a key undertaking for the business. Our people managed the successful transition of over 70,000 customers to their new Wallets and will be overseeing the introduction of a new smartphone application and discount partner program in FY18.

Providing our customers with more options to self-service not only enhances the customer experience, but is central to our strategy to invest in technology to create productivity gains and margin growth.

Our success in delivering against a backdrop of increased challenges has been due to considerable effort by our people. I am proud of their accomplishments in FY17, in supporting our customers and in continually demonstrating our commitment to delivering on our strategic initiatives. I thank our people for their hard work and support throughout the year.

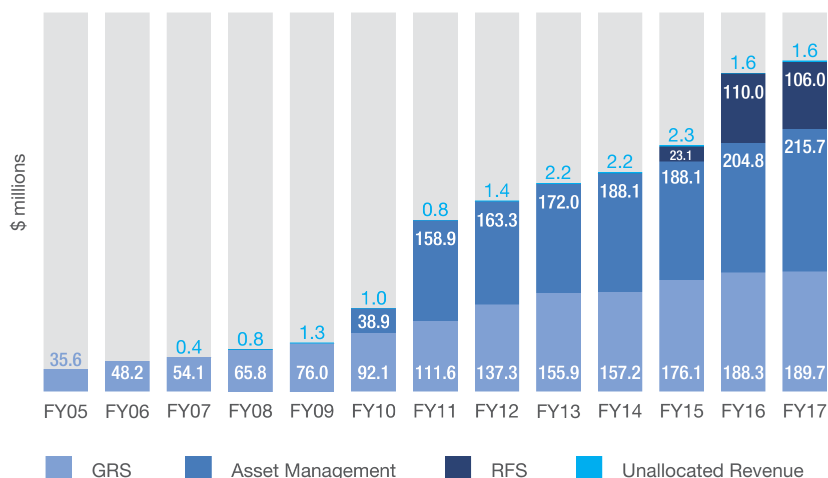
I would also like to thank our Board for their continued support in enabling us to grow as a business and I look forward to the future.

Finally, my thanks to our shareholders, for your continued interest and investment in MMS as we move into FY18 with positive momentum.

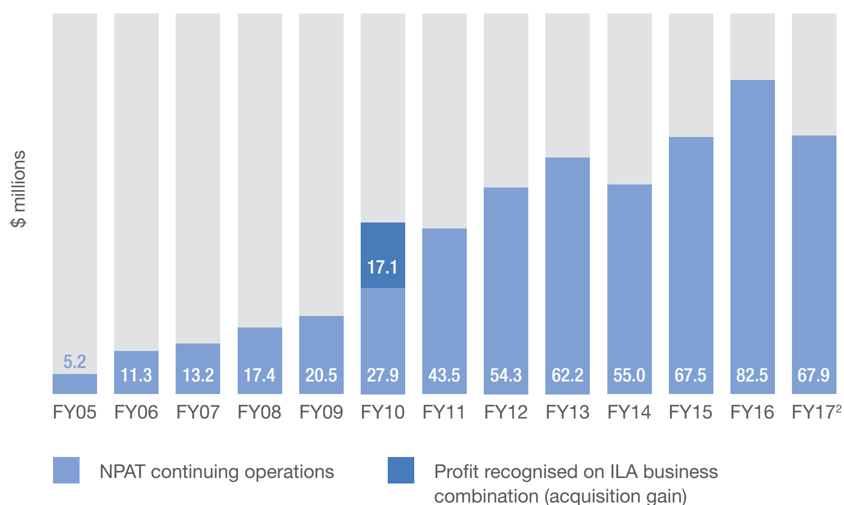
Mike Salisbury
Managing Director and Chief Executive Officer

6 Financial History

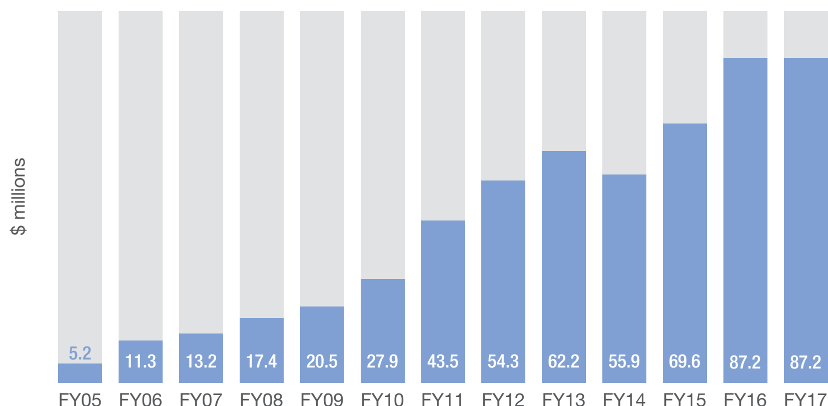
Revenue performance



NPAT performance [1]



UNPATA performance [3]

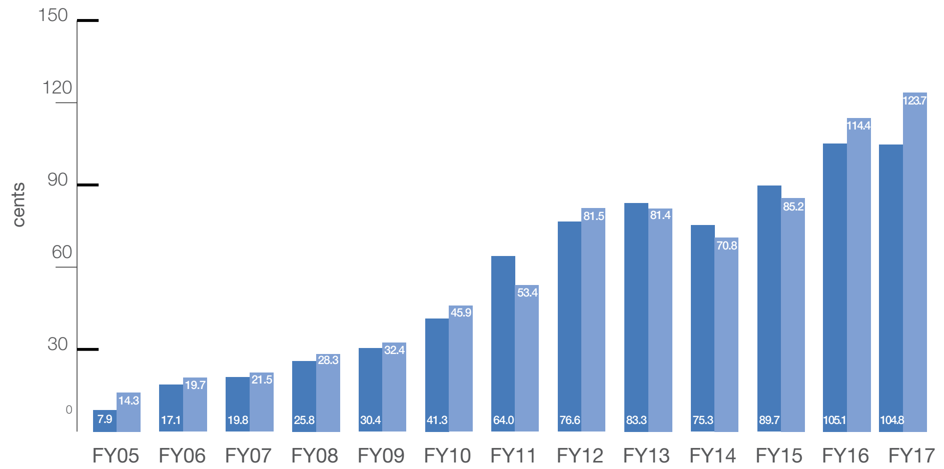


1 NPAT is normalised to exclude the profit recognised on acquisition of Interleasing (Australia) Limited in FY10 ($17m profit after tax).

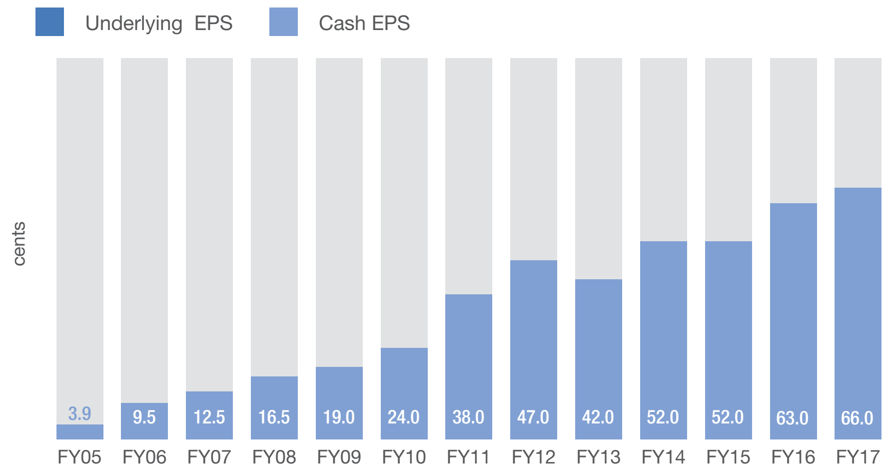
2 Includes asset impairment of $15.3 million (after-tax) for the warranty and insurance business.

3 UNPATA is calculated as NPAT before the after-tax impact of acquisition related items (including impairment charge for intangible assets, acquisition expenses, amortisation of acquired intangible assets and deferred consideration items).

Underlying earnings per share EPS [4]



Dividends per share



4 Underlying EPS excludes the profit recognised on acquisition of Interleasing (Australia) Limited, and the after tax acquisition costs and acquired intangibles amortisation.
Cash EPS includes CAPEX but excludes the investment in Fleet growth.

8 Non-financial Highlights

Our customers

10.9 million pa

Payments processed

873,409 pa

Phone calls received

50.3

Industry leading Net Promoter Score (NPS)
(Average monthly score during FY17)

20,953

Onsite educational activities delivered to clients in Australia

40%

Maxxia and RemServ website visits originating from smartphones and mobile devices

2.28 million

Maxxia and RemServ website visits

72%

GRS claims lodged on-line as a % of total claims lodged

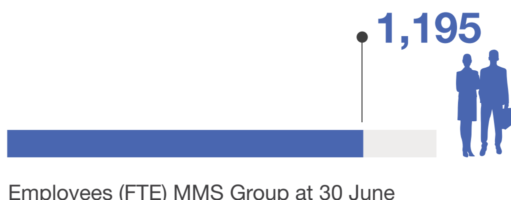
99%

Customer complaints resolved by MMS and our Customer Advocate without referral to an external arbitrator

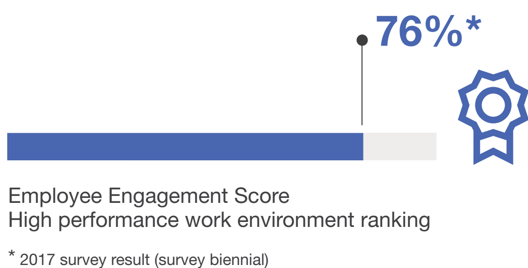
91,307

Claims App downloads since launch (2016)

Our people

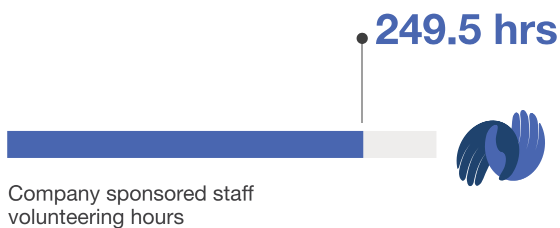


Employees (FTE) MMS Group at 30 June



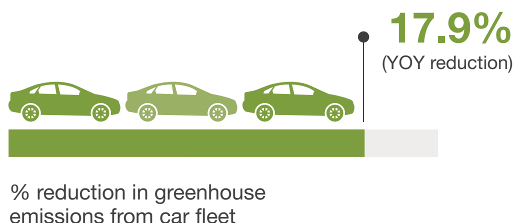
Employee Engagement Score
High performance work environment ranking

* 2017 survey result (survey biennial)

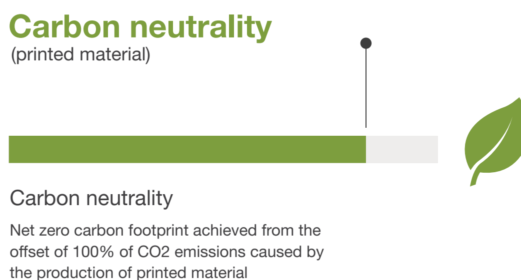


Company sponsored staff volunteering hours

Our environment

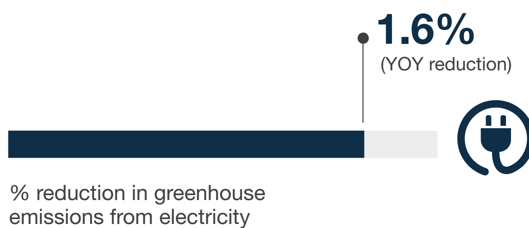


% reduction in greenhouse emissions from car fleet



Carbon neutrality

Net zero carbon footprint achieved from the offset of 100% of CO2 emissions caused by the production of printed material



% reduction in greenhouse emissions from electricity

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 2017 (Group or MMSG).

Directors

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

Mr Tim Poole
(Independent and Non-Executive Director)

Mr John Bennetts (Non-Executive Director)

Mr Ross Chessari (Non-Executive Director)

Mr Ian Elliot
(Independent and Non-Executive Director)

Ms Sue Dahn
(Independent and Non-Executive Director)

Mr Mike Salisbury (Managing Director and CEO)

Details of the qualifications, experience and special responsibilities of the Directors at the date of this Annual Report are set out on pages 20 and 21.

The Directors that are noted above as independent Directors, as determined in accordance with the Company's definition of independence, have been independent at all times throughout the period that they held office during the financial year ended 30 June 2017.

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 2017 were as indicated in the table below.

Principal activities

The principal activities of the Company and its controlled entities during the course of the financial year ended 30 June 2017 was the provision of salary packaging, vehicle leasing administration, fleet management and retail financial services.

In the opinion of the Directors, there were no significant changes in the nature of the activities of the Company and its controlled entities during the course of the financial year ended 30 June 2017 that are not otherwise disclosed in this Annual Report.

	Board Meetings		Audit, Risk & Compliance Committee Meetings [1]		Remuneration & Nomination Committee Meetings	
Director	Eligible to Attend	Attended	Eligible to Attend	Attended	Eligible to Attend	Attended
Mr T. Poole (Chairman)	12	12	8	8	5	5
Mr M. Salisbury (Managing Director and CEO)	12	12	-	-	-	-
Mr J. Bennetts	12	12	8	7	-	-
Mr R. Chessari	12	11	-	-	5	4
Mr I. Elliot	12	10	-	-	5	4
Ms S. Dahn	12	12	8	8	-	-

Results

Details of the results for the financial year ended 30 June 2017 are as follows:

Results	2017	2016
Net profit after income tax (NPAT)	$67,901,770	$82,469,341
Underlying net profit after income tax (UNPATA) [1]	$87,166,863	$87,172,942
Basic earnings per share (EPS)	81.6 cents	99.4 cents
Underlying earnings per share	104.8 cents	105.1 cents
Earnings per share on a diluted basis (DPS)	81.5 cents	99.0 cents

1 UNPATA is calculated as NPAT before the after-tax impact of acquisition related items (including impairment charge for intangible assets, acquisition expenses, amortisation of acquired intangible assets and deferred consideration items).

Dividends

Details of dividends paid by the Company during the financial year ended 30 June 2017 are as follows:

Dividends	2017	2016
Final dividend for the financial year ended 30 June 2016 of 34.0 cents (2015: 27.0 cents) per ordinary share paid on 14 October 2016 fully franked at the tax rate of 30% (2016: 30%).	$28,286,110	$22,462,500
Interim dividend for the financial year ended 30 June 2017 of 31.0 cents (2016: 29.0 cents) per ordinary share paid on 13 April 2017 fully franked at the tax rate of 30% (2016: 30%).	$25,790,278	$24,126,389
Total	$54,076,388	$46,588,889

Subsequent to the financial year ended 30 June 2017, the Directors declared a final dividend of 35.0 cents per ordinary share (fully franked at the tax rate of 30%) to be paid on 13 October 2017, bringing the total dividend to be paid for the financial year ended 30 June 2017 to 66.0 cents per ordinary share.

Directors' Report

Review of operations – Group

FY17 delivered another profitable result for MMS, matching last year's record underlying net profit after tax and amortisation (UNPATA) result of $87.2 million. The result excludes one-off costs associated with acquisitions of Capex and EVC, as well as non-operating amortisation, deferred consideration items and a one-off asset impairment adjustment.

Consolidated Group statutory net profit after tax (NPAT) for FY17 was $67.9 million.

Return on equity was 23.6% adjusted to reflect 12 months trading for acquisitions made during the FY17 financial year and return on capital employed was 20.1%.

In the GRS business earnings before interest, tax, depreciation and amortisation (EBITDA) increased to $89.5 million. Increasing our foothold in the health sector and renewal of state government contracts provided substantial progress in augmenting penetration and increasing program participation rates for both the salary packaging and novated leasing services.

AM operations exhibited solid growth with the Australia and New Zealand AM operations contributing EBITDA of $21.9 million and the UK AM operations contributing $6.1 million.

Further integration of the RFS segment has continued. RFS EBITDA totalled $19.6 million which represented a marginal decline compared to the prior year.

Digital improvements

Our commitment to further enhancing customer experiences through broadened options has been effective. The introduction of new digital channels within the GRS segment for customer communications and online transactions that started in FY16 has been a continued success. The proportion of claims lodged online through self-service sites grew to 85% for Maxxia customers and 56% for RemServ customers by 30 June 2017.

Uptake of our free Maxxia and RemServ Claims apps continued with 91,300 downloads since being launched in 2016. This has led to 72% of all claims being lodged via our Maxxia and RemServ Claims apps.

We expect the average cost to serve our growing customer base will continue to reduce. This will be supported as MMS continues to expand, and as we improve penetration of our digital transaction channels to customers, streamline processes and increase operational efficiencies.

In our RFS segment, investment in digital solutions has also achieved results, with the launch of a multi-funder portal, which has been embraced by the broker network. Following its initial success, additional capacities and further integration into our dealer network is planned for FY18.

We are committed to generating ongoing improvement and innovation in our digital channels. Looking ahead, several projects are in place in FY18 and are expected to further enhance the digital experience MMS has to offer for our customers and our workforce. This includes the proposed launch of a digital smartphone application linked directly to our new payment card which also features an interactive discount partnership program.

Key highlights and activities included:

- Group revenue of $513.0 million, an increase of 1.6%.
- Group FY17 UNPATA of $87.2 million.
- Group vehicle assets under management including novated totalled 101,600 units as at 30 June 2017.

State of affairs

In FY17 the Group reinforced its entry into broker aggregation in the UK with further acquisitions in the region. There were no other significant changes in the state of affairs of the Company and its controlled entities that occurred during the financial year ended 30 June 2017 that are not otherwise disclosed in this Annual Report.

Outlook

This year's results demonstrate the resilience of the Group, which has performed well after an interrupted first half. We have set the foundations to continue to drive organic growth and value for the company in the long-term.

In FY17, the Group won several new business contracts and renewed and extended some existing contracts resulting in a record number of clients. Significant new business wins included the expansion of our relationship with Local Health District (LHD) services in New South Wales and appointment to the Queensland Government novated leasing panel.

The introduction of a new customer-facing card payment facility has provided our salary packaging customers with an innovative product that increases the capacity for self-servicing and delivers further operational efficiencies.

The introduction of a flexible funding model via Principal and Agency (P&A) agreements was initiated in August 2016, resulting in a less capital-intensive balance sheet associated with the AM business segment. We continue to expand the range of P&A agreements globally to deliver on our 'capital light strategy', and maintain a focus on enhancing Return on Capital Employed.

Our presence in the UK continues to grow, with the EVC and Capex acquisitions adding to our operations in the region. The effect of 'Brexit' on our UK operations appears to have had no material impact other than the devaluation of the Pound Sterling and subsequent impact on Australian denominated profits.

Uncertainty around changes to regulation following the HMRC (UK) review of salary sacrifice schemes has been settled effective April 2017. The continuation of our existing car scheme remains permitted under new rules around low emission vehicles. This has not had a significant impact on our product offering in the UK and we have not seen a change in the sales and marketing activity since this time.

Reviews of add-on insurance products and distribution practices by ASIC are ongoing. We continue to work with our distribution partners to ensure our sales practices continue to comply with regulatory standards and requirements.

Whilst we expect competitive market conditions and continued varying consumer confidence to remain, the markets we operate within remain attractive, are growing and generate a high return on capital employed. When combined with what we expect will be a more certain regulatory environment moving forward, and a diminishing of some of the challenges experienced in the 2017 financial year, we look forward to increasing earnings and returns to shareholders in the year ahead.

Strategy and prospects

The Group's medium term strategic direction remains unchanged from recent years, continuing to refine our core business to drive organic growth, selectively diversifying revenue streams through acquisition and product development and increasing productivity for the benefit of our shareholders, clients and customers.

The Board will continue to consider strategic value-adding acquisitions in complementary market sectors that align with the value proposition of the business subject to market conditions.

Events subsequent to balance date

Other than matters disclosed in the Annual Report, there were no material events subsequent to reporting date.

Likely developments

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

Group Remuneration Services

Group Remuneration Services

GRS consolidated its market leading position in FY17 through new business wins, organic growth and further solidifying the existing customer base, which was partially offset by one-off impacts of the changed service and pricing arrangements with its largest contract. This resulted in a modest rise in revenue to $189.7 million with UNPATA remaining relatively unchanged at $58.3 million.

GRS secured multiple contract wins during the year including the appointment as a novated leasing provider to the Queensland Government panel and winning a larger share of the LHD services in New South Wales. Coupled with an increase in existing client participation rates, total salary packages under management totalled 317,500 (up from 293,000 in FY16) and novated lease volumes of 59,800 (up from 55,800 in FY16).

The appointment of RemServ to the Queensland Government novated leasing panel was in addition to RemServ's appointment in FY16 as a provider of salary packaging services. The contract, effective November 2016, is for three years with the potential for an extension of a further two years to November 2021. This secures RemServ's position, underscores its commitment to the state and is a testament to the strength and value of the RemServ brand.

In FY17, revenue was flat due to a restriction of marketing activities while negotiating this contract, however the strength of the RemServ brand and the investment in activity systems resulted in a market share increase by year end.

The composition of the client base in the health sector greatly increased, winning a larger share of the LHD services in New South Wales. Following this expansion, a locally-based customer education team has been established specifically to service the New South Wales mid-north coast region and deliver onsite education activities to customers in the area.

During FY17, product innovation remained a core initiative, with the successful launch of the Bus Travel Benefit offering and the Maxxia and RemServ Wallets incorporating the latest in payment technology. In addition, Maxxia Plus, launched in FY16, continued to gain market traction via an enhanced customer offering.

Driving further improvements in productivity while maintaining a customer focus continued in FY17, as evidenced by the increased take up rate of the on-line claims technology which increased from 61% at June 2016 to 72% at June 2017. Although the GRS EBITDA margin remained unchanged at 47.2%, excluding one-off costs of $1.5 million associated with the transition of 70,000 customers to the new card payment platform, normalised EBITDA margins increased by 0.8% to 48.0%.

Introduction of improved card payment facility

A major highlight of the year was the successful transition of over 70,000 existing Maxxia and RemServ customers from the previous salary packaging card payment facility, to the new innovative card program.

This advanced payment platform, called Maxxia and RemServ Wallets, is a reloadable, pre-paid Visa card that provides access to salary packaging funds at any time through a single card. It introduces increased functionality for customer ease of use, by serving as a single point for customers to store account funds for multiple salary packaging benefits, and access between linked accounts to cover a transaction.

It is enabled for Visa PayWave transactions, using microchip technology, for improved customer convenience, and hosts a range of security features, such as merchant blocking and a 24-hour support hotline, to give cardholders peace of mind.

The new card has been aligned with the launch of a digital smartphone application linked directly to the card accounts. This allows customers further control over their account information to monitor balances in real-time, view live transaction details and is enabled for customers to submit claims through their smartphone. In addition to providing an enhanced customer experience, these improvements in self-servicing functionality translate to improved operational efficiencies.

Key highlights and activities included:

- FY17 UNPATA of $58.3 million in line with last year's result.
- Increased salary packaging units to 317,500 (8.4% increase on FY16) and novated leases to 59,800 (7.2% increase on FY16).
- Major contract wins including appointment to the Queensland Government novated leasing panel and New South Wales LHD.
- Reappointment as a panel provider for the Western Australian Government.
- Successful launch of the Bus Travel Benefits offering and the Maxxia and RemServ Wallet, which incorporates the latest in payment technology.
- Improved on-line claims take-up rates via digital channels (72% of all claims).

16 Asset Management

Asset Management – Australia and New Zealand

The AM business in Australia and New Zealand maintained its conservative approach to risk and disciplined approach to cost control resulting in revenue remaining unchanged at $179.4 million while UNPATA increased by 5.5% to $13.5 million. Reducing the capital employed and increasing the return on assets (4.3% in FY17 compared with 4.1% in FY16) remained a key initiative.

During FY17, the business benefited from the development of a diversified funding model. The Australian committed revolving debt facility and associated costs were reduced and offset by the initiation of off-balance sheet funding resulting in a more capital light funding model. At 30 June 2017, off balance sheet funding accounted for $10.0 million of the $335.1 million asset written down value with facilities in place to increase this to $45.0 million.

Another development during the year was the new venture in direct car sales through the establishment of a Just Honk branded used car yard in Victoria, which commenced trading in December 2016. The business, which represents an additional sales distribution channel, further enhances the margins achieved from the sale of ex-lease vehicles supplied by the business and the cross sell of finance and insurance products offered exclusively through the Money Now brand (in the RFS segment). This cross-brand initiative means costs can be lowered and margins improved across the associated brands.

Operations for the car yard have been extended following its initial success in the first half of the 2017 calendar year, with potential to further grow the business in more locations across Australia in coming years.

Key highlights and activities included:

- FY17 UNPATA of $13.5 million, a 5.5% increase on the prior year.
- Fleet asset written down value of $335.1 million, an increase of 9.5% over the FY16 total of $306.0 million.
- Assets under management totalled 22,900, an increase of 9.0% over the FY16 total of 21,000.
- Initiated a capital light funding model with off-balance sheet funding (via Principal and Agency arrangement) of $10.0 million at 30 June 2017.

Asset Management – United Kingdom

The AM businesses in the UK have performed well in FY17, further increasing their customer base and market presence. During the year all key revenue drivers recorded solid increases with originations increasing by 62.2% to $506.6 million, on balance sheet asset values increasing by 15.6% to $149.0 million and assets managed increasing by 17.4% to 18,900 units.

This performance resulted in FY17 total revenue increasing by 43.5% to $36.3 million. UNPATA reached $4.0 million, a 60.0% increase over the prior year, however given the devaluation in the value of the sterling, on a like for like currency basis, UNPATA totalled $4.7 million.

The previously stated strategy of broker aggregation and geographic diversification continued in FY17, with the acquisitions of EVC in December 2016, and Capex in January 2017. Expectations are that these businesses will originate in excess of $170 million on a full year basis. These acquisitions increased the funding panel and further strengthened the product offering. The approach to strategic and accretive acquisitions that enhance scale and leverage core competencies remains a priority for FY18.

The HMRC '*Consultation on salary sacrifice for the provision of benefits in kind*' review was completed in November 2016 with car salary sacrifice schemes to remain in place, subject to new rules, which came into effect from April 2017. Maxxia launched its innovative Lifestyle Lease to this market in April 2017, with the first orders for vehicles received in June 2017.

This year CLM secured a significant amount of new business, including the appointment of its largest single fleet contract since 2011. The combination of these new contracts provided a total of nearly 2,800 additional units to the existing customer base.

MMS' presence in the UK continues to grow, with the aim to build a leading provider of fully integrated financial services offering and to be the aggregator of choice to the broker and intermediary community.

Key highlights and activities included:

- FY17 UNPATA of $4.0 million, a $1.5 million or 60% increase over the FY16 result. UNPATA margins also increased to 11.0% (FY16: 9.9%).
- Fleet asset written down value of $149.0 million, an increase of 15.6% over the FY16 total of $128.9 million.
- Assets under management totalled 18,900, an increase of 17.4% over the FY16 total of 16,100.
- Net amount financed of $506.6 million, an increase of 62.2% over FY16.
- Geographic diversification via the acquisition of EVC and Capex.
- HMRC approval of the Lifestyle Lease product in April 2017.

Retail Financial Services

Retail Financial Services

Against a backdrop of regulatory and market uncertainty, the RFS business increased its distribution footprint resulting in the net amount financed in excess of $1 billion dollars. This volume places the RFS business as the market leader in origination of consumer car finance.

While available capital remains strong, funding appetite has changed with a number of tier 1 funders reducing their exposure in the market, replaced by emerging funders at lower margins. Coupled with stronger growth in the lower margin aggregation business, revenue decreased by 3.6% to $106.0 million and UNPATA decreased by 11.4% to $12.4 million.

Industry reviews into insurance risk products and flex commissions are ongoing, and MMS continues to work with the regulators and industry bodies. However, this regulatory uncertainty has negatively impacted the volume of risk products sold resulting in a reduction in revenue and margins.

These challenges and the resulting impact to the business going forward in the short to medium term has necessitated a $15.3 million (after-tax) impairment to the carrying value of intangibles for the warranty and insurance business.

The RFS operating model has developed during the year to adapt to some of the industry challenges resulting in a rationalisation in the number of customer-facing brands. Money Now was established as the customer facing retail brand, with a number of the United Financial Services businesses rebranded. This enabled a refocused approach to marketing.

Continuing the Group's investment in digital solutions, Horizon 2, a multi-funder portal, was launched. Developed to help brokers easily manage finance applications for both consumer and commercial loans, in its inaugural year, it has been recognised as a preferred loan origination platform in the market, rapidly becoming an essential tool for brokers and is now being licensed to independent sub-contractors.

The new leadership structure will drive the full integration of our retail businesses to drive growth, deliver leading products and services and develop interactive technologies that cater to the needs of an evolving market.

Key highlights and activities included:

- FY17 UNPATA of $12.4 million, a decline from the previous year of $14.0 million.
- Net amount financed of $1,081.3 million in FY17, an increase of 15.4% from $936.7 million in FY16.
- New leadership structure established will drive the retail business through the next stage of consolidation.
- Multi-funder portal, Horizon 2, launched.

Directors' experience and special responsibilities

Tim Poole CA, B Com

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

Positions: Chairman of the Board
Member of the Audit, Risk and Compliance Committee
Member of the Remuneration and Nomination Committee

Mr Poole is currently Chairman of Aurizon Holdings Limited and Lifestyle Communities Limited and a Non-Executive Director of Reece Limited. Previously, Mr Poole was an executive of Hastings Funds Management (1995 to 2007), and he was appointed the Managing Director in 2005. He was formerly a Non-Executive Director of Newcrest Mining Limited and Japara Healthcare Limited. Mr Poole is considered an independent director under the Company's definition of independence.

Mike Salisbury MBA

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

Positions: Managing Director and Chief Executive Officer

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

John Bennetts B Ec, LLB

Appointed: 1 December 2003

Positions: Non-Executive Director
Member of the Audit, Risk and Compliance Committee

Mr Bennetts is an experienced investor and has been the founder and director of many successful Australian companies with businesses in technology, finance and manufacturing. He is a founder of Cellestis Limited and private equity investment firm, Mooroolbark Investments Pty Limited (M-Group). He has also previously provided advisory services to a range of companies in Australia and Asia. Prior to the establishment of the M-Group, he was Group Legal Counsel and Company Secretary of Datacraft Limited.

Ross Chessari LLB, M Tax

Appointed 1 December 2003

Positions: Non-Executive Director
Member of the Remuneration and Nomination Committee

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

Ian Elliot

Appointed: 27 May 2014

Positions: Non-Executive Director
Chairman of the Remuneration and Nomination Committee

Mr Elliot is formerly a Non-Executive Director of Salmat Limited, Hills Industries Limited and the Australian Rugby League Commission. Mr Elliot was formerly Chairman and CEO at Australia's largest advertising agency George Patterson Bates. He is a Fellow of the Australian Institute of Company Directors and a graduate of the Advanced Management Program at Harvard Business School. Mr Elliot is considered an independent director under the Company's definition of independence.

Sue Dahn BCom, MBA, FCPA, FAICD

Appointed: 1 January 2016

Positions: Non-Executive Director
Chair of the Audit, Risk and Compliance Committee

Ms Dahn is a partner in Investment Advisory Services at Pitcher Partners and Chair of the firm's Investment Committee. She is also a Non-Executive Director of MTAA Super and serves on the Victorian Council of the Australian Institute of Company Directors. Prior to joining Pitcher Partners Ms Dahn spent 14 years in senior positions within the Victorian Government including the Departments of Premier and Cabinet and Treasury and Finance. Before this she was an accountant with big 4 chartered accounting firms. Ms Dahn is considered an independent director under the Company's definition of independence.

Mark Blackburn Dip Bus (Acct), CPA, GAICD

Positions: Chief Financial Officer and Company Secretary

Mark Blackburn 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, Westpac, AAMI/Promina and Olex Cables. In particular, he has public company experience in financial management and advice, management of financial risks, management of key strategic projects, acquisitions and establishing joint ventures. Prior to his employment with MMS, Mr Blackburn was Chief Financial Officer of IOOF Holdings Ltd and iSelect Pty Ltd.

Remuneration Report (audited)

Executive Remuneration Guide

This short guide is intended to provide shareholders with an overview of executive remuneration outcomes for FY17 having regard to the Company's performance, as well as a brief update on the actions the Board and Remuneration and Nomination Committee have taken to improve the structure and reporting of the Company's remuneration practices. This guide is audited and is in addition to the audited information set out in the formal Remuneration Report.

Company performance

The Board undertakes an annual strategic review and sets the strategy agenda for the Company. Three year financial plans, annual budgets, forecasts and financial and operational targets are prepared by executive management. These are reviewed and approved by the Board. In the approval process the Board considers Company financial returns and targets, strategic issues such as markets and competition for its products and businesses, regulatory and operating risks, operating capability and importantly, how these plans measure against stakeholder expectations. Current performance is reviewed by the Board through periodic reporting against approved targets. This framework of strategic management and the rollout of plans enable the Board to set Long Term Incentive (LTI) plan targets and its annual expectations that, together with operational performance, determine any annual cash bonuses for the executive management team.

The NPAT and EPS three year CAGR (FY14–FY17) is 7.3% and 3.4% respectively as summarised in the key metrics table below.

The Company has historically used Net Profit After Tax (NPAT) and Earnings Per Share (EPS) as key metrics for assessing LTI awarded to executive management to align more closely with Company performance. The Company has chosen to solely apply an EPS hurdle to the FY15 LTI options grant (being the current, 3-year grant on issue). The EPS growth hurdle requires that the Company's EPS growth over the performance period is greater than the target set by the Board (see page 29).

Indices	FY17 [2]	FY16	FY15	FY14 [1]
Net profit attributable to Company members (NPAT)	$67,901,770	$82,469,341	$67,486,611	$54,969,799
Underlying net profit after income taxt (UNPATA) [3]	$87,166,863	$87,172,942	$69,570,837	$56,113,781
UNPATA growth	-	25.3%	24.1%	(9.8%)
Basic earnings per share (EPS)	81.6 cents	99.4 cents	87.0 cents	73.8 cents
Underlying earning per share	104.8 cents	105.1 cents	89.7 cents	75.3 cents
Dividend per share (DPS)	66.0 cents	63.0 cents	52.0 cents	52.0 cents

1 Impacted by the former Government's announcement on 16 July 2013 of proposed changes to the treatment of FBT on vehicles.

2 Impacted by the after-tax impairment charge of $15.3 million.

3 UNPATA is calculated as NPAT before the after-tax impact of acquisition related items (including impairment charge for intangible assets, acquisition expenses, amortisation of acquired intangible assets and deferred consideration items).

FY17 Remuneration outcomes

Company performance was reflected in executive remuneration outcomes for FY17.

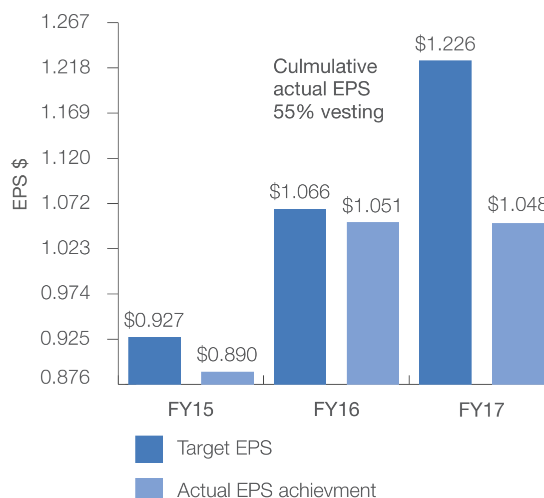
FY17 bonuses were determined taking into consideration a number of company and individual performance metrics that included sales growth, cost to income ratio, customer satisfaction, customer acquisition and retention, productivity index, staff engagement, capital management, execution of selective acquisitions and group strategy.

Annual bonuses are capped at 25% of fixed remuneration. The achievement of individual performance metrics for FY17 is discussed further on page 26.

No options vested during FY17. The current tranche of options granted on 28 August 2014 will vest on 31 August 2017 subject to the achievement of performance hurdles over the vesting period and continuity of employment with the Company.

The vesting of current Performance Options are measured against target underlying EPS. The target for FY15 was based on the MMS budget with annual increases in EPS over the FY15 year of 15% for FY16 and a further 15% for FY17. The performance hurdles are discussed in detail on pages 28 and 30. The actual underlying EPS for FY17 was 9% below the minimum target, FY16 achieved 89% of target and FY15 achieved 75% of target. The actual EPS performance achieved for FY17, FY16 and FY15 and target EPS for the remaining year in the current programme is shown in the chart below.

FY15 - FY17 LTI Programme Achievement against performance hurdles



Directors have assessed FY17 EPS for the purpose of the LTI using underlying NPATA of $87.2 million which is based on reported NPAT of $67.9 million and adding back the impairment charge of $15.3 million after tax, $1.0 million for the after-tax one-off acquisition costs for Capex and EVC and after-tax amortisation of intangibles acquired through acquisitions of $3.0 million.

On this basis and using the formula as disclosed on page 29 the vesting entitlement for FY17 is nil (FY16 was 89% and FY15 was 75%) and thus has resulted in nil option expense in FY17. This results in total vesting (across the three years) of 55%.

Details of Key Management Personnel (KMP) remuneration for FY17 and FY16, prepared in accordance with statutory obligations and accounting standards, are contained in section 3 of this Report.

In addition to this Guide the report includes:

- more detailed disclosure of the Company's approach to annual bonuses;
- clearer disclosure in relation to LTI opportunities and the terms and conditions that apply to the current grant;
- additional discussion of the Company's remuneration governance structures and the link between the company's performance and remuneration outcomes;
- more information about Non-Executive Directors' fees; and
- a description of proposed changes to the executive remuneration moving forward.

Other relevant remuneration initiatives that apply to the tranche of options implemented during FY15 are set out below:

- earnings per share (EPS) performance hurdle is used for long term incentive option grant;
- scaled reward system for LTI rather than a cliff vesting structure that could apply using a NPAT hurdle; and
- a twelve month holding lock applies to options issued to the four KMP.

Remuneration Report

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2. Remuneration policy and guiding principles	24
3. Executive KMP remuneration in detail	25
4. Non-Executive Director remuneration in detail	33
5. Statutory remuneration disclosures	34
6. Proposed changes to incentive plans	38

1. Who does this Report cover?

This Report sets out the remuneration arrangements for the Group's KMP (who are listed in the table below) during FY17. Throughout this Remuneration Report, the KMP are referred to as either Executive KMP or Non-Executive Directors.

All individuals held their positions for all of FY17.

Non-Executive Directors

Name	Position
Mr T. Poole	Non-Executive Chairman
Mr J. Bennetts	Non-Executive Director
Mr R. Chessari	Non-Executive Director
Mr I. Elliot	Non-Executive Director
Ms S. Dahn	Non-Executive Director

Executive KMP [1]

Name	Position
Mr M. Salisbury	CEO and Managing
Mr G. Kruyt	Chief Operating Officer
Mr M. Blackburn	Group CFO and Company Secretary
Mr A. Tomas	Managing Director, Fleet and Financial Products

1 There were no changes to Key Management Personnel after the reporting date and before the Annual Report was authorised for issue.

2. Remuneration policy and guiding principles

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 Group's remuneration structure consists of cash and non-cash components. The table below shows which KMP are eligible for the various components.

	Fixed Remuneration	LTI's – Performance Options
Non-Executive Directors	✓	x
Executive KMP	✓	✓

	LTI's-Voluntary Options	Annual Cash Bonus
Non-Executive Directors	x	x
Executive KMP	✓	✓

Non-Executive Director remuneration

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.

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

Neither the Chairman nor the other Non-Executive Directors are entitled to any performance related remuneration. 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.

See key section 4. Non-Executive Director remuneration in detail for further information.

Executive KMP remuneration

The components of remuneration for Executive KMP have consisted of fixed remuneration (including superannuation and benefits) and long-term incentives (LTIs) (in the form of options). In addition Executive KMP may also have received an annual bonus based on key performance indicators (KPIs).

The Board believes that this is an appropriate mix as it ensures that executives are primarily focused on generating value for shareholders over the long term (based on targeted financial metrics), while also being modestly rewarded in the short term for exceeding KPIs that contribute to company performance. Executive KMP are not incentivised to focus on short term goals at the expense of long term goals and business priorities.

See key section 3. Executive remuneration in detail for further information.

The Board proposes to vary the remuneration structure for Executive KMP moving forward. See key section 6. Proposed changes to executive remuneration for further information.

Remuneration governance

Role of the Remuneration and Nomination Committee

The Board has established a Remuneration and Nomination 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 and Nomination Committee, please refer to the Corporate Governance Statement www.mmsg.com.au/overview/#governance.

Remuneration consultants and other advisors

The Remuneration and Nomination Committee obtains external independent advice when required, and will use it to guide and inform their decision-making. During FY17, no remuneration recommendations (as defined in the Corporations Act) were received.

3. Executive KMP remuneration in detail

As outlined above, the key components of Executive KMP remuneration are fixed remuneration and long term incentive grants. However, the Remuneration and Nomination Committee also has the authority to make annual bonus awards.

Fixed Remuneration

Components

- Fixed remuneration comprises base salary, superannuation and, in some cases, non-cash benefits, such as motor vehicle lease payments and car parking benefits
- It is determined on an individual basis, reflecting the duties, responsibilities and performance levels of the relevant executive, general market conditions and comparable remuneration offered in related industry sectors
- It does not vary over the course of a year based on performance
- Neither the Chief Executive Officer nor the Chief Financial Officer are remunerated separately for acting as an officer of the Company or any entities in the Group

Review

- Fixed remuneration is reviewed by the Remuneration and Nomination Committee annually (or on promotion) to ensure fixed remuneration remains competitive in the market place and reflects the individual's skills, knowledge, accountability and general performance
- The Company conducts market based reviews
- The Company generally positions itself at the median
- There is no guarantee that fixed remuneration will be increased as a result of the annual review

The Remuneration and Nomination Committee has reviewed remuneration based on analysis from multiple data sources and taken into consideration factors such as annual revenue, employee numbers, market capitalisation and comparable companies. The Company generally positions itself at the market median. In certain circumstances, for exceptional candidates or high responsibility positions, the Company may position itself up to the seventy-fifth percentile of the market. The Company has sourced additional data through external remuneration consultancies to inform Remuneration and Nomination Committee decision making.

Remuneration Report

Annual Bonus Program

In respect of FY17, a total of $230,000 was awarded to Executive KMP under the annual bonus program.

No KMP has a contractual right to a bonus.

However, the Remuneration and Nomination Committee has the authority to award bonuses based on contribution to operational, individual and financial performance. The Remuneration and Nomination Committee opted for implementing bonuses rather than adopting the standard short term incentive (STI) concept to ensure that the Company/KMP could remain nimble and switch priorities to quickly adapt to dynamic or evolving circumstances.

The assessment criteria that applied to the annual cash bonus program in FY17 is set out below.

Annual bonuses were paid to Executive KMP during the year for their contribution to key strategic, operational and financial focus areas. The following were key initiatives by Executive KMP in FY17.

Mr M. Salisbury (CEO and Managing Director)

- Recontracting of major GRS clients and new contract wins
- Business development including new products (Maxxia and RemServ Wallet)
- Acquisitions (EVC and Capex)
- Market share growth in novated lease market

Mr M. Blackburn (Group CFO and Company Secretary)

- Stakeholder management
- Treasury and credit management including Principal and Agency Funding
- Acquisitions (EVC and Capex)
- Retail Financial Services integration
- Productivity improvements delivering financial results and analysis

Mr G. Kruyt (Chief Operating Officer)

- Business development including new products (Maxxia and RemServ Wallet)
- Retail Financial Services integration
- New business wins
- Recontracting of major GRS clients
- People development focus for senior and future leaders

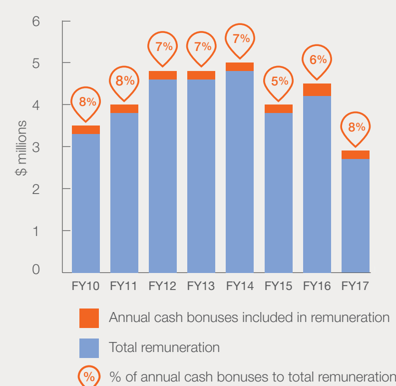
Mr A. Tomas (Managing Director, Fleet and Financial Products)

- Business development including new products (Just Honk) and margin enhancement
- Acquisitions (EVC and Capex)
- Implementation of Principal and Agency funding

	Sales Growth	Cost to Income Ratio	Customer Satisfaction	Productivity Index	Staff Engagement	Capital Manage-ment	Mergers / Acquisitions	Group Strategy
CEO and Managing Director	✓	✓	✓	✓	✓	✓	✓	✓
CFO and Company Secretary	x	✓	✓	✓	✓	✓	✓	✓
Chief Operating Officer	✓	✓	✓	✓	✓	x	✓	x
Managing Director, Fleet and Financial Products	✓	✓	✓	✓	✓	x	✓	x

The Board proposes to vary the structure for Executive KMP moving forward as set out in section 6.

What is the annual bonus program?	A bonus may be awarded by the Remuneration and Nomination Committee if in their opinion the employee's contribution to the company's financial performance, operating capability and growth initiatives together with the other metrics mentioned in the FY17 outcomes above, has exceeded expectations.
Who is eligible?	Executives
What is the performance period	1 July 2016 - 30 June 2017
How and when are bonuses determined?	Shortly after the end of the financial year, the CEO considers the issue of performance related annual bonuses. Any award of performance related bonuses is based on an assessment of a number of company and individual performance metrics including sales growth, cost to income ratio, customer satisfaction, productivity index, staff engagement, capital management, corporate acquisitions and group strategy. The CEO makes a recommendation about bonuses (excluding his own) to the Chairman of the Remuneration and Nomination Committee. The CEO's bonus is determined by the Remuneration and Nomination Committee. Performance related annual cash bonuses are capped at 25% of fixed remuneration per employee and have historically not exceeded 8% of total remuneration. In FY17 the highest bonus paid was 11% of that Executive's total remuneration. The Remuneration and Nomination Committee makes the final determination about payment of all executive bonuses.
How is it delivered?	In cash. The Executive must be employed at the time the bonus is paid.
Why does the Board consider the bonus program appropriate?	Recognition of Executive contributions over and above role responsibility and the value created for the business.
Is there a performance threshold that must be met before bonuses can be paid?	Company results must meet Board expectations. Individuals must exceed performance KPIs and meet organisational behavioural standards. Measures for Executives for FY17 included contribution to: – Acquisition and integration of acquired companies while minimising disruption to business as usual; – Record levels of novated lease sales; – Successful contract tenders resulting in maintaining clients / new business / increased market share; and – Maintaining the record low cost to income ratio in GRS.
Were bonuses paid in FY17?	Executive KMP bonuses paid in FY17 totalled $230,000 and the highest bonus paid to an Executive represented 11% of their total remuneration. All FY17 bonuses were paid in August 2017. Total bonuses paid to Executive KMP in relation to FY16 totalled $230,000. Annual bonuses paid to Executive KMPs relative to total remuneration for the last six years have not exceeded 8% per annum and is presented in the chart at right.



NOTE

1 Total remuneration is based on the amount as disclosed in the "total remuneration" column of the statutory table on page 35.

2 The annual bonuses paid in FY12 do not include $300,000 that was paid to Mr A Tomas under a contractual arrangement as disclosed in the Remuneration Report for that financial year.

3 The annual bonuses in respect of FY13 were declared and paid in FY14 and consequently, included in the FY14 results but for the purpose of this graph, have been attributed to FY13 to show the relative proportion to total remuneration.

Remuneration Report

Long-term Incentives

The Company has historically issued options to certain executives and employees under the McMillan Shakespeare Limited Employee Option Plan (EOP) every three years.

Two types of options may be granted under the EOP:

1. Performance options

Options that will only vest subject to performance hurdles and continuity of employment

2. Voluntary options

Options that are not subject to performance hurdles, but which:

- Executives must purchase;
- will only vest if the Executive continues in employment (and thereby contribute to the performance of the Company); and
- Executives will only realise value from if the Company's share price increases above a set 'strike price'.

Voluntary Options were granted in FY15 to provide Executives with an additional opportunity to purchase up to a maximum of $50,000 per executive. The terms and conditions relevant to these Voluntary Options were disclosed in prior year's Remuneration Reports.

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

Further details are set out below.

Performance Options – FY15 LTI grant

No Performance Options were granted during FY17 to Executives as their LTI.

The value of Performance Options included in the remuneration of Executive KMP were granted in FY15.

The number of Performance Options awarded was determined by multiplying the relevant Executive's fixed remuneration by a pre-determined percentage (which varied depending on the position, duties and responsibilities of the relevant executive between 10% and 40%).

This figure was then multiplied by three, recognising that grants have been made on a three yearly basis rather than annually. The EPS performance hurdle was subject to the measurement of the Company's average annual growth in EPS for a three year period. The performance hurdle was derived from the EPS targets put in place in respect of the FY15 – FY17 Three Year Financial Plan. The Remuneration and Nomination Committee considered this to be a key indicator of the financial success of the business. The EPS performance hurdle was designed so that Executives were incentivised to ensure that the Three Year Financial Plan was met or exceeded. The EPS performance hurdle provided the KMP with a sole and unambiguous target which they collectively needed to achieve, thereby encouraging a collaborative approach across the business. The Remuneration and Nomination Committee considered that achieving the EPS target has had a positive impact on total shareholder return.

All Performance 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 Performance Options are issued at or above the prevailing market price at the date that the Board approved the grant, it is implied that increased shareholder wealth is required before the senior executive will receive any value from these options.

Details of the key terms and conditions of the current Performance Options are outlined on pages 29 and 30.

<table>
<tr><td>What are Performance Options?</td><td colspan="4">An option to acquire a fully paid ordinary share in the Company (subject to payment of an exercise price), that will only vest and become exercisable if performance hurdles and service conditions are satisfied.</td></tr>
<tr><td>Do Executives pay for Performance Options?</td><td colspan="4">Performance Options are granted as part of remuneration and therefore there is no payment required for a grant. However, Executives are required to pay an exercise price to exercise them and receive shares.</td></tr>
<tr><td>What is the performance period?</td><td colspan="4">Three years</td></tr>
<tr><td rowspan="6">What is the performance hurdle and why was it chosen?</td><td colspan="4">An earnings per share (EPS) hurdle applies to the FY15 grant.
An EPS hurdle has been chosen as it provides evidence of the Company's growth in earnings. The EPS growth hurdle requires that the Company's EPS growth over the performance period is greater than the target set by the Board.</td></tr>
<tr><td colspan="3">Performance conditions (EPS targets)</td><td>Weighting</td></tr>
<tr><td colspan="3">Achievement of FY15 EPS target of not less than $0.927</td><td>33.3%</td></tr>
<tr><td colspan="3">Achievement of FY16 EPS target of not less than $1.066 (15% growth from FY15 target)</td><td>33.3%</td></tr>
<tr><td colspan="3">Achievement of FY17 EPS target of not less than $1.226 (15% growth from FY16 target)</td><td>33.3%</td></tr>
<tr><td colspan="3">Maximum Entitlement</td><td>100%</td></tr>
<tr><td rowspan="5">How does the EPS performance hurdle work?</td><td colspan="4">The EPS performance hurdle is subject to the measurement of the Company's average annual growth in EPS for a three year period. EPS is determined by dividing the Company's NPAT before significant items and acquisition related items by the weighted average number of ordinary shares on issue during the financial year. Growth in EPS will be measured by comparing the EPS at the start of the year of issue and the measurement year. The EPS hurdle is a 'line of sight' hurdle, as the achievement of the hurdle directly correlates to improved shareholder value. The Remuneration and Nomination Committee considers it a key indicator of the financial success of the business. Achieving the EPS target will have a positive impact on total shareholder return.
The EPS target in FY15 is based on the Budgeted EPS for FY15: the Base Year. In the event that the EPS target in any one year is not achieved, at the end of the three year period ended 30 June 2017 the total EPS for the three year period will be calculated, and if the total EPS for the three year period exceeds the sum of EPS targets for each of the three years, the participant will be entitled to exercise all un-forfeited options.
The vesting scale is as follows:</td></tr>
<tr><td>Financial years</td><td>0% vesting</td><td>50-100% vesting</td><td>100% vesting</td></tr>
<tr><td>FY15</td><td>EPS less than $0.867</td><td>EPS between $0.867 & $0.927</td><td>EPS at least $0.927</td></tr>
<tr><td>FY16</td><td>EPS less than $0.997</td><td>EPS between $0.997 & $1.066</td><td>EPS at least $1.066</td></tr>
<tr><td>FY17</td><td>EPS less than $1.146</td><td>EPS between $1.146 & $1.266</td><td>EPS at least $1.226</td></tr>
<tr><td>Process for assessing performance conditions</td><td colspan="4">To determine the extent to which the EPS performance hurdle is satisfied, the Remuneration and Nomination Committee relies on audited financial results and vesting is determined in accordance with the Plan Rules.
The Remuneration and Nomination Committee believes this method of assessment provides an appropriate and objective assessment of performance.
The Remuneration and Nomination Committee will take account of capital raisings and acquisitions where necessary or appropriate to do so.</td></tr>
</table>

Remuneration Report

What are the rights attaching to the Performance Options?	No voting rights or entitlements to dividends are attached to Performance Options.
What is the exercise price and how was it determined?	There are multiple prices depending on when the executive joined. The exercise price is normally equal to or higher than the spot price at the date of grant and is based on the 5 Day Volume Weighted Average Price of Shares traded in the period immediately prior to grant date of the options.
When do the Performance Options expire?	On 30 September 2018 for options without a "holding lock". In relation to the Performance Options granted to the four Executive KMPs a mandatory 12 month 'holding lock' will apply to those Options such that any shares acquired by exercising vested Options cannot be sold until 12 months after the Options vest (the Options vest on 31 August 2017, so the 'holding lock' will apply until 31 August 2018 with the options expiring 30 September 2019).
What happens on cessation of employment?	If the employee leaves employment with the Group before 31 August 2017 regardless of the circumstances, the options lapse without any payment to the employee.
What happens on a change of control?	On a change of control, the Board has discretion to bring forward the exercise date of all performance options and to waive or vary the exercise conditions or performance conditions attached to the performance options.
What Performance Options were granted in FY17?	No performance options were granted to Executive KMP (or any other employees) during FY17.

Voluntary Options – FY15 LTI grant

No Voluntary Options were offered to Executives in FY17.

Details of the key terms and conditions of the FY15 Voluntary Options granted in FY15 are as follows.

What are Voluntary Options?	An option to acquire a fully paid ordinary share in the Company (subject to payment of an exercise price) that may be purchased by Executives. Voluntary Options provide Executives with an additional opportunity to invest in the Company as a LTI. A Voluntary Option may be purchased by the Executive when offered by the Company. The Voluntary Option will only vest if the senior Executive remains employed at vesting date.
Do Executives pay for Voluntary Options?	Yes. The maximum amount that can be applied towards the purchase of Voluntary Options is $50,000, and the number of options to be granted is determined by dividing the amount invested by the fair value of the option at grant date. The consideration payable per option is based on the fair value of the option at grant date less a 25% discount. In addition, an exercise price is payable when the options are exercised for shares.
What is the vesting period?	Three years.
What is the performance hurdle and why was it chosen?	No performance hurdles. The Executive buys the option at grant date.
What are the rights attaching to the Voluntary Options?	No voting rights or entitlements to dividends are attached to Voluntary Options.
What is the exercise price and how was it determined?	The exercise price is normally equal to or higher than the spot price at the date of grant and is based on 5 Day Volume Weighted Average Price of Shares traded in the period immediately prior to grant date.
When do the Voluntary Options expire?	30 September 2018.
What happens on cessation of employment?	If the Executive leaves employment with the Group before 31 August 2017, the Executive will forfeit 25% (representing the discount) of their entitlement for consideration, paid by the Company, in the amount of $1.
What happens on a change of control?	On a change of control, the Board has discretion to bring forward the exercise date of all performance options and to waive or vary the exercise conditions or performance conditions attached to the performance options
What Voluntary Options were granted in FY17?	None.

Remuneration Report

Fixed vs performance based remuneration

The relevant proportions of fixed versus performance based remuneration received in FY17 based on actual outcomes are set out in the table below.

The KMP received an LTI allocation in respect of FY17. However, due to the Company not achieving the required EPS targets, no value was received by the KMP, hence fixed remuneration is a higher percentage of total remuneration actually received in FY17.

	Fixed remuneration		At risk – Annual Bonus		At risk – LTI	
	FY17	FY16	FY17	FY16	FY17 [1]	FY16
Mr M. Salisbury	92%	71%	8%	6%	-	23%
Mr G. Kruyt	89%	68%	11%	9%	-	23%
Mr M. Blackburn	93%	68%	7%	6%	-	26%
Mr A. Tomas	95%	73%	5%	4%	-	23%

1 There was no vesting entitlement in FY17 for the options on-foot (refer page 23).

Consequences of performance on shareholders' wealth

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

Indices	FY17 [4]	FY16	FY15	FY14[3]	FY13
Net profit attributable to Company members	$67,901,770	$82,469,341	$67,486,611	$54,969,799	$62,163,519
Underlying net profit after income tax (UNPATA) [5]	$87,166,863	$87,172,942	$69,570,837	$56,113,781	$62,163,519
NPAT growth	(17.7%)	22.2%	22.8%	(11.6%)	14.5%
UNPATA Growth	-	25.3%	24.1%	(9.8%)	14.5%
Dividends paid	$54,076,388	$46,588,889	$43,912,091	$29,064,347	$36,516,743
Dividend payout ratio [1]	63%	60%	58%	69%	50%
Share price as at 30 June [2]	$13.40	$13.68	$12.09	$9.17	$16.18
Market capitalisation (A$m)	1,210.0	1,138.1	973.9	683.4	1,205.8
Earnings per share	81.6 cents	99.4 cents	87.0 cents	73.8 cents	83.4 cents
Underlying earnings per share[6]	104.8 cents	105.1 cents	89.7 cents	75.3 cents	83.4 cents

1 Dividend payout ratio is calculated as total dividend for the financial year divided by UNPATA for the financial year.
2 Share price at the start of FY13 was $16.10.
3 Impacted by an announcement on 16 July 2013 of possible changes to the treatment of FBT on vehicles.
4 Impacted by the after-tax impairment charge of $15.3 million.
5 UNPATA is calculated as NPAT before the after-tax impact of acquisition related items (including impairment charge for intangible assets, acquisition expenses, amortisation of acquired intangible assets and deferred consideration items).
6 Underlying earnings per share is based on UNPATA.

Key terms of Executive KMP service agreements

All Executive KMP are party to a written executive service agreement. The key terms are set out below.

	Key terms of Executive Service Agreements for Executive KMP (other than the CEO)
Duration	Ongoing.
Periods of notice required to terminate	Generally, 6 months written notice, by the Company or the Executive KMP. The agreement may, however, be terminated by the Company for cause without notice or any payment.
Termination payments	The Company has discretion to make a payment in lieu of notice. No contracted retirement benefits are in place with any of the Company's Executive KMP.
Restraint of trade	The Company can elect to invoke a restraint period not exceeding 6 months.

	Key terms of Executive Service Agreement for CEO
Duration	Ongoing.
Periods of notice required to terminate	9 months written notice by the Company or CEO. The agreement may, however, be terminated by the Company for cause without notice or any payment.
Termination payments	The Company has discretion to make a payment in lieu of notice. No contracted retirement benefits are in place with any of the Company's executives.
Restraint of trade	The Company can elect to invoke a restraint period not exceeding 6 months.

4. Non-Executive Director remuneration in detail

The remuneration of Non-Executive Directors comprises Directors' fees and superannuation contributions, and takes into account the size and complexity of the Company's operations, their responsibility for the stewardship of the Company and their workloads.

As stated in the Non-Executive Director Remuneration section, total fees are not to exceed the annual limit of $900,000 approved by shareholders in October 2014.

Details of the fees paid to the Non-Executive Directors are set out in the table below.

Directors' Fees	The annual Directors' fees (including superannuation contributions) payable to Non-executive Directors for FY17 were as follows:	
	Position	Fee ($)
	Chairman	205,000 (from 1 January 2016)
	Audit, Risk and Compliance Committee Chair	150,000 (from 1 January 2017)
	Remuneration and Nomination Committee Chairman	130,000 (from 1 January 2016)
	Director (base fee)	115,000 (from 1 January 2016)
	No fees are payable in respect of membership of Board Committees.	
Superannuation contributions	Contributions required under legislation are made by the Company on behalf of Non-Executive Directors.	
Retirement Benefits	There is no scheme for the payment of retirement benefits.	

Remuneration Report

5. Statutory remuneration disclosures

Non-Executive Director remuneration – statutory disclosures
The tables below set out the statutory disclosures required under the *Corporations Act 2001* (Cth) and in accordance with the Accounting Standards.

Non-Executive Directors		Cash salary/fees [1] $	Other Benefits [2] $	Superannuation $	Total Remuneration $	Total value of remuneration received $
Mr T. Poole (Non-Executive Chairman)	2017	187,215	-	17,785	205,000	205,000
	2016	164,852	-	14,799	179,651	179,651
Mr J. Bennetts (Non-Executive Director)	2017	105,023	-	9,977	115,000	115,000
	2016	101,536	-	9,646	111,182	111,182
Mr R. Chessari (Non-Executive Director)	2017	86,455	18,568	9,977	115,000	115,000
	2016	93,278	8,259	9,646	111,183	111,183
Mr I. Elliot (Non-Executive Director)	2017	118,722	-	11,278	130,000	130,000
	2016	104,037	-	9,884	113,921	113,921
Ms S. Dahn (Non-Executive Director	2017	127,854	-	12,146	140,000	140,000
	2016	39,574	19,787	5,639	65,000	65,000
Mr R. Pitcher, AM (Non-Executive Chairman)	2017	-	-	-	-	-
	2016	61,800	-	5,871	67,671	67,671

1 The amounts shown for the Non-Executive Directors reflect directors' fees only.
2 Other benefits comprise salary packaging.
3 Ms Dahn commenced 1 January 2016.

Executive KMP remuneration – statutory disclosures

The following table sets out the statutory disclosures required under the *Corporations Act 2001* (Cth) and in accordance with the Accounting Standards.

		Short-term benefits			Post-employment benefits	Long-term benefits	Share based payments			
		Cash salary/ fees	Current year Cash Bonus	Other Benefits [1]	Super-annuation	Long Service Leave	Options [2]	Total remuneration	Percentage of remuneration as options	Total value of remuneration received [3]
Non-Executive Directors		$	$	$	$	$	$	$	%	$
Mr M. Salisbury (CEO and Managing Director)	FY17	732,605	75,000	49,270	34,288	16,081	-	907,244	-	916,409
	FY16	714,022	75,000	77,150	37,635	28,226	270,760	1,202,793	23%	874,039
Mr G. Kruyt (Chief Operating Officer)	FY17	540,180	75,000	56,015	19,779	22,698	-	713,672	-	674,393
	FY16	497,292	75,000	23,467	19,308	20,886	193,400	829,353	23%	624,615
Mr M. Blackburn (Group CFO and Company Secretary)	FY17	580,530	50,000	25,994	33,267	11,073	-	700,864	-	670,240
	FY16	557,231	50,000	(11,717)	38,642	10,686	229,621	874,463	26%	657,889
Mr A. Tomas (Managing Director, Fleet and Financial Products)	FY17	408,265	30,000	117,675	33,906	10,155	-	600,001	-	586,000
	FY16	379,622	30,000	158,287	35,628	9,117	182,967	795,621	23%	574,966

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 KMP on termination.

No payments were made to any Executive KMP in respect of termination of services in FY17.

1 Other benefits reflect annual leave entitlements, motor vehicle packaging payments, travel benefits and car parking benefits.

2 The equity value comprises the value of options issued. No shares were issued to any Non-executive Director (and no options were granted to any Non-executive Director) during the financial years ended 30 June 2017 and 30 June 2016. The value of options issued to Executive KMP (as disclosed above) are the assessed fair values (less any payments 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. There was no option expense in FY17 due to not meeting the performance hurdle for the year.

No options were granted to Executive KMPs during the year ended 30 June 2017.

3 Value of remuneration received comprises salary, benefits and superannuation salary packaged, annual and long service leave used and bonuses paid in the year.

Remuneration Report

Option Details

No options were granted to, exercised by or lapsed with respect to Non-Executive Directors during FY17 or FY16.

The terms and conditions of each grant of options to Executive KMP affecting their remuneration in FY17 or FY16 and each relevant future financial year are as follows:

Grant Date	Expiry Date	Share price at valuation date	Exercise Price	Value per option at grant date [1]	Date Exercisable
19 August 2014 [2]	30 September 2019	$10.18	$10.18	$3.01	100% after 31 August 2017

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

2 This tranche of options is subject to a holding lock where any shares acquired by exercising these options cannot be sold until twelve months after the options vest.

Details of the options over ordinary shares in the Company provided as remuneration to each Executive KMP are set out below. When exercised each option is convertible into one ordinary share of McMillan Shakespeare Limited.

Name	Date of grant	Type of option	Number of options granted	Value of options granted during the year	Number of options vested during year	Vested %	Number of options forfeited/ lapsed during the year	Forfeited or lapsed %	Year in which options may vest	Maximum value of options yet to vest [1]
Mr M. Salisbury	19 August 2014	Performance	302,158	-	-	-	-	-	FY 2018	-
Mr G. Kruyt	19 August 2014	Performance	215,827	-	-	-	-	-	FY 2018	-
Mr M. Blackburn	19 August 2014	Performance	256,248	-	-	-	-	-	FY 2018	-
Mr A. Tomas	19 August 2014	Performance	204,184	-	-	-	-	-	FY 2018	-

1 There is no minimum or maximum value attached to the options at the vesting date.

Movement of options granted to Executive KMP

The table below reconciles the options held by each Executive KMP from the beginning to the end of FY17.

Name	Options	Balance at start of year	Granted as compen-sation	Vested during the year	Exercised during the year	Forfeited	Other changes during the year	Vested and exercisable at the end of the year	Unvested at the end of the year
Mr M. Salisbury	Performance	302,158	-	-	-	-	-	-	302,158
Mr G. Kruyt	Performance	215,827	-	-	-	-	-	-	215,827
Mr. M. Blackburn	Performance	256,248	-	-	-	-	-	-	256,248
Mr A. Tomas	Performance	204,184	-	-	-	-	-	-	204,184

Shares issued on exercise of Performance Options or Voluntary Options

No ordinary shares in the Company were issued following the exercise of performance options or voluntary options by KMP during FY17.

Equity instrument details relating to key management personnel

The tables below show the number of shares in the Company held during the financial year by each Director and each of the Executive KMP, including their personally related parties.

There were no shares granted during the year as compensation.

	Balance at the start of the year	Shares acquired through option exercise	Other changes during the year	Balance at the end of the year
Non-Executive Directors				
Mr T. Poole	19,000	-		19,000
Mr J. Bennetts	3,543,025	-	(200,000)	3,343,025
Mr R. Chessari	6,050,941	-	-	6,050,941
Mr I. Elliot	-	-	-	-
Ms S Dahn	-	-	4,000	4,000
Key Management Personnel				
Mr M. Salisbury	10,276	-	-	10,276
Mr G. Kruyt	7,953	-	-	7,953
Mr M. Blackburn	10,000	-	(7,000)	3,000
Mr A. Tomas	464,449	-	(362,399)	102,050

Remuneration Report

6. Proposed changes to incentive plans

Proposed changes to annual bonus program

During FY17 the Remuneration and Nomination Committee decided that the annual bonus program for KMP will cease after the awards are made in relation to FY17. The average historical level of short term incentive will be reallocated: 70% to fixed remuneration and 30% to at risk remuneration through a LTI.

Proposed changes to LTI Plan

During FY17 the Remuneration and Nomination Committee undertook a comprehensive review of the Company's LTI structure. As a result of this review, the Company has decided to introduce a new LTI plan for KMP and other senior executives from 1 July 2017.

The features of the new plan are:

- Issues of performance based equity securities on an annual basis that vest over a three year period;
- An equal value split of performance based equity securities between Performance Options, issued on similar terms to those previously issued (subject to a change in performance hurdles flagged below) and Performance Rights;
- Performance Rights will convert to fully paid ordinary shares under the LTI Plan subject to performance criteria being satisfied, with participants not required to pay an exercise price on vesting;
- 50% of each LTI tranche will be subject to EPS CAGR targets based on adjusted UNPATA;
- 50% of each LTI tranche will be subject to average ROCE targets based on adjusted EBIT;
- To ensure the transition to the new LTI plan is cost neutral to the Company and value neutral to KMP, there will be an additional two year transitional award granted during FY18; and
- Certain KMP will be offered Voluntary Options in annual grants of up to $20,000 vesting over three years on similar terms to those previously issued.

The Remuneration and Nomination Committee considers that these proposed changes: align with the market practices of comparative companies; provides a strong alignment between KMP performance and shareholder outcomes; and is an attractive scheme to motivate and retain KMP and other senior executives.

At the upcoming Annual General Meeting (AGM), the Board will propose that shareholders consider the adoption of the new LTI Plan. Further information about the proposed LTI Plan will be included in the Notice of AGM.

End of the audited Remuneration Report

Directors' Report

Unissued shares

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

Option class	No. of unissued ordinary shares	Exercise price	Expiry date
Performance Options	978,417	$10.18	30 September 2019
Performance Options	398,789	$10.18	30 September 2018
Performance Options	107,877	$10.83	30 September 2018
Performance Options	76,048	$11.87	30 September 2018
Performance Options	85,692	$12.88	30 September 2018
Performance Options	33,436	$13.82	30 September 2018

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

Directors' interests

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

Director	Options	Ordinary shares
Mr. T Poole (Chairman)	-	19,000
Mr M. Salisbury (Managing Director)	302,158	10,276
Mr J. Bennetts	-	3,343,025
Mr R. Chessari	-	6,050,941
Mr I Elliot	-	-
Ms S Dahn	-	4,000

No Director during FY17, became entitled to receive any benefit (other than a benefit included in the aggregate amount of remuneration received or due and receivable by the Directors shown in the Remuneration Report or the fixed salary of a full time employee of the Company) by reason of a contract made by the Company or a controlled entity with the Director or an entity in which the Director has a substantial financial interest or a firm in which the Director is a member.

Directors' Report

Environmental regulations

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

Indemnification and insurance

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

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

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

Non-audit services

Details of the amounts paid or payable to the auditor of the Company, Grant Thornton Audit Pty Ltd and its related practices, for non-audit services provided, during FY17, are disclosed in Note 8 to the Financial Statements.

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

The Audit, Risk and Compliance Committee has reviewed a summary of non-audit services provided during the financial year ended 30 June 2017 by Grant Thornton Audit Pty Ltd. Given that the only non-audit services related to client contract audits and review of banking covenant and trust account compliance, the Audit, Risk and Compliance 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 104 of this Annual Report.

Directors' declaration

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

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

Signed in accordance with a resolution of the Directors.

Tim Poole
Chairman

Michael Salisbury
Managing Director

30 August 2017
Melbourne, Australia

Corporate governance practices

Our full corporate governance statement is available on our website at www.mmsg.com.au/overview/#governance

Five year summary 2013 – 2017

	2017	2016	2015	2014	2013
FINANCIAL PERFORMANCE					
Group					
Revenue ($m)	513.0	504.7	389.6	347.5	330.1
NPAT ($m)	67.9	82.5	67.5	55.0	62.2
UNPATA ($m) [1]	87.2	87.2	69.6	56.1	62.2
Group Remuneration Services segment					
Segment revenue ($m)	189.7	188.3	176.1	157.2	155.9
Segment NPAT ($m)	58.3	58.7	54.3	42.0	46.8
Segment UNPATA ($m)	58.3	58.7	54.3	42.0	46.8
Asset Management segment					
Segment revenue ($m)	215.7	204.8	188.1	188.1	172.0
Segment NPAT ($m)	16.6	14.6	11.3	13.6	14.6
Segment UNPATA ($m)	17.5	15.3	11.6	13.6	14.6
Retail Financial Services segment					
Segment revenue ($m)	106.0	110.0	23.1	-	-
Segment NPAT ($m)	(5.0)	11.8	3.0	-	-
Segment UNPATA ($m)	12.4	14.0	3.3	-	-
SHAREHOLDER VALUE					
Dividends per share (cps)	66.0	63.0	52.0	52.0	42.0
Dividend payout ratio (%) [2]	63	60	58	69	50
Basic earnings per share (cps)	81.6	99.4	87.0	73.8	83.4
Return on equity (%) [3]	24	26	26	27	34
Underlying earnings per share (cps) [7]	104.8	105.1	89.7	75.3	83.4
Return on capital employed (%) [6]	20	21	20	23	29
OTHER					
Employees (FTE) [4]	1,195	1,124	1,087	881	814
Employee engagement score (%) [5]	76	No survey	81	No survey	84

1 Group underlying NPATA (UNPATA) is reported NPAT normalised for items considered to be capital in nature or not directly relating to operational performance. UNPATA is likely to better reflect maintainable earnings and presents a better comparable measure of performance year on year. UNPATA items included in FY17 comprise after-tax adjustments for acquisition expenses from business combination relating to EVC and CAPEX of $1.0m in FY17 (UFS and Anglo Scottish of $1.9m in FY16, Presidian of $1.5m in FY15, CLM of $0.8m in FY14), after-tax amortisation of intangibles acquired from business combination of $3.0m in FY17 (FY16: $2.8m, FY15: $0.6m), and an asset impairment of $15.3m in FY17.

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

3 Return on equity has been adjusted to reflect 12 months trading for acquisitions made in each financial year.

4 As at 30 June.

5 Employee engagement survey conducted biennially.

6 Return on capital employed has been adjusted to reflect 12 months trading for acquisitions made in the financial year.

7 Underlying earning per share is based on UNPATA.

Financial Report 2017

McMillanShakespeareGroup

Statements of Profit or Loss and Other Comprehensive Income

For the year ended 30 June 2017

	Note	Consolidated Group 2017 $'000	Consolidated Group 2016 $'000	Parent Entity 2017 $'000	Parent Entity 2016 $'000
Revenue	7	513,032	504,666	54,220	46,715
Employee benefits expense		(121,421)	(120,206)	(884)	(726)
Depreciation and amortisation expenses	8(a)	(89,046)	(91,380)	-	-
Leasing and vehicle management expenses		(72,082)	(60,063)	-	-
Brokerage commissions and incentives		(45,746)	(46,960)	-	-
Claims incurred		(9,392)	(7,823)	-	-
Consulting expenses		(3,265)	(3,003)	(337)	(356)
Marketing expenses		(4,102)	(3,380)	-	-
Property and corporate expenses		(11,371)	(11,230)	(335)	(400)
Technology and communication expenses		(10,560)	(11,206)	-	-
Other expenses		(11,011)	(13,327)	(2)	-
Finance costs		(11,353)	(12,841)	(1,507)	(1,973)
Share of equity accounted joint venture loss	16	(1,260)	(1,495)	-	-
Impairment	8(a)	(20,000)	-	(20,000)	-
Acquisition expenses		(1,076)	(2,289)	-	-
Profit before income tax		**101,347**	**119,463**	**31,155**	**43,260**
Income tax (expense) / benefit	9(a)	**(33,445)**	**(36,994)**	**876**	**734**
Profit attributable to members of the parent entity		**67,902**	**82,469**	**32,031**	**43,994**
Other comprehensive income					
Items that may be re-classified subsequently to profit or loss:					
Changes in fair value of cash flow hedges		685	(73)	-	-
Exchange differences on translating foreign operations		(3,662)	(8,145)	-	-
Income tax on other comprehensive income		(165)	(16)	-	-
Total other comprehensive income for the year		**(3,142)**	**(8,234)**	**-**	**-**
Total comprehensive income for the year		**64,760**	**74,235**	**32,031**	**43,994**
Basic earnings per share (cents)	10	81.6	99.4		
Diluted earnings per share (cents)	10	81.5	99.0		

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

Statements of Financial Position

As at 30 June 2017

	Note	Consolidated Group 2017 $'000	Consolidated Group 2016 Re-stated $'000	Consolidated Group As at 1 July 2015 Re-stated $'000	Parent Entity 2017 $'000	Parent Entity 2016 $'000
Current assets						
Cash and cash equivalents	12	59,416	95,583	85,729	5,835	5,716
Trade and other receivables	13	45,922	37,396	46,941	7,415	6,477
Finance lease receivables	14	60,920	46,280	35,253	-	-
Inventory		6,047	7,282	7,165	-	-
Prepayments		6,564	7,827	6,361	-	14
Deferred acquisition costs		2,246	2,084	2,137	-	-
Assets under operating lease	17	75,195	80,081	79,020	-	-
Total current assets		256,310	276,533	262,606	13,250	12,207
Non current assets						
Property, plant and equipment	17	231,536	222,051	226,108	-	-
Finance lease receivables	14	107,255	89,279	89,911	-	-
Intangible assets	6	250,746	261,365	201,404	-	-
Other financial assets	15(b)	1,583	1,732	1,871	320,307	337,900
Deferred tax assets	9(c)	175	194	1,183	-	-
Deferred acquisition costs		1,375	964	973	-	-
Total non current assets		592,670	575,585	521,450	320,307	337,900
TOTAL ASSETS		848,980	852,118	784,056	333,557	350,107
Current liabilities						
Trade and other payables	18	73,301	70,561	63,862	133,227	105,617
Unearned premium liability		6,949	5,966	6,105	-	-
Other liabilities	19	14,007	16,384	16,187	-	-
Provisions	20	12,997	13,023	10,591	-	-
Current tax liability		7,833	10,116	3,789	8,951	9,439
Borrowings	21	88,727	12,944	5,658	11,500	11,500
Derivative financial instruments		134	819	699	-	-
Total current liabilities		203,948	129,813	106,891	153,678	126,556
Non-current liabilities						
Borrowings	21	250,877	332,626	346,046	30,057	41,528
Unearned premium liability		3,926	2,755	2,781	-	-
Other financial liabilities	22	10,815	6,740	-	-	-
Provisions	20	2,900	1,705	2,228	-	-
Deferred tax liabilities	9(c)	5,519	7,984	7,667	568	540
Total non-current liabilities		274,037	351,810	358,722	30,625	42,068
TOTAL LIABILITIES		477,985	481,623	465,613	184,303	168,624
NET ASSETS		370,995	370,495	318,443	149,254	181,483
Equity						
Issued capital	23(a)	141,088	144,380	121,617	141,088	144,380
Reserves		(5,948)	4,086	10,677	3,200	10,092
Retained earnings		235,855	222,029	186,149	4,966	27,011
TOTAL EQUITY		370,995	370,495	318,443	149,254	181,483

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 2017

2017	Note	Issued capital $'000	Retained Earnings $'000	Option Reserve $'000	Cash flow Hedge Reserve $'000	Foreign Currency Translation Reserve $'000	Treasury Reserve $'000	Total $'000
		Consolidated Group						
Equity as at beginning of year	23	144,380	222,029	10,092	(615)	(5,391)	-	370,495
Profit attributable to members of the parent entity		-	67,902	-	-	-	-	67,902
Other comprehensive income after tax		-	-	-	520	(3,662)	-	(3,142)
Total comprehensive income for the period		-	67,902	-	520	(3,662)	-	64,760
Transactions with owners in their capacity as owners:								
Treasury shares	24(d)	(3,292)	-	-	-	-	(6,892)	(10,184)
Dividends paid	11	-	(54,076)	-	-	-	-	(54,076)
Equity as at 30 June 2017		141,088	235,855	10,092	(95)	(9,053)	(6,892)	370,995

2016	Note	Issued capital $'000	Retained Earnings $'000	Option Reserve $'000	Cash flow Hedge Reserve $'000	Foreign Currency Translation Reserve $'000	Treasury Reserve $'000	Total $'000
		Consolidated Group						
Equity as at beginning of year	23	121,617	186,149	8,449	(526)	2,754	-	318,443
Profit attributable to members of the parent entity		-	82,469	-	-	-	-	82,469
Other comprehensive income after tax		-	-	-	(89)	(8,145)	-	(8,234)
Total comprehensive income for the period		-	82,469	-	(89)	(8,145)	-	74,235
Transactions with owners in their capacity as owners:								
Contributions of equity, net of transaction costs	23	22,763	-	-	-	-	-	22,763
Employee share schemes - value of employee services	30	-	-	1,643	-	-	-	1,643
Dividends paid	11	-	(46,589)	-	-	-	-	(46,589)
Equity as at 30 June 2016		144,380	222,029	10,092	(615)	(5,391)	-	370,495

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

Statements of Changes in Equity

For the year ended 30 June 2017

2017	Note	Parent Entity Issued Capital $'000	Retained Earnings $'000	Option Reserve $'000	Treasury Reserve $'000	Total $'000
Equity as at beginning of year	23	144,380	27,011	10,092	-	181,483
Profit attributable to members of the parent entity		-	32,031	-	-	32,031
Other comprehensive income after tax		-	-	-	-	-
Total comprehensive income for the period		-	32,031	-	-	32,031
Transactions with owners in their capacity as owners:						
Treasury shares	24(d)	(3,292)	-	-	(6,892)	(10,184)
Dividends paid	11	-	(54,076)	-	-	(54,076)
Equity as at 30 June 2017		**141,088**	**4,966**	**10,092**	**(6,892)**	**149,254**

2016	Note	Parent Entity Issued Capital $'000	Retained Earnings $'000	Option Reserve $'000	Treasury Reserve $'000	Total $'000
Equity as at beginning of year	23	121,617	29,606	8,449	-	159,672
Profit attributable to members of the parent entity		-	43,994	-	-	43,994
Other comprehensive income after tax		-	-	-	-	-
Total comprehensive income for the period		-	43,994	-	-	43,994
Transactions with owners in their capacity as owners:						
Contributions of equity, net of transaction costs	23	22,763	-	-	-	22,763
Employee share schemes - value of employee services	30	-	-	1,643	-	1,643
Dividends paid	11	-	(46,589)	-	-	(46,589)
Equity as at 30 June 2016		**144,380**	**27,011**	**10,092**	**-**	**181,483**

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 2017

	Note	Consolidated Group		Parent Entity	
		2017 $'000	2016 $'000	2017 $'000	2016 $'000
Cash flows from operating activities					
Receipts from customers		570,101	516,531	-	-
Payments to suppliers and employees		(254,380)	(226,279)	(1,376)	(1,834)
Proceeds from sale of assets under lease		63,587	52,188	-	-
Proceeds from sale of lease portfolio	26(b)	-	32,805	-	-
Payments for assets under lease		(281,412)	(234,601)	-	-
Interest received		1,410	1,855	144	123
Interest paid		(10,531)	(11,329)	(1,507)	(1,947)
Dividends received		-	-	54,076	46,592
Income taxes paid		(40,635)	(33,586)	-	-
Subsidiaries' acquisition expense		(1,076)	(2,612)	-	-
Net cash from operating activities	26(a)	47,064	94,972	51,337	42,934
Cash flows from investing activities					
Payments for capitalised software	6(c)	(6,888)	(3,396)	-	-
Payments for plant and equipment		(1,353)	(4,468)	-	-
Payments for subsidiary investments (net of cash acquired)	31(c)	(8,919)	(39,000)	(2,403)	(57,207)
Payments for joint venture subordinated loans		(1,220)	(1,356)	-	-
Net cash used in investing activities		(18,380)	(48,220)	(2,403)	(57,207)
Cash flows from financing activities					
Proceeds from borrowings		58,032	116,360	-	-
Repayment of borrowings		(58,042)	(111,343)	(11,500)	(4,016)
Payment for treasury shares		(10,184)	-	(10,184)	-
Proceeds from share issues		-	5,358	-	5,358
Payment of borrowing costs		-	(184)	-	-
Dividends paid by parent entity	11	(54,076)	(46,589)	(54,076)	(46,589)
Proceeds from controlled entities		-	-	26,945	62,638
Net cash (used in) / provided by financing activities		(64,270)	(36,398)	(48,815)	17,391
Effect of exchange changes on cash and cash equivalents		(581)	(500)	-	-
Net (decrease) / increase in cash and cash equivalents		(36,167)	9,854	119	3,118
Cash and cash equivalents at beginning of year		95,583	85,729	5,716	2,598
Cash and cash equivalents at end of year	12	59,416	95,583	5,835	5,716

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 2017

1 General information

The financial report of McMillan Shakespeare Limited and its subsidiaries for the year ended 30 June 2017 was authorised for issue in accordance with a resolution of the directors on 30 August 2017 and covers McMillan Shakespeare Limited ('the Company' or the 'parent entity') as an individual entity as well as 'the Group', consisting of McMillan Shakespeare Limited and its subsidiaries ('the Group') as required by the *Corporations Act 2001*.

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

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

2 Significant accounting policies

(a) Basis of preparation

The financial report is a general purpose financial report which has been prepared in accordance with Australian Accounting Standards and Interpretations of the Australian Accounting Standards Board (AASB), and *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.

(b) Rounding of amounts

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

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

The amended accounting standards and interpretations issued by the Accounting Standards Board during the year that were mandatory for the year were adopted. None of these amendments and interpretations materially affected any of the amounts recognised in the current period or prior period.

Application of AASB 2015-2 Amendments to Australian Accounting Standards – Disclosure Initiative Amendments to AASB 101

The Group has applied the amendments for the first time in the current year. The amendments as they have been effected in the financial report may not include a specific disclosure required by a AASB if the information resulting from the disclosure is not material. However, additional information is disclosed when compliance with the specific requirements in AASB is insufficient to enable users of the financial statements to understand the impact of particular transactions, events or conditions on the Group's financial performance or financial position.

The notes to the financial statements have been re-grouped and re-presented in a systematic ordering to provide prominence on areas of activity to enhance the understandability of the Group's operations, resource deployment and concentration risks.

The application of these amendments has not had a material impact on the presentation on the financial performance or financial position of the Group.

(d) New accounting standards and interpretations

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 2017, but have not been applied in preparing this financial report. 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 unless otherwise noted below. None of these are expected to have a significant effect on the financial report of the Consolidated Group unless otherwise noted below.

Notes to the Financial Statements

For the year ended 30 June 2017

(i) *AASB 9 Financial Instruments (effective for annual reporting periods on or after 1 January 2018)*

AASB 9 introduces new requirements for the classification and measurement and de-recognition of financial assets and financial liabilities. The new standard replaces AASB 139 Financial Instruments: Recognition and Measurement in its entirety. The new standard also sets out new rules for hedge accounting and introduces expanded disclosure requirements and changes in presentation. In relation to the impairment of financial assets, the new requirement is the use of an expected credit loss model to replace the current incurred credit loss model.

The Group is currently undertaking an impact assessment of AASB 9 but has not completed this process. However, based on a preliminary assessment, the Group does not believe that there is any material impact from adopting AASB 9 based on the financial position at 30 June 2017. Findings from the preliminary assessment are commented below.

Principal classifications

There are three new financial asset classifications; measurement at amortised cost, fair value through other comprehensive income (FVOCI) and fair value through profit or loss (FVTPL) to replace the current classifications in held to maturity, loans and receivables and available for sale. The new classification if applied at 30 June 2017 would not have a significant impact on the accounting for trade receivables which are accounted for at amortised cost.

Impairment

AASB 9 introduces the expected loss model (ECL) to replace the incurred loss model in the current standard. The ECL model requires an assessment of expected credit losses and changes to those losses at each reporting date. This effectively means a credit default event need not have occurred and the assessment will inherently require considerable judgement for factors affecting the recoverable rate in a probability-weighted calculation. The loss allowance will be measured under the following methods.

- 12 month ECL (simplified approach) as a measure of possible default within the next 12 months; and
- lifetime ECLs that measure all possible default events over the life of the financial asset for assets where there has been or is expected to be a significant change in credit risk.

The Group's trade receivables (note 13), finance lease receivables (note 14) and the financial guarantee under the put option granted to a P&A financier will be subject to the impairment provisions of AASB 9. The preliminary results from the application of the new impairment assessment on the Group's financial assets are as follows.

- Trade receivables ECL using the simplified approach is not significantly different to the current provision for doubtful debts.
- Other impacts of the new impairment model on financial assets, such as finance lease receivables, are being assessed by the Group.
- During the year, the Group expanded the procurement lease financing for customers under principal and agency (P&A) arrangements where the financier and customer undertake a direct borrower / lender relationship. The Group acts as an agent and does not acquire credit or proprietary risk in providing the finance but the Group however, provides a financial guarantee to the financier by way of a put option for operating leases where the financier can sell the lease asset at its residual value at the end of the contract. The impairment calculation under AASB 9 will be similar to the recoverable amount assessment for residual values in respect of operating lease assets (note 17(b)). No material amount is expected given that the residual value of lease assets under P&A is relatively insignificant.

Hedging

Hedge accounting under AASB 9 introduces greater flexibility to the type of transactions that can be hedged and the type of risk components in non-financial items that qualify as hedging instruments. The effectiveness test in the current standard has been replaced and now includes a qualitative approach to the assessment or the in-principle economic relationship between the hedging instrument and the hedged item.

The Group uses interest rate swaps to manage its exposure to the volatility in interest rates as part of its Asset Management operations and in line with the Group's risk management objectives. The hedging relationship will qualify under the new standard relatively unchanged as the Group is nearly always highly effectively hedged.

Future impact

The above assessments are still preliminary and subject to further review and are based on the Group's financial assets and liabilities at 30 June 2017 and using the circumstances that existed at this date. As circumstances may change by the time the new standards are adopted mandatorily in financial year 2019, and given that the Group does not intend to adopt the standard early, the potential impact from the adoption of the new standard may change.

Notes to the Financial Statements

For the year ended 30 June 2017

(ii) *AASB 15 Revenue from Contracts with Customers (effective for annual reporting periods on or after 1 January 2018)*

AASB 15 contains principles to determine the amount and timing of revenue recognition. The new standard is based on the principle that revenue is recognised when control of goods or services transfers to a customer.

The Group is currently assessing the effect of applying AASB 15 on the consolidated financial statements and items of significance are discussed below.

Remuneration services

The Group generates revenue from the provision of remuneration services. Revenue from the administration of salary packaging services is recognised over the period that the service is completed. This revenue stream is stand-alone and separate as it is not linked to the provision of leases or any other services being provided as part of a single contractual arrangement. In respect of commissions, the Group receives this revenue acting in the capacity of an agent. Fees and commissions for the procurement of novated leases are recognised when the customer receives the items procured. We are still assessing the potential impact, specifically in the areas of trail commissions, volume bonuses and upfront fees. Currently, we are recognising such items progressively and this may be accelerated under the new standard as we progress our impact assessment.

Lease rental services

Revenue from lease rental services relate to the Asset Management segment and include rental and interest income from operating and finance leasing, tyre and maintenance services and other in-life asset management services.

Operating lease rental income is recognised on a straight line basis over the term of the contract. Interest from finance leases is recognised over the term of the lease for a constant periodic return on the amount invested in the lease asset. Both of these revenue streams are recognised in accordance with AASB 117 *Leases*. Revenue from other in-life services such as tyre and maintenance services revenue are recognised to the extent that services are completed less a deferral as an unearned provision for expected future services. The unearned liability is currently disclosed as a separate provision to recognise the contractual condition to meet the costs of future services based on the services provided up to reporting date. We are still considering the accounting for maintenance services associated with leases.

Brokerage commissions and financial services

The Group's revenue from retail financial services include fees earned from financiers and insurers for the origination of financial products as well as volume based commissions. The Group earns revenue from the third party distribution of insurance products and the administration of risk warranty product. The Group acts in the capacity as agent and does not carry the risk as underwriter for the sale of warranty products, however the Group applies its discretion to assist dealers to meet the cost of customer claims in relation to the dealer warranty products it administers. The Group does not expect to be considered as a provider of insurance to be accounted under AASB 17 Insurance Contracts when it becomes applicable in 2021.

For the origination business, commission revenue is currently recognised on completion of the service provided to the customer or the customer has taken delivery of the product whichever is later. Where there is a potential for the commission to be clawed back by the financial services provider when a policy is cancelled, a provision is calculated and expensed. It has been preliminarily assessed that under AASB 15, revenue from contracts that are variable because of refunds or rebates are to be measured at their expected recoverable amount. AASB 15 will require revenue to be recognised net of estimated clawbacks. We are assessing our process in accounting for clawbacks.

Revenue from dealer network products is recognised over the warranty period based on expected claims. We are still assessing the impact of the new revenue standard but do not expect this to be significant.

At the date of this report, the Group is not able to estimate the effect of the new standard and a more detailed assessment of the impacts will be disclosed in the interim financial report.

(iii) *AASB 16 Leases (effective for annual reporting periods on or after 1 January 2019)*

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

The Group is currently assessing the potential impact on the consolidated financial statements when the new standard is mandatorily adopted.

Accounting for the Group's operating lease assets as lessor

The Asset Management segment provides operating leasing finance to its customers and the investment in the assets for this business is recognised as assets under operating leases as disclosed in note 17 to the financial statements. Income from the leasing of these assets is disclosed in lease rental service revenue (note 7). The accounting for lessors is not expected to notably change.

Accounting the Group's operating lease commitments as lessee

All leases will be required to be recognised on the balance sheet. Historical information about operating lease commitments that may be required to be recognised on balance sheet is included in Note 27(a). The preliminary assessment indicates that these arrangements meet the definition of a lease under AASB 16.

The other impacts on the adoption of AASB 16 have been considered below.

- For reporting periods post-transition, rental expense currently recognised will be replaced by the depreciation of the ROU and the interest expense on the lease liability. This will consequently, increase EBITDA and EBIT respectively.
- Borrowing arrangements could be affected. Interest cover ratio will improve and the lease liability will add to total borrowings and consequently, affects the borrowing ratio. The Group is in discussion with its bank lenders and it is not expected that it will have material impact on the borrowing facilities, capacity or covenants.
- The consolidated statement of cash flows will recognise changes to the lease liability and interest in the period as financing activities in contrast to rental expenses currently recognised as operating activity.

The Group has not completed its assessment of the new standard and whether it will be adopted early.

(e) Change of accounting policy

Tax effect of acquired assets with an indefinite life

The accounting for the business combination of Presidian Holdings Pty Ltd that was acquired in financial year 2015 included Brands of $22,443,000 which were determined to have an indefinite life. A deferred tax liability was not recognised on the presumption that the asset had an indefinite life and was therefore, analogous to the view that the carrying value of the asset would be recovered through its sale and consequently, its capital gains tax cost base would apply. On this basis, no deferred tax liability was considered necessary in accordance with AASB 112 *Income Taxes*, given that no economic benefit was being consumed from the asset and therefore, no tax benefits need be attached.

In November 2016, the IFRS Interpretations Committee (IFRIC) provided guidance to clarify that an intangible asset with an indefinite useful life is not necessarily a non-depreciable asset or an asset with an infinite life. It cannot also be assumed that an asset that does not amortise will recover the carrying amount only through sale and not through use. An asset that is expected to be recovered through sale would normally have expectations supported by a plan for its sale, the asset is not relied on in the business, there is a market for the nature of the asset or the asset has had a history of being bought or sold.

The Group has re-assessed its use of the Brands asset and is of the view that it continues to have an indefinite life and as the carrying value of the asset will be recovered through its use rather than only at sale. Accordingly, a deferred tax liability will be recognised. The effect of this change is considered a change in accounting policy and has been applied retrospectively to the date of the acquisition of Presidian in accordance with AASB 108 *Accounting Policies, Changes in Accounting Estimates and Errors*. The effect of the change has increased Deferred Tax liability by $6,733,000 with a corresponding increase to Goodwill in the Statements of Financial Position. There is no impact on the Statement of Profit and Loss, Other Comprehensive Income or Cash Flows.

Classification of operating lease assets as current

Operating lease assets included in property, plant and equipment that were presented as non-current assets in prior years have been classified between current and non-current assets in the year ending 30 June 2017 in the Statement of Financial Position. Operating lease assets held as a current asset represents the written down value of operating lease assets terminating within the next twelve months. The change has not resulted in any changes to the Statement of Profit or Loss. The change in classification is considered a change in accounting policy and has been applied retrospectively in accordance with AASB 108 *Accounting Policies, Changes in Accounting Estimates and Errors*. The change in accounting policy is deemed to provide more reliable and relevant information to the users of the financial report.

Notes to the Financial Statements

For the year ended 30 June 2017

3 Critical judgements and significant accounting estimates

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

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

Goodwill and intangible assets

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

Lease assets residual value

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

Tyre and maintenance services

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

Underwriting premium revenue

In recognising premium revenue for the direct business is the consequential recognition of unearned premium liability at reporting date. The measurement is based upon the expected future pattern of incidence of risk in relation to warranty contracts. In determining the estimated pattern of incidence of risk, the Group uses a variety of estimation techniques generally based on statistical analysis of the Group and industry experience that assumes that the development pattern of current claims will be consistent with past experience as appropriate.

No other judgements, estimates or assumptions are considered significant.

4 Financial Risk Management

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

(a) Liquidity risk

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

Liquidity management strategy

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

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

Financing arrangements

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

Asset Management revolving borrowing facilities in local currency	2017			2016		
	Facility	Used	Unused	Facility	Used	Unused
Revolving borrowing facilities (AUD)	344,659	281,972	62,687	398,148	284,654	113,494

Secured bank borrowings (excluding borrowing costs)	Maturity dates	Facility	Used	Unused	Facility	Used	Unused
AUD'000	31/03/2018	50,000	49,800	200	165,000	132,000	33,000
AUD'000	31/03/2019	65,000	41,200	23,800	75,000	46,200	28,800
AUD'000	31/03/2020	60,000	60,000	-	-	-	-
NZD'000	31/03/2019	10,500	4,800	5,700	10,000	2,000	8,000
NZD'000	31/03/2020	10,500	9,850	650	10,000	8,500	1,500
GBP'000	03/04/2018	12,000	11,550	450	42,000	37,900	4,100
GBP'000	31/03/2020	42,000	22,600	19,400	-	-	-
GBP'000	31/03/2019	35,000	35,000	-	35,000	15,500	19,500

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

The revolving facilities of AUD60 million and GBP42 million that were due to mature on 31 March 2018 were extended for two years with a new maturity date of 31 March 2020. The drawn down facilities for AUD49.8 million and GBP11.6 million that mature on 31 March 2018 are currently being re-negotiated as part of an overall review of funding requirements to match the strategic shift to principal and agency financing arrangements. No liquidity issues are anticipated as the cash flow from the run-off of the existing lease asset portfolio from reporting date to 31 March 2018 will provide $141 million. The existing headroom from committed facilities and uncommitted principal and agency facilities, together with contractual lease receivable cash flows, will provide the necessary funding requirements for the next 12 months of forecast new lease additions.

Other amortising borrowing facilities in local currency	2017			2016		
	Facility	Used	Unused	Facility	Used	Unused
Amortising borrowing facilities (AUD)	57,993	57,993	-	61,701	61,701	-

Secured bank borrowings (excluding borrowing costs)	Maturity dates	Facility	Used	Unused	Facility	Used	Unused
AUD'000	31/03/2020	41,625	41,625	-	53,125	53,125	-
GBP'000	31/03/2018	3,950	3,950	-	4,750	4,750	-
GBP'000	31/03/2022	5,723	5,723	-	-	-	-

The amortising facility of $41.6 million (above) was established to fund the acquisition of the Presidian Group, the facility of GBP3.95m to fund the acquisition of CLM Fleet Management plc and the facility for GBP5.7 million to fund the acquisition of European Vehicle Contracts Limited and Capex Asset Finance Limited.

Maturities of financial liabilities

The table below analyses the 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.

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Consolidated Group – at 30 June 2017: Contractual maturities of financial liabilities

	Less than 6 months $'000	6–12 months $'000	1–2 years $'000	2–5 years $'000	Over 5 years $'000	Total contractual cash flows $'000	Carrying Amount / liabilities $'000
Trade payables	19,198	-	-	-	-	19,198	19,198
Other creditors and liabilities	65,728	6,315	4,170	10,007	-	86,220	85,426
Borrowings	11,275	86,450	85,882	184,850	-	368,457	339,965
	96,201	92,765	90,052	194,857	-	473,875	444,589

Consolidated Group – at 30 June 2016: Contractual maturities of financial liabilities

	Less than 6 months $'000	6–12 months $'000	1–2 years $'000	2–5 years $'000	Over 5 years $'000	Total contractual cash flows $'000	Carrying Amount / liabilities $'000
Trade payables	20,792	-	-	-	-	20,792	20,792
Other creditors and liabilities	64,706	176	1,481	7,164	-	73,527	74,618
Borrowings	9,733	12,517	295,853	129,396	-	447,499	345,570
	95,231	12,693	297,334	136,560	-	541,818	440,980

Parent – at 30 June 2017: Contractual maturities of financial liabilities

	Less than 6 months $'000	6–12 months $'000	1–2 years $'000	2–5 years $'000	Over 5 years $'000	Total contractual cash flows $'000	Carrying Amount (assets)/ liabilities $'000
Amounts payable to wholly owned entities and other payables	132,952	-	-	-	-	132,952	132,952
Borrowings	6,327	6,243	12,234	18,960	-	43,764	41,625
Financial guarantee contracts	4,947	80,296	73,648	165,890	-	324,781	298,340
	144,226	86,539	85,882	184,850	-	501,497	472,917

Parent – at 30 June 2016: Contractual maturities of financial liabilities

	Less than 6 months $'000	6–12 months $'000	1–2 years $'000	2–5 years $'000	Over 5 years $'000	Total contractual cash flows $'000	Carrying Amount (assets)/ liabilities $'000
Amounts payable to wholly owned entities and other payables	105,617	-	-	-	-	105,617	105,617
Borrowings	6,561	6,469	12,664	31,287	-	56,981	53,028
Financial guarantee contracts	3,173	6,048	283,189	98,109	-	390,519	-
	115,351	12,517	295,853	129,396	-	553,117	158,645

(b) Credit risk

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

	Consolidated Group		Parent Entity	
	2017 $'000	2016 $'000	2017 $'000	2016 $'000
Trade and other receivables	45,922	37,396	20	-
Deposits with banks	59,416	95,583	5,759	5,716
Finance lease & hire purchase receivables	168,175	135,559	-	-
Operating lease assets	299,189	292,825	-	-
	572,702	561,363	5,779	5,716

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

Credit risk management strategy

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

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

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

(c) Market risk

(i) Interest rate risk

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

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

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

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For the year ended 30 June 2017

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

	2017		2016	
	Borrowings '000	Weighted average interest rate %	Borrowings '000	Weighted average interest rate %
AUD'000	206,584	3.01	241,365	3.30
GBP'000	78,823	1.58	58,150	1.76
Total AUD'000	**339,604**	**2.62**	**345,570**	**3.00**

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

To mitigate the cash flow volatility arising from interest rate movements, the Group has entered into interest rate swaps with counterparties rated as AA- by Standard & Poors, to exchange, at specified periods, the difference between fixed and variable rate interest amounts calculated on contracted notional principal amounts. The contracts require settlement of net interest receivable or payable on a quarterly basis. These swaps are designated to hedge underlying borrowing obligations and match the interest-repricing profile of the lease portfolio in order to preserve the contracted net interest margin. At 30 June 2017, the Group's borrowings for the Asset Management business of $281,972,000 (2016: $284,654,000) were covered by interest rate swaps at a fixed rate of interest of 2.61% (2016: 3.38%).

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

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

	2017	2016
	Balance $'000	Balance $'000
Cash and deposits	59,416	95,583
Bank loans (Asset Management segment) [1]	(298,340)	(293,230)
Interest rate swaps (notional amounts)	255,818	229,554
Bank loans (Presidian Group acquisition) [1]	(41,625)	(53,125)
Net exposure to cash flow interest rate risk	**(24,731)**	**(21,218)**

1 Excluding capitalised borrowing costs of $293,000 (2016: $785,000) for Asset Management and $68,000 (2016: $97,000) for the bank loan for Presidian.

Sensitivity analysis – floating interest rates:

At 30 June 2017, the Group's and parent entity's cash and cash equivalents give rise to credit and interest rate risk. Cash and cash equivalent funds held by the Group and the parent entity include funds at bank and in deposit net of bank borrowings that are not hedged. The Group also holds cash and cash equivalent funds in trust to which the Group has contractual beneficial entitlement to the interest. If the Australian interest rate weakened or strengthened by 25 basis points, being the Group's view of possible fluctuation, and all other variables were held constant, the Group's post-tax profit for the year would have been $528,000 (2016: $649,000) higher or lower and the parent entity $63,000 (2016: $83,000) higher or lower, depending on which way the interest rates moved based on the cash and cash equivalents and borrowings balances at reporting date.

(ii) Foreign currency risk

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

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

(iii) Other market price risk

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

(d) Asset risk

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

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

At reporting date, the portfolio of motor vehicles under operating lease of $299,189,000 (2016: $292,825,000) included a residual value provision of $4,829,000 (2016: $4,381,000).

5 Segment Reporting

Reportable segments

(a) Description of Segments

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

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

Group Remuneration Services - This segment provides 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. During the year, the segment acquired European Vehicle Contracts Limited and Capex Asset Finance Limited to complement the existing business and provide extended geographical coverage in the UK. Anglo Scottish Finance Limited plc was acquired by the segment on 4 November 2015.

Retail Financial services - This segment provides retail brokerage services, aggregation of finance originations and extended warranty cover, but does not provide financing. The United Financial Services group of companies were added to this segment from 31 July 2015.

(b) Segment information provided to the Chief Decision Maker

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

	Segment revenue		Segment profit after tax	
	2017 $'000	2016 $'000	2017 $'000	2016 $'000
Group Remuneration Services	189,709	188,310	58,341	58,662
Asset Management [3]	215,748	204,812	16,618	14,634
Retail Financial Services [1, 2]	106,023	110,037	(5,006)	11,827
Segment operations	**511,480**	**503,159**	**69,953**	**85,123**
Corporate administration and directors' fees			(1,558)	(1,398)
Acquisition expenses			(1,076)	(2,289)
Net interest income			45	(438)
Tax on unallocated items			538	1,471
Profit after tax from continuing operations for the year			**67,902**	**82,469**

1 The UFS entities joined the Retail Financial Services segment from 31 July 2015.
2 RFS result includes an impairment expense of $20,000,000.
3 Asset Management includes EVC from 1 December 2016, CAPEX from 6 January 2017 and Anglo Scottish from 4 November 2015.

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For the year ended 30 June 2017

(c) Other segment information

(i) *Segment revenue*

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

	2017 $'000	2016 $'000
Total segment revenue	511,480	503,159
Interest revenue	1,552	1,507
Total revenue per Consolidated Statement of Profit or Loss	**513,032**	**504,666**

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

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

Included in the revenue for the Group Remuneration Services segment are revenues of $54,747,000 (2016: $63,714,000) from the Group's largest contract.

(ii) *Segment result*

The following items are included in the segment results.

	2017 $'000	2016 $'000
Segment depreciation and amortisation and impairment		
Group Remuneration Services	5,074	4,782
Asset Management	79,820	82,203
Retail Financial Services [1]	24,152	4,395
	109,046	91,380
Share of loss from joint venture		
Group Remuneration Services	-	-
Asset Management	1,260	1,495
Retail Financial Services	-	-
	1,260	1,495

1 Includes impairment of goodwill and other intangibles of $20 million.

(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.

The reportable segments' assets and liabilities are reconciled to total assets as follows:	2017 $'000	2016 $'000
Segment assets		
Group Remuneration Services	89,503	59,067
Asset Management	538,717	520,785
Retail Financial Services	172,069	191,306
Segment assets	800,289	771,158
Non-segment assets		
Unallocated assets [1]	48,691	80,960
Consolidated assets per statement of financial position	848,980	852,118
Segment liabilities		
Group Remuneration Services	56,189	53,680
Asset Management	351,691	337,537
Retail Financial Services	28,548	45,170
Segment liabilities	436,428	436,387
Non-segment liabilities		
Unallocated liabilities [1]	41,557	45,236
Consolidated liabilities per statement of financial position	477,985	481,623

1 Unallocated assets comprise cash and bank balances of segments other than Asset Management, maintained as part of the centralised treasury and funding function of the Group. Unallocated liabilities comprise borrowings for the acquisition of the Retail Financial Services segment, utilising the Group's borrowing capacity and equity to fund the initial acquisition and ongoing loan maintenance utilising centralised treasury controlled funds.

	2017 $'000	2016 $'000
Additions to non-current assets		
Group Remuneration Services	7,175	5,302
Asset Management	146,730	154,210
Retail Financial Services	168	47,328
	154,073	206,840

(d) Geographical information

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

	Revenue from external customers		Non-current assets [1]	
	2017 $'000	2016 $'000	2017 $'000	2016 $'000
Australia	469,693	475,507	569,449	576,704
United Kingdom	36,278	25,257	78,962	60,532
New Zealand	7,061	3,902	17,696	9,771
	513,032	504,666	666,107	647,007

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

Notes to the Financial Statements

For the year ended 30 June 2017

6 Intangible Assets

(a) Carrying values

	Consolidated Group		Parent Entity	
	2017 $'000	2016 $'000	2017 $'000	2016 $'000
Goodwill				
Cost	195,705	189,398	-	-
Impairment loss	(4,519)	(36)	-	-
Net carrying value	191,186	189,362	-	-
Brands				
Brands at cost - indefinite life	22,443	22,443	-	-
Imapirment loss	(12,479)	-	-	-
Sub-total	9,964	22,443	-	-
Brands at cost - finite life	6,598	6,598	-	-
Accumulated amortisation	(2,828)	(1,532)	-	-
Net carrying value	13,734	27,509	-	-
Dealer relationships				
Cost	28,120	21,795		
Accumulated amortisation	(3,973)	(1,881)	-	-
Impairment loss	(3,038)	-	-	-
Net carrying value	21,109	19,914	-	-
Software development costs				
Cost [1]	39,774	38,930	-	-
Accumulated amortisation	(20,055)	(21,286)	-	-
Net carrying value	19,719	17,644	-	-
Contract rights				
Cost	13,070	13,070	-	-
Accumulated amortisation	(12,523)	(11,541)	-	-
Net carrying value	547	1,529	-	-
Customer list and relationships				
Cost	6,361	6,713	-	-
Accumulated amortisation	(1,910)	(1,306)	-	-
Net carrying value	4,451	5,407	-	-
Total Intangibles	**250,746**	**261,365**	**-**	**-**

1 Software includes capitalised internal costs.

(b) Recognition and measurement

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

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

(i) Goodwill

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

(ii) Identifiable intangible assets acquired from business combination

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

Intangible asset	Useful life
Dealer relationships and networks	10 to 13 years
Customer contracts	13 years
Brand names	6 years to indefinite

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

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

(iii) Capitalised software development costs

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

(iv) Contract rights

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

(c) Reconciliation of written down values

2017	Goodwill $'000	Brands $'000	Dealer relationships $'000	Customer lists and relationships $'000	Software development costs $'000	Contract rights $'000	Total $'000
Net book amount							
Balance beginning of year	189,362	27,509	19,914	5,407	17,644	1,529	261,365
Additions	-	-	-	-	6,888	-	6,888
Acquisition through business combination	8,127	-	6,451	-	1,112	-	15,690
Impairment	(4,483)	(12,479)	(3,038)	-	-	-	(20,000)
Amortisation	-	(1,296)	(2,019)	(677)	(5,994)	(982)	(10,968)
Change in foreign currency	(1,820)	-	(199)	(279)	69	-	(2,229)
Closing balance	**191,186**	**13,734**	**21,109**	**4,451**	**19,719**	**547**	**250,746**

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For the year ended 30 June 2017

(c) Reconciliation of written down values

2016	Goodwill $'000	Brands $'000	Dealer relationships $'000	Customer lists and relationships $'000	Software development costs $'000	Contract rights $'000	Total $'000
Net book amount							
Balance beginning of year	141,574	22,443	11,724	3,566	19,643	2,454	201,404
Additions	-	-	-	-	3,396	-	3,396
Acquisition through business combination	52,186	6,598	10,115	3,235	-	-	72,134
Amortisation	-	(1,532)	(1,585)	(723)	(5,395)	(925)	(10,160)
Change in foreign currency	(4,398)	-	(340)	(671)	-	-	(5,409)
Closing balance	189,362	27,509	19,914	5,407	17,644	1,529	261,365

1 Adjustment to prior year addition from business combination following a change in accounting policy to recognise a deferred tax liability for an indefinite-life asset (refer Note 2(e)).

(d) Impairment test of goodwill and intangible assets with an indefinite life

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

The carrying amount of goodwill and intangible assets with an indefinite life are allocated to the Group's cash-generating units (CGUs) below based on the organisation and management of its businesses.

	Consolidated Group	
	2017 $'000	2016 $'000
Maxxia Pty Limited (Maxxia)	24,190	24,190
Remuneration Services (Qld) Pty Limited (RemServ)	9,102	9,102
CLM Fleet Management plc (CLM)	12,264	13,086
Anglo Scottish Finance Limited (Anglo Scottish)	15,817	16,882
Retail Financial Services segment warranty and insurance business (RFS risk)	53,858	70,820
Retail Financial Services segment retail finance business (RFS finance)	77,725	77,725
European Vehicle Contracts Limited (EVC)	3,301	-
Capex Asset Finance Limited (CAPEX)	4,893	-
	201,150	211,805

The carrying value of intangible assets of the RFS warranty and insurance business was adjusted for impairment following the recoverable value review of goodwill, brands and dealer relationships.

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

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

Cash flow projections

The cash flow projections are based off the FY18 budget which incorporates Board approved business plans and initiatives. The growth assumptions used for subsequent years reflect strategic business plans and forecast growth rates. Financial projections also take into account any risk exposures to changes in the trading, market and regulatory environments. The average growth rates used in the five year projection is between 1% and 5%. Cash flows beyond the five-year period are extrapolated using conservative growth rates between 0% and 2%.

Sensitivity analysis and discount rates

GRS CGUs

The Maxxia and Remserv CGUs that form the GRS segment operate largely in the same business environment and are exposed to similar risks. A pre-tax discount rate of 11.5% (2016: 10.5%) was applied to pre-tax cash flows for the value-in-use calculations.

The extent of current GRS segment cash flows comprising Maxxia and RemServ indicate that any reasonable changes to the key assumptions would not cause an impairment and consequently, no sensitivity assessments have been presented. One of the key assumptions in the GRS segment is that there is no significant change to Australian tax legislation that could affect the salary packaging and novated businesses however, the recoverable amounts will have to be re-assessed if there is anything significant to the contrary. RemServ generates a substantial portion of its salary packaging and novated leasing business from the provision of services to employees of the Queensland Government pursuant to contractual arrangements that extend to April 2019 and November 2019 respectively plus a two year extension at the option of the client.

Asset Management CGUs

EVC and CAPEX operate largely in the same business environment and are exposed to relatively similar types of risks. A pre-tax discount rate of 14.0% was applied to pre-tax cash flows for the value-in-use calculation in line with the rate used by an external valuer for the valuation of intangible assets during the year. The value-in-use assessment for Anglo Scottish and CLM used a pre-tax discount rate of 14.0% (2016: 14.0%).

The EVC and CAPEX CGUs have performed in line with expectations to date since their acquisition during the year and any reasonable change to the key assumptions is unlikely to cause an impairment and consequently, no sensitivity assessments have been presented. A 5% change to the key assumptions for CLM and Anglo Scottish is unlikely to cause an impairment.

Retail Financial Services CGUs

The risk and finance CGUs applied a pre-tax discount rates between 13.9% to 14.0% (2016: 10.5%) for the pre-tax value-in-use calculations.

The sensitivity of the RFS risk CGU estimated recoverable amount is calculated to potentially vary by $3.0 million for every 0.50% change to the discount rate and for a 5% change in earnings growth, the estimated recoverable amount could vary by $2.4 million. The sensitivity of the RFS finance CGU estimated recoverable amount is calculated to potentially vary by $4.8 million for every 0.50% change to the discount rate and for a 5% change in earnings growth, the estimated recoverable amount could vary by $6.2 million.

The Australian Securities and Investment Commission (ASIC) is currently undertaking a review of commission pricing and add-on insurance products in the retail financial products industry. It is not currently possible to measure the impact of any potential regulations until they are mandated by ASIC and accordingly, are not included in the key assumptions. In June 2017, it was reported in the media that a class action was being prepared for a claim relating to a warranty product operated by RFS risk. Any impact from this action is not incorporated in the key assumptions as there is insufficient information to identify or measure the impact.

Notes to the Financial Statements

For the year ended 30 June 2017

7 Revenue

	Consolidated Group		Parent Entity	
	2017 $'000	2016 $'000	2017 $'000	2016 $'000
Revenue from continuing operations				
Remuneration services [1]	190,094	188,483	-	-
Lease rental services	136,587	148,184	-	-
Proceeds from sale of leased assets	57,724	47,361	-	-
Brokerage commissions and financial services and premiums	124,615	118,295	-	-
Interest	1,410	1,855	144	123
Dividends received	-	-	54,076	46,592
Other	2,602	488	-	-
Total revenue	**513,032**	**504,666**	**54,220**	**46,715**
Underwriting premium from direct business included in Retail Financial Services Revenue				
Gross written premium	31,853	31,700	-	-
Movement in deferred income	2,155	(165)	-	-
Premium revenue	**34,008**	**31,535**	**-**	**-**

1 Included in remuneration services revenue is interest income derived from the holding of trust funds (refer note 12(b))

Recognition and measurement

Revenue is recognised at the fair value of consideration received or receivable to the extent that it is probable that the economic benefits will flow to the Group and can be reliably measured. 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 Group has concluded that it acts as agent in some of its revenue arrangements and principal in other arrangements. The following are specific criteria that are applied for the recognition of revenue:

(i) Remuneration services

Revenue from remuneration services is recognised for the period that services have been rendered and does not include fees and account operating costs collected on behalf of customers and third parties. Remuneration services revenue includes interest earned for managing funds held in trust for clients pursuant to and as part payment for remuneration services rendered.

(ii) Lease rental services

Operating lease rental revenue is made up of operating lease interest and the principal that forms the net investment in the leased asset and is measured in a straight line basis over the term of the contract. Interest from finance lease receivables is included in lease rental services revenue and measured using the effective interest method and the principal portion upon receipt reduces the net investment in the leased asset.

Revenues from maintenance service contracts are recognised for services rendered when it is probable that economic benefits from the transaction will flow to the 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.

(iii) 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.

(iv) Brokerage commissions

Revenue from the provision of financial services is recognised by reference to the stage of completion of the services provided to the customer. Brokerage service provided by the Group include acting as agent for the procurement of financial products for the customer where commission revenue is earned on a transaction basis and a volume based commission from financial product providers where the Group provides a sub-origination service. Brokerage commission revenue also includes “principal and agency” (P&A) services where the Group has performed mainly as agent for the procurement of lease asset financing with an external financier. Under a P&A arrangement, the Group does not possess credit risk or carry on risks of ownership of the underlying financial arrangement with the customer. Where the P&A arrangement with the financier has a put and call option for the lease asset to be sold / purchased by the Group at the end of the lease, the option is fair valued at reporting date and included in the residual value provision included in operating lease assets.

Group Revenue is recognised when the customer accepts delivery of the financial product or lease asset or on completion of the contract for the underlying financial arrangement with the financier or insurer.

(v) Warranty revenue

Warranty revenue included in brokerage and financial services revenue comprises product income from direct business charged to product holders excluding stamp duties, GST and other amounts collected on behalf of third parties.

Warranty revenue, including the unclosed business, is recognised when it has been earned, calculated from attachment date over the period of the contract for the direct business. Where time does not reasonably approximate the pattern of risk, previous claims experience is used to derive the incidence of risk.

The proportion of revenue received or receivable not earned in the profit and loss at reporting date is recognised in the consolidated statement of financial position as unearned income.

Income on unclosed business is brought to account using estimates based on the previous year’s actual unclosed business with due allowance made for any changes in the pattern of new business and renewals.

(vi) 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.

(vii) Dividends

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

Notes to the Financial Statements

For the year ended 30 June 2017

8 Expenses

(a) Profit before income tax includes the following specific expenses

	Consolidated Group		Parent Entity	
	2017 $'000	2016 $'000	2017 $'000	2016 $'000
Depreciation and amortisation expenses				
Amortisation of software development	5,994	5,395	-	-
Amortisation of contract rights acquired	491	590	-	-
Depreciation of assets under operating lease	75,544	78,172	-	-
Depreciation of plant and equipment	3,024	2,998	-	-
Residual value loss provision	-	385	-	-
Amortisation of intangibles	3,993	3,840	-	-
	89,046	91,380	-	-
Impairment of goodwill	4,483	-	-	-
Impairment of other intangible assets	15,517	-	-	-
Impairment of investment in subsidiaries	-	-	20,000	-
	20,000	-	20,000	-
Rental expense on operating leases				
Minimum lease payments	9,225	9,123	-	-
Superannuation				
Defined contribution superannuation expense	7,948	8,259	-	-

(b) Auditor's remuneration

	Consolidated Group		Parent Entity	
	2017 $	2016 $	2017 $	2016 $
Remuneration of the auditor (Grant Thornton Audit Pty Ltd) of the parent entity for:				
Audit or review of the financial report of the entity and any other entity in the Consolidated Group	272,000	278,000	-	-
Assurance related	201,600	48,300	-	-
Remuneration of a network firm of the parent entity auditor:				
Audit or review of the financial statements (UK)	169,068	139,656	-	-
Assurance related	-	4,062	-	-

Notes to the Financial Statements

For the year ended 30 June 2017

9 Income Tax Expense / (Benefit)

(a) Components of tax expense / (benefit)

	Consolidated Group		Parent Entity	
	2017 $'000	2016 $'000	2017 $'000	2016 $'000
Current tax expense / (benefit)	37,275	39,066	(904)	(1,494)
Adjustments for current tax of prior years	200	668	-	115
Deferred tax	(4,030)	(2,740)	28	645
Income tax expense / (benefit)	**33,445**	**36,994**	**(876)**	**(734)**

(b) The prima facie tax payable on profit before income tax is reconciled to the income tax expense / (benefit) as follows:

	Consolidated Group		Parent Entity	
	2017 $'000	2016 $'000	2017 $'000	2016 $'000
Profit before income tax	101,347	119,463	31,155	43,260
Prima facie tax payable on profit before income tax at 30% (2016: 30%)	30,404	35,839	9,347	12,978
Add tax effect of:				
– non-deductible costs	475	380	-	150
– non-deductible impairment expense	1,345	-	6,000	-
– share of joint venture loss	378	448	-	-
– overseas tax rate differential of subsidiaries	(478)	(341)	-	-
– acquisition expenses	120	-	-	-
– under-provision of tax from prior year	1,201	668	-	116
	33,445	36,994	15,347	13,244
Less tax effect of:				
– dividends received	-	-	(16,223)	(13,978)
Income tax expense / (benefit)	**33,445**	**36,994**	**(876)**	**(734)**
Unrecognised temporary differences				
Foreign currency translation of investments in subsidiaries for which no deferred tax assets have been recognised	(9,053)	(5,391)	-	-

Notes to the Financial Statements

For the year ended 30 June 2017

(c) Deferred tax asset / (liability)	Consolidated Group 2017 $'000	Consolidated Group 2016 $'000	Parent Entity 2017 $'000	Parent Entity 2016 $'000
The balance comprises temporary differences and tax losses attributed for:				
Amounts recognised in profit or loss				
Doubtful debts	101	137	-	-
Provisions	6,305	4,290	-	-
Property, plant and equipment	(5,222)	(8,435)	-	-
Accrued expenses	6,366	7,061	-	-
Other receivables/prepayments	(1,753)	467	(831)	(684)
Other	(1,745)	502	-	-
Deferred acquisition expenses	1,027	1,708	263	144
Intangible assets[1]	(10,759)	(14,826)	-	-
Unearned income	313	217	-	-
Employee share rights	51	885	-	-
	(5,316)	(7,994)	(568)	(540)
Amounts recognised in equity				
Derivatives recognised directly in equity	(28)	204	-	-
Closing balance at 30 June	(5,344)	(7,990)	(568)	(540)
Recognised as:				
Deferred tax asset	175	194	-	-
Deferred tax liability	(5,519)	(7,984)	(568)	(540)
	(5,344)	(7,790)	(568)	(540)

Movements in deferred tax asset / (liability)	Consolidated Group 2017 $'000	Consolidated Group 2016 $'000	Parent Entity 2017 $'000	Parent Entity 2016 $'000
Opening balance at 1 July [1]	(7,790)	(6,484)	(540)	105
Charged to profit or loss	4,196	3,193	(28)	(645)
Charged to other comprehensive income	(161)	(16)	-	-
Acquired from business combination (refer Note 31)	(1,584)	(4,620)	-	-
Change in foreign currency	(5)	137	-	-
Closing balance at 30 June	(5,344)	(7,790)	(568)	(540)

1 Adjustment to prior year addition from business combination following a change in accounting policy to recognise a deferred tax liability for an indefinite-life asset (refer Note 2(e)).

Notes to the Financial Statements

For the year ended 30 June 2017

(d) Recognition and measurement

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

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

(i) Deferred tax

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

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

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

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

(ii) Tax consolidation

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

(iii) Investment allowances

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

Notes to the Financial Statements

For the year ended 30 June 2017

10 Earnings per Share

Basic earnings per share	Consolidated Group 2017	Consolidated Group 2016
Basic EPS – cents per share	81.6	99.4
Net profit after tax ($'000)	$67,902	$82,469
Weighted average number of ordinary shares outstanding during the year used in the calculation of basic EPS ('000)	83,205	82,927

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.

Diluted earnings per share	2017	2016
Diluted EPS – cents per share	81.5	99.0
Earnings used to calculate basic earnings per share ($'000)	**$67,902**	**$82,469**
Weighted average number of ordinary shares outstanding during the year used in the calculation of basic EPS ('000)	83,205	82,927
Weighted average number of options on issue outstanding ('000)	132	335
Weighted average number of ordinary shares outstanding during the year used in the calculation of diluted EPS ('000)	**83,337**	**83,262**

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

11 Dividends

	Consolidated Group		Parent Entity	
	2017 $'000	2016 $'000	2017 $'000	2016 $'000
Final fully franked ordinary dividend for the year ended 30 June 2016 of $0.34 (2015: $0.27) per share franked at the tax rate of 30% (2015: 30%)	28,286	22,463	28,286	22,463
Interim fully franked ordinary dividend for the year ended 30 June 2017 of $0.31 (2016: $0.29) per share franked at the tax rate of 30% (2016: 30%)	25,790	24,126	25,790	24,126
	54,076	**46,589**	**54,076**	**46,589**
Franking credits available for subsequent financial years based on a tax rate of 30% (2016 – 30%)	92,723	90,370	92,723	90,370

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.

Recognition and measurement

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

Notes to the Financial Statements

For the year ended 30 June 2017

12 Cash and Cash Equivalents

	Consolidated Group		Parent Entity	
	2017 $'000	2016 $'000	2017 $'000	2016 $'000
Cash on hand	5	3	-	-
Bank balances	32,566	14,992	76	86
Short term deposits	26,845	80,588	5,759	5,630
	59,416	95,583	5,835	5,716

(a) Cash and cash equivalents

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

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

Cash and cash equivalents are subject to interest rate risk as they earn interest at floating rates. Cash at bank is invested at floating rates. In 2017, the floating interest rates for the Group and parent entity were between 1.35% and 1.60% (2016: 1.43% and 2.06%). The short term deposits are also subject to floating rates, which in 2017 were between 1.80% and 2.20% (2016: 2.04% and 3.04%). These deposits have an average maturity of 90 days (2016: 90 days) and are highly liquid.

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

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

	Consolidated Group		Consolidated Group	
	2017		2016	
	Average interest rate %	$'000	Average interest rate %	$'000
Client monies in trust	2.50%	380,794	2.74%	373,489
Client monies in trust free from administration fees	2.34%	29,755	2.67%	33,077
		410,549		406,566

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

Pursuant to contractual agreement with clients, the Company received the following interest for managing client monies and as part substitute for administration service fees and is included in revenue from remuneration services (note 7).

	Consolidated Group	
	2017 000	2016 000
Interest received	9,489	9,587

Notes to the Financial Statements

For the year ended 30 June 2017

13 Trade and Other Receivables

	Consolidated Group		Parent Entity	
	2017 $'000	2016 $'000	2017 $'000	2016 $'000
Current				
Trade receivables	23,130	13,998	-	-
Other receivables	22,792	23,398	20	70
Amounts receivable from wholly owned entities	-	-	7,395	6,407
	45,922	37,396	7,415	6,477

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

(a) Ageing and impairment losses

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

	2017			2016		
Consolidated Group	Total $'000	Amount impaired $'000	Amount not impaired $'000	Total $'000	Amount impaired $'000	Amount not impaired $'000
Not past due	17,006	-	17,006	11,243	(451)	10,792
Past due 30 days	3,265	-	3,265	2,608	(145)	2,463
Past due 31–60 days	1,781	(30)	1,751	446	(119)	327
Past due 61–90 days	496	(76)	420	201	(65)	136
Past due >90 days	953	(265)	688	776	(496)	280
Total	**23,501**	**(371)**	**23,130**	**15,274**	**(1,276)**	**13,998**

(b) Recognition and measurement

Trade receivables represent amounts invoiced to and owing from customers for services rendered or goods delivered 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.

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

(c) Concentration of risk

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

(d) Other receivables

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

(e) Doubtful debts policy

The recoverability of trade receivables is reviewed on an ongoing basis. Recoverable amounts are calculated using a probability based assessment of cash flows and takes into account the period that an amount owing is past due from the agreed payment period, payment history and information about customer financial capacity. Recoverable cash flows are discounted to their present value but short-term receivables are not discounted as they are not considered material. A provision for impairment is recognised for the difference between the carrying amount and the assessed recoverable amount or is written off if it is assessed that there is no possible recovery of the amount owing.

Notes to the Financial Statements

For the year ended 30 June 2017

14 Finance Lease Receivables

	Consolidated Group		Parent Entity	
	2017 $'000	2016 $'000	2017 $'000	2016 $'000
Current finance lease receivables	60,920	46,280	-	-
Non-current finance lease receivables	107,255	89,279	-	-
	168,175	135,559	-	-

Recognition and measurement

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

	Consolidated Group			
Amounts receivable under finance lease receivables	Minimum lease payments 2017 $'000	Present value of lease payments 2017 $'000	Minimum lease payments 2016 $'000	Present value of lease payments 2016 $'000
Within one year	65,926	61,061	51,411	44,653
Later than one but not more than five years	110,898	106,407	94,795	90,841
Later than five years	727	707	66	65
	177,551	168,175	146,272	135,559
Less: unearned finance income	(9,376)	-	(10,713)	-
Present value of minimum lease payments	168,175	168,175	135,559	135,559

There were no guaranteed residual values of assets leased under finance leases at reporting date (2016: nil)

Notes to the Financial Statements

For the year ended 30 June 2017

15 Other Financial Assets

(a) Investment in subsidiaries

	Consolidated Group 2017 $'000	Consolidated Group 2016 $'000	Parent Entity 2017 $'000	Parent Entity 2016 $'000
Shares in subsidiaries at cost	-	-	320,307	337,900

The consolidated financial statements incorporate the assets, liabilities and results of the following subsidiaries in accordance with the accounting policy described in Note 33.

Name	Country of Incorporation	% Owned 2017	% Owned 2016	Principal activities
Parent entity				
McMillan Shakespeare Limited	Australia			
Subsidiaries in Group				
Maxxia Pty Limited [1]	Australia	100%	100%	Remuneration services provider
Remuneration Services (Qld) Pty Limited [1]	Australia	100%	100%	Remuneration services provider
Interleasing (Australia) Ltd [1]	Australia	100%	100%	Asset management and services
TVPR Pty Ltd [1]	Australia	100%	100%	Asset management and services
Presidian Holdings Pty Ltd	Australia	100%	100%	Retail financial services
Davantage Group Pty Ltd	Australia	100%	100%	Retail financial services
Money Now Pty Ltd	Australia	100%	100%	Retail financial services
National Finance Choice Pty Ltd	Australia	100%	100%	Retail financial services
Franklin Finance Group Pty Ltd	Australia	100%	100%	Retail financial services
Australian Dealer Insurance Pty Ltd	Australia	100%	100%	Retail financial services
National Finance Solutions Pty Ltd	Australia	100%	100%	Retail financial services
National Insurance Choice Pty Ltd	Australia	100%	100%	Retail financial services
United Financial Services Pty Ltd	Australia	100%	100%	Retail financial services
United Financial Services Network Pty Ltd	Australia	100%	100%	Retail financial services
United Financial Services (Queensland) Pty Ltd	Australia	100%	100%	Retail financial services
Just Honk Pty Ltd	Australia	100%	100%	Asset management
Maxxia (UK) Limited	United Kingdom	100%	100%	Investment holding
Maxxia Finance Limited	United Kingdom	100%	100%	Asset management
CLM Fleet Management plc	United Kingdom	100%	100%	Fleet management services
Anglo Scottish Asset Finance Limited plc	United Kingdom	100%	100%	Fleet management services
European Vehicle Contracts Limited	United Kingdom	100%	-	Fleet management services
Capex Asset Finance Limited	United Kingdom	100%	-	Fleet management services
Maxxia Limited (NZ)	New Zealand	100%	100%	Dormant
Maxxia Fleet Limited	New Zealand	100%	100%	Asset management and services
Wuxi McMillan Software Co. Ltd	Peoples Republic of China	100%	-	Software development

1 These subsidiaries have been granted relief from the necessity to prepare financial reports in accordance with ASIC Corporations (Rounding in Financial / Directors' Reports) Instrument 2016/191 issued by the Australian Securities and Investments Commission. For further information refer to Note 32.

Notes to the Financial Statements

For the year ended 30 June 2017

(b) Loan receivable	Consolidated Group 2017 $'000	Consolidated Group 2016 $'000	Parent Entity 2017 $'000	Parent Entity 2016 $'000
Loan receivable	4,046	3,827	-	-
Other expense receivable	1,745	1,297	-	-
Share of losses of equity accounted joint venture	(4,764)	(3,504)	-	-
Change in foreign currency	556	112	-	-
Carrying value at end of the financial year	**1,583**	**1,732**	**-**	**-**

The loan and other expense receivable is made up of advances to the joint venture entity as part of the working capital facility provided pursuant to the Group's investment arrangement and forms part of the net investment in the joint venture. At reporting date, the fair value of the loan was not materially different to the carrying value. The carrying value includes the share of the joint venture's loss of $1,260,000 (2016: $1,495,000) recognised under the equity method that is in excess of the Company's fully written down carrying value of its investment (2016: $nil - refer note 16).

Risk exposure

The maximum facility under the arrangement is GBP3.0 million together with other expenses agreed between the JV parties to accelerate growth are being re-negotiated for an extended term. Under the existing agreement, certain conditions of default on the repayments, will allow the Group an option to convert a portion of the amount outstanding to increase the Group's interest in the joint venture from 50% to 60%. The loan accrues interest at commercial rates and the balance at reporting date approximates to fair value. At reporting date, the fair value of the option was not material.

16 Investment in Joint Venture

	Consolidated Group 2017 $'000	Consolidated Group 2016 $'000	Parent Entity 2017 $'000	Parent Entity 2016 $'000
Acquired	337	337	-	-
Share of losses after income tax	(337)	(337)	-	-
Carrying value at end of the financial year	**-**	**-**	**-**	**-**

(a) Recognition and measurement

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

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

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

Notes to the Financial Statements

For the year ended 30 June 2017

	Consolidated Group	
	2017 $'000	2016 $'000
Current assets	3,820	3,632
Non-current assets	74	-
Total assets	**3,894**	**3,632**
Current liabilities	6,914	5,557
Non-current liabilities	6,114	5,124
Total liabilities	**13,028**	**10,681**
Net liabilities	**(9,134)**	**(7,049)**

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

	2017 $'000	2016 $'000
Net liabilities of JV	(9,134)	(7,049)
Group ownership interest (50%)	(4,567)	(3,524)
Carrying amount	-	-
Cumulative losses of JV equity accounted	**(5,101)**	**(3,841)**

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

	Consolidated Group	
Joint venture financial results	2017 $'000	2016 $'000
Revenue	2,567	2,906
Expenses	(5,087)	(5,896)
Loss before income tax	(2,520)	(2,990)
Income tax	-	-
Loss after income tax	(2,520)	(2,990)
Group's share of loss after income tax	(1,260)	(1,495)
Share of joint venture capital commitments	**-**	**-**

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For the year ended 30 June 2017

17 Property, Plant and Equipment

(a) Plant and equipment

	Consolidated Group 2017 $'000	Consolidated Group 2016 $'000	Parent Entity 2017 $'000	Parent Entity 2016 $'000
At cost	21,738	28,667	-	-
Less accumulated depreciation	(14,196)	(19,360)	-	-
	7,542	9,307	-	-
Assets under operating lease				
At cost	461,485	457,722	-	-
Less accumulated depreciation	(162,296)	(164,897)	-	-
	299,189	**292,825**		
Total plant and equipment	**306,731**	**302,132**	**-**	**-**
Total current	75,195	80,081	-	-
Total non-current	231,536	222,051	-	-
Total plant and equipment	**306,731**	**302,132**	**-**	**-**
Carrying value of assets under operating lease				
Written down value of operating lease assets terminating within the next 12 months [1]	75,195	80,081	-	-
Written down value of operating lease assets terminating after more than 12 months	223,994	212,744	-	-
	299,189	**292,825**	-	-

1 The classification of the written down value of operating leases terminating within the next 12 months follows from a change in accounting policy (refer note 2(e)).

(b) Movements in cost and accumulated depreciation

Consolidated Group	Plant and equipment $'000	Assets under operating lease [1] $'000	Total $'000
Year ended 30 June 2017			
Balance at the beginning of year	9,307	292,825	302,132
Additions	1,240	131,882	133,122
Acquisitions through business combination	73	-	73
Disposals / transfers to assets held for sale	131	(49,976)	(49,845)
Depreciation expense	(3,024)	(75,544)	(78,568)
Change in foreign currency	(185)	2	(183)
Balance at 30 June	**7,542**	**299,189**	**306,731**
Year ended 30 June 2016			
Balance at the beginning of year	12,003	293,125	305,128
Additions	4,626	126,520	131,146
Acquisitions through business combination	283	-	283
Transfers to software and plant and equipment	(2,800)	2,800	-
Disposals / transfers to assets held for sale	(1,623)	(51,953)	(53,576)
Depreciation expense	(2,998)	(78,172)	(81,170)
Impairment loss	-	(385)	(385)
Change in foreign currency	(184)	890	706
Balance at 30 June	**9,307**	**292,825**	**302,132**

1 Accumulated provision for impairment loss at reporting date is $4,829,000 (2016: $4,381,000).

Notes to the Financial Statements

For the year ended 30 June 2017

(c) Recognition and measurement

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

Assets under operating lease

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

Depreciation and impairment

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

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

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

(d) Security

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

(e) Property, plant and equipment held for sale

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

18 Trade and Other Payables

	Consolidated Group		Parent Entity	
	2017 $'000	2016 $'000	2017 $'000	2016 $'000
Unsecured liabilities				
Trade payables	19,198	20,792	-	-
GST payable	1,166	1,677	-	-
Sundry creditors and accruals	52,937	48,092	275	181
Amounts payable to wholly owned entities	-	-	132,952	105,436
	73,301	70,561	133,227	105,617

Recognition and measurement

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

Notes to the Financial Statements

For the year ended 30 June 2017

19 Other Liabilities

	Consolidated Group		Parent Entity	
	2017 $'000	2016 $'000	2017 $'000	2016 $'000
Maintenance instalments received in advance	4,794	5,815	-	-
Receivables in advance	3,821	5,300	-	-
Unearned property incentives	5,392	5,269	-	-
	14,007	**16,384**	**-**	**-**

Recognition and measurement

Maintenance instalments received in advance

Maintenance instalments received in advance is income from maintenance service contracts that are unearned using the stage of completion method. The unearned portion represents costs to complete attributed to the stage of the contract and is measured by reference to the proportion of cumulative costs to date to estimated total costs to completion.

Receivables in advance

Receivables in advance are receipts from customers for future services to be rendered.

Unearned property incentives

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

20 Provisions

	2017 $'000	2016 $'000	2017 $'000	2016 $'000
Current				
Employee benefit liabilities	9,276	9,333	-	-
Provision for rebate and cancellations	3,356	3,337	-	-
Provision for onerous contracts	365	353	-	-
	12,997	**13,023**	**-**	**-**
Non current				
Provision for long service leave	1,379	717	-	-
Provision for onerous contracts	1,521	988	-	-
	2,900	**1,705**	**-**	**-**

Recognition and measurement

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

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

Employee benefits

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

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

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

Rebate and cancellations

Specific provisions are provided for cancellation of contracts and the consequential clawback of commissions received at the time revenue is recognised. This provision reflects an obligation to refund commissions received from the financier or insurer for early termination of a loan or policy.

Rebate provisions relate to the clawback of commission from financiers, based on various financier clawback policies.

Onerous contracts

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

21 Borrowings

	Consolidated Group		Parent Entity	
	2017 $'000	2016 $'000	2017 $'000	2016 $'000
Current				
Bank loans – at amortised cost	88,727	12,944	11,500	11,500
Non current				
Bank loans – at amortised cost	250,877	332,626	30,057	41,528

(a) Recognition and measurement

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

Current bank borrowings include revolving facilities of $69,344,000 that mature on 31 March 2018. These facilities are intended to be reduced as part of the Group's strategic shift to increase the use of off-balance sheet funding under principal and agency (P&A) arrangements in the Asset Management segment.

(b) Security

The parent entity guarantees all bank loans of subsidiaries in the Group, totalling $339,965,000 (2016: $345,570,000).

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

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

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

(i) Negative pledge that imposes certain covenants including a restriction to provide other security over its assets, a cap on its maximum finance debt, acquire assets which are non-core business to the Group, not to dispose of a substantial part of its business and reduction of its capital.

(ii) Maintenance of certain financial thresholds for shareholders' equity, gearing ratio and fleet asset portfolio performance.

(iii) The business exposures of the Interleasing Group and CLM Fleet Management plc satisfy various business parameters.

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

(c) Fair value disclosures

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

(d) Risk exposures

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

Notes to the Financial Statements

For the year ended 30 June 2017

22 Other Financial Liabilities

	Consolidated Group		Parent Entity	
	2017 $'000	2016 $'000	2017 $'000	2016 $'000
Contingent consideration	10,815	6,740	-	-

(a) Recognition and measurement

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

Movement in contingent consideration	2017 $'000	2016 $'000	2017 $'000	2016 $'000
Balance at the beginning of the year	6,740	-	-	-
Recognised on business combination	4,656	7,690	-	-
Re-negotiation adjustment in Profit and Loss	(349)	-	-	-
Finance expense	188	92	-	-
Change in foreign currency	(420)	(1,042)	-	-
Balance at 30 June	10,815	6,740	-	-

23 Issued Capital

(a) Share capital	Consolidated Group		Parent Entity	
	2017 $'000	2016 $'000	2017 $'000	2016 $'000
83,204,720 (2016: 83,204,720) fully paid ordinary shares	141,088	144,380	141,088	144,380

(b) Movements in issued capital

	Number of shares	Issue price	Ordinary shares $'000
Balance at 1 July 2016	83,204,720		144,380
Treasury shares brought forward	(10,276)		-
Treasury shares acquired by the EST	(245,476)		(3,292)
Shares held by external shareholders at 30 June 2017	82,948,968		141,088

Notes to the Financial Statements

For the year ended 30 June 2017

	Number of shares	Issue price	Ordinary shares $'000
Balance at 1 July 2015	81,810,993		121,617
Shares issued for the acquisition of the United Financial Services companies	1,342,926	$12.96	17,405
Fully paid shares issued pursuant to the exercise of employee options	733,007	$7.31	5,358
Shares distributed from the EST to employees on exercise of options	(682,206)	-	-
	1,393,727		22,763
Total issued capital at 30 June 2016	83,204,720		144,380
Treasury shares	(10,276)		
Shares held by external shareholders at 30 June 2016	83,194,444		

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

(c) Treasury shares

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

Treasury shares are shares in McMillan Shakespeare Limited that are held by the EST for the purpose of issuing shares under the McMillan Shakespeare Limited Executive Option Plan. Treasury shares are deducted from issued shares to show the number of issued shares held by the external shareholders. Details of treasury shares during the year are as follows.

	Number of shares
Balance of shares at the beginning of the year	10,276
Shares acquired by the EST (refer to Note 24(d))	245,476
Balance of treasury shares at 30 June 2017	**255,752**

(d) Options

At 30 June 2017, there were 1,680,259 (2016: 1,825,334) unissued ordinary shares for which options were outstanding and exercisable at an average price of $10.51. 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 30.

These options are subject to two vesting conditions namely, the achievement of financial hurdles and each participating employee's continuity of employment at 31 August 2017. Following the adoption of the FY 2017 financial statements, the options will have satisfied a cumulative 55% of the financial hurdles for vesting.

(e) Equity expenses

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

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For the year ended 30 June 2017

(f) Capital management strategy

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

The Group monitors capital on the basis of the debt to equity 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 Group's debt to equity ratio was 43% (2016: 40%) calculated as net debt of $280,188,000 (2016: $249,987,000) divided by total debt and equity of $651,183,000 (2016: $620,482,000). The capital structure of the Group is reviewed on an ongoing basis and considers the allocation and type of capital and the associated risks and returns.

24 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 2017 $'000	Consolidated Group 2016 $'000	Parent Entity 2017 $'000	Parent Entity 2016 $'000
Revaluation - gross	(134)	(819)	-	-
Deferred tax	(39)	204	-	-
Balance at the end of the financial year	**(95)**	**(615)**	**-**	**-**

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

(c) Foreign currency translation reserve	Consolidated Group 2017 $'000	Consolidated Group 2016 $'000	Parent Entity 2017 $'000	Parent Entity 2016 $'000
Balance at the end of the financial year	**(9,053)**	**(5,391)**	**-**	**-**

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

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

(d) Treasury reserve

During the year, the Company contributed $10,184,000 to the EST to acquire MMS shares for distribution to employees under the Group executive option plan. At reporting date, 245,476 MMS shares were acquired for $3,292,000 (refer note 23(c)) to leave a balance of $6,892,000 in reserve.

Notes to the Financial Statements

For the year ended 30 June 2017

25 Fair value measurement

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

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

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

Financial asset/ (financial liability)	Fair value at			
	2017 $'000	2016 $'000	Fair value hierarchy	Valuation technique and key input
Interest rate swaps – cash flow hedge	(134)	(819)	2	Discounted cash flow using estimated future cash flows based on forward interest rates (from observable yield curves at the end of the reporting period) and contract interest rates, discounted to reflect the credit risk of various counterparties.
Contingent consideration	(10,815)	(6,740)	3	Discounted cash flow using a discount rate of 2.8%, average annual revenues with a range of $3.7m to $4.3m and EBITDA with a range of $1.3m to $2.9m.

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

The contingent consideration for Anglo Scottish is based on the achievement of tiered EBITDA targets and the corresponding earnout that forms the contingent consideration. A 5% change in the probability-adjusted revenues and profits while holding all other variables constant, is not expected to change the tier for a different earnout and therefore, is not expected to have a significant change to the fair value of the contingent consideration.

Contingent consideration arising from the acquisition of EVC and CAPEX is based on variable earnouts depending on the achievement of EBITDA targets. When maintaining all other variables constant, a 5% increase in EBITDA would increase fair value by $2,626,000 whilst a 5% decrease in EBITDA would decrease fair value by $474,000.

	Consolidated Group			
	Carrying amount 2017 $'000	Fair value 2017 $'000	Carrying amount 2016 $'000	Fair value 2016 $'000
Finance lease receivables – non-current	107,255	106,611	89,279	86,496

Current finance lease receivables are short term and their carrying amount is considered to equal their fair value. The fair value of non-current finance lease receivables were calculated based on cash flows discounted using an average of current lending rates appropriate for the geographical markets the leases operate of 3.62% (2016: 3.83%). They are classified as level 3 fair values in the fair values hierarchy due to the inclusion of unobservable inputs.

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

Notes to the Financial Statements

For the year ended 30 June 2017

26 Cash Flow Information

(a) Reconciliation of cash flow from operations with profit from operating activities after tax

	Consolidated Group		Parent Entity	
	2017 $'000	2016 $'000	2017 $'000	2016 $'000
Profit for the year	67,902	82,469	32,031	43,994
Non cash flows in profit from operating activities				
Amortisation	10,477	9,825	-	-
Impairment	20,000	385	20,000	-
Depreciation	78,569	81,170	-	-
Option expense	-	1,643	-	1,643
Share of equity accounted joint venture loss	1,260	1,495	-	-
Purchase of assets under lease	(281,415)	(234,601)	-	-
Written down value of assets sold	42,882	94,101	-	-
Finance lease receivables principal repayments	77,638	33,202	-	
Changes in assets and liabilities, net of the effects of purchase of subsidiaries				
(Increase) / decrease in trade receivables and other assets	(7,023)	11,898	60	64
Increase / (decrease) in trade payables and accruals	43,275	9,738	(747)	(10,669)
(Decrease) / increase in income taxes payable	(2,855)	5,677	(35)	7,257
(Decrease) / increase in deferred taxes	(4,156)	(3,278)	28	645
Decrease in unearned revenue	(344)	(49)	-	-
Increase in provisions	854	1,297	-	-
Net cash from operating activities	47,064	94,972	51,337	42,934

(b) Proceeds from sale of lease portfolio

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

(c) Proceeds and repayments of borrowings

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

27 Commitments

(a) Operating lease commitments

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

	Consolidated Group		Parent Entity	
	2017 $'000	2016 $'000	2017 $'000	2016 $'000
Payable minimum lease payments				
– Not later than 12 months	9,463	8,891	-	-
– Between 12 months and 5 years	34,136	30,071	-	-
– Greater than 5 years	10,913	14,447	-	-
	54,512	53,409	-	-

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

Notes to the Financial Statements

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28 Contingent Liabilities

	Consolidated Group		Parent Entity	
Estimates of the potential financial effect of contingent liabilities that may become payable	2017 $'000	2016 $'000	2017 $'000	2016 $'000
Guarantee provided for the performance of a contractual obligation not supported by term deposit	12,050	11,050	50	50
Guarantees provided in respect of property leases	6,168	5,967	-	-
	18,218	**17,017**	**50**	**50**

29 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 2017 and 2016 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	
	2017 $	2016 $	2017 $	2016 $
Dividend revenue	-	-	54,076,000	46,592,000
Aggregate amounts payable to entities within the wholly owned group at balance date:				
Current payables	**-**	**-**	**132,952,236**	**105,436,102**

(b) Key management personnel compensation

Compensation				
Short-term employment benefits	3,384,371	3,218,477	2,157,236	2,054,809
Post-employment benefits	182,403	186,698	128,718	131,763
Long-term employment benefits	60,007	68,915	27,154	38,912
Share-based payments	-	876,748	-	500,381
	3,626,781	**4,350,838**	**2,313,108**	**2,725,865**

Notes to the Financial Statements

For the year ended 30 June 2017

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

Recognition and measurement

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

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

Consolidated Group and parent entity - 2017

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 [1]	Balance at end of the year	Exercisable at end of the year
19 August 2014	30 September 2019	$10.18	978,417	-	-	-	978,417	-
19 August 2014	30 September 2018	$10.18	469,081	-	-	(70,292)	398,789	-
23 September 2014	30 September 2018	$10.83	107,877	-	-	-	107,877	-
24 March 2015	30 September 2018	$11.87	150,831	-	-	(74,783)	76,048	-
26 May 2015	30 September 2018	$12.88	85,692	-	-	-	85,692	-
25 August 2015	30 September 2018	$13.82	33,436	-	-	-	33,436	-
			1,825,334	-	-	(145,075)	1,680,259	-
Weighted average exercise price			$10.55	-	-	$11.05	$10.51	-

Notes to the Financial Statements

For the year ended 30 June 2017

Consolidated Group and parent entity - 2016

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 [1]	Balance at end of the year	Exercisable at end of the year
16 August 2011	30 September 2015	$7.31	682,206	-	(682,206)	-	-	-
16 August 2011	30 September 2015	$7.31	50,801	-	(50,801)	-	-	-
19 August 2014	30 September 2019	$10.18	978,417	-	-	-	978,417	-
19 August 2014	30 September 2018	$10.18	567,676	-	-	(98,595)	469,081	-
23 September 2014	30 September 2018	$10.83	107,877	-	-	-	107,877	-
28 October 2014	30 September 2018	$10.17	109,142	-	-	(109,142)	-	-
24 March 2015	30 September 2018	$11.87	294,336	-	-	(143,505)	150,831	-
26 May 2015	30 September 2018	$12.88	85,692	-	-	-	85,692	-
25 August 2015	30 September 2018	$13.82	-	33,436	-	-	33,436	-
			2,876,147	33,436	(733,007)	(351,242)	1,825,334	-
Weighted average exercise price			$9.73	$13.82	$7.31	$10.87	$10.55	-

1 None of the forfeited options represented expired options (2016: Nil).

2 The weighted average remaining contractual life of options outstanding at the end of the year was 1.4 years (2016: 1.9 years).

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	
	2017 $	2016 $	2017 $	2016 $
Options expense recognised under the Employee Option Plan	-	1,643,091	-	-

No option expense was recognised as a result of achievement targets not having been met in the year. The amount expensed in a period is based on the cumulative amount at each reporting date less amounts expensed in previous periods.

Notes to the Financial Statements

For the year ended 30 June 2017

31 Business Combination

(a) Businesses acquired

The Group completed its acquisition of 100% of European Vehicle Contracts Limited (EVC) and Capex Asset Finance Limited (CAPEX) on 1 December 2016 and 6 January 2017 respectively. These entities are incorporated in the UK and specialise in the broker aggregation and fully integrated financial services financing business in the motor vehicle sector with a strong regional presence. The acquisitions continue MMS' investment strategy to be a leading provider of a fully integrated financial services provider in the UK. The acquisition of EVC and CAPEX enhances the product offering of the Group and brings numerous cross selling opportunities across the UK businesses and the realisation of corporate and operational synergies.

(b) Consideration transferred

Consideration for the EVC and CAPEX acquisitions was $16,451,000 that comprised cash paid of $11,795,000 and contingent consideration of $4,656,000.

Cash consideration was funded by internal cash of $1,860,000 and new borrowings in the UK of $9,935,000.

The contingent consideration of EVC and CAPEX were based on the probability weighted assessment of projected EBITDA under the acquisition business cases and present valued using a discount rate of 2.8%.

Under the sale agreement, contingent consideration for the EVC and CAPEX acquisitions have a maximum earnout of $11,500,000. The earnout amounts are payable in tranches on 31 December 2018, 31 December 2020 and 31 December 2021 based on the achievement against the earnout EBITDA targets as set out in the agreements. The earnout amount is based on a staggered level of targets and earnout rate for each level. The maximum amounts payable for each tranche is set out below.

Earnout measurement date	Maximum earnout payment
31 December 2018	$3.2 million
31 December 2020	$7.1 million
31 December 2021	$1.2 million

The assets and liabilities acquired have been fair valued in accordance with AASB 3 "Business Combinations" and, translated at acquisition date foreign exchange rates, has resulted in goodwill of $8,100,000. Acquisition-related expenses of $1,000,000 were incurred and expensed on consolidation and included in the Statement of Consolidated Profit or Loss and Other Comprehensive Income for the period.

(c) Reconciliation of consideration to cash flow

The net cash transferred for the EVC and CAPEX acquisitions was $8,919,000 where the cash paid of $11,795,000 was offset by cash assumed from the acquired entities of $2,876,000.

Notes to the Financial Statements

For the year ended 30 June 2017

(d) Assets acquired and liabilities assumed at the date of acquisition

The fair value of identifiable net assets acquired with EVC and CAPEX was $8,324,000 and goodwill of $8,127,000 in the following table.

Fair Value at acquisition date (provisional)	$'000
Cash	2,876
Dealer and customer relationships	6,451
Property, plant & equipment and software	1,234
Trade, other receivables and prepayments	1,334
Assets acquired	11,895
Trade payables and accrued expenses	1,494
Income tax provision	572
Deferred tax liabilities	1,505
Liabilities assumed	3,571
Identifiable net assets acquired	8,324
Goodwill	8,127
Consideration	**16,451**

The fair value of identifiable net assets have been provisionally assessed pending the finalisation of income taxation balances.

Total trade receivables from the acquisitions of $746,000 have resulted from trade sales with customers and are considered fair value and their collection and conversion to cash are expected in full pursuant to customer terms.

Goodwill arising on acquisition is attributable to the profitability, financial synergies from complementarities in business generation for some products, operating software and competent skill base of the acquired businesses and growth potential. None of the goodwill is expected to be tax deductible.

(e) Impact of acquisition on the results of the Group

The profit result for the period includes sales revenue of $7,085,000 and net profit after tax of $292,000 for the new acquisitions.

Had the acquisitions occurred effective 1 July 2016, "pro-forma" revenue and net profit after tax adjusted for differences in the accounting policies between the Group and the acquired entities including the recognition of the amortisation of other intangible assets at their fair value would have been $13,178,000 and $581,000 respectively.

Notes to the Financial Statements

For the year ended 30 June 2017

32 Deed of Cross Guarantee

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

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

Set out below is a statement of comprehensive income, statement of financial position and a summary of movements in consolidated retained profits for the year ended 30 June 2016 of the Closed group consisting of McMillan Shakespeare Limited, Maxxia Pty Ltd and Remuneration Services (Qld) Pty Ltd, Interleasing (Australia) Ltd, CARILA Pty Ltd and TVPR Pty Ltd.

(a) Consolidated Statement of Comprehensive Income and summary of movements in consolidated retained profits	2017 $'000	2016 $'000
Statement of Comprehensive Income		
Revenue	371,488	370,321
Employee and director benefits expenses	(89,271)	(87,714)
Depreciation and amortisation expenses and impairment	(80,093)	(83,169)
Leasing and vehicle management expenses	(57,594)	(54,822)
Consulting cost expenses	(2,716)	(2,100)
Marketing expenses	(2,656)	(2,286)
Property and corporate expenses	(7,842)	(7,893)
Technology and communication expenses	(8,602)	(7,918)
Finance costs	(8,412)	(9,942)
Other expenses	(4,761)	(7,451)
Impairment	(20,000)	-
Acquisition expenses	-	(1,387)
Profit before income tax	89,541	105,639
Income tax expense	(31,928)	(31,732)
Profit attributable to members of the parent entity	**57,613**	**73,907**
Other comprehensive income		
Other comprehensive income for the year after tax	172	1,643
Total comprehensive income for the year	**57,785**	**75,550**
Movements in consolidated retained earnings		
Retained earnings at the beginning of the financial year	213,385	189,094
De-consolidation of Presidian group no longer supported by deeds of cross guarantee	-	(3,027)
Profits for the year	57,613	73,907
Dividends paid	(54,076)	(46,589)
Retained earnings at the end of the financial year	**216,922**	**213,385**

Notes to the Financial Statements

For the year ended 30 June 2017

(b) Consolidated Statement of Financial Position

	2017 $'000	2016 $'000
Current assets		
Cash and cash equivalents	34,076	76,395
Trade and other receivables	28,427	26,810
Finance lease receivables	6,381	3,337
Inventory	5,471	7,218
Total current assets	74,355	113,760
Non current assets		
Property, plant and equipment	287,182	285,294
Intangible assets	49,766	48,985
Deferred tax asset	2,976	3,970
Finance lease receivables	12,604	3,625
Other financial assets	208,447	226,045
Total non current assets	560,975	567,919
TOTAL ASSETS	635,330	681,679
Current liabilities		
Trade and other payables	64,579	63,675
Current tax liability	6,531	9,672
Provisions	8,071	8,381
Borrowings	61,300	11,500
Total current liabilities	140,481	93,228
Non current liabilities		
Provisions	2,602	1,597
Borrowings	131,125	219,257
Total non current liabilities	133,727	220,854
TOTAL LIABILITIES	274,208	314,082
NET ASSETS	361,122	367,597
Equity		
Issued capital	141,088	144,380
Reserves	3,112	9,832
Retained earnings	216,922	213,385
TOTAL EQUITY	361,122	367,597

Notes to the Financial Statements

For the year ended 30 June 2017

33 Summary of Other Accounting Policies

(a) Principles of consolidation

(i) Subsidiaries

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

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

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

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

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

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

(b) Business combinations

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

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

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

Notes to the Financial Statements

For the year ended 30 June 2017

(c) Current versus non-current classification

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

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

The Group classifies all other assets as non-current.

A liability is current when:

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

The Group classifies all other liabilities as non-current.

(d) 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 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 Group has transferred substantially all the risks and rewards of ownership. The Group classifies financial assets into the following categories depending on the purpose for which the asset was acquired.

(i) Separate Financial Statements

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: Separate Financial Statements.

(ii) Impairment of financial assets

Financial assets are assessed for indicators of impairment at the end of each reporting period. Impairment conditions are objective evidence of one or more events occurring after the initial recognition of the financial asset that affects estimated future cash flows of the investment.

(iii) Impairment of available for sale equity securities

In respect of available for sale equity securities, impairment losses previously recognised in profit or loss are not reversed through profit or loss. Any increase in fair value subsequent to an impairment loss is recognised in other comprehensive income and accumulated in investment revaluation reserve within equity. In respect of available for sale debt securities, impairment losses are subsequently reversed through profit or loss if an increase in the fair value of the investment can be objectively related to an event occurring after the recognition of the impairment loss.

(e) Employee remuneration

(i) Superannuation

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

(ii) Bonuses

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

(f) 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.

(g) 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) Operating lease portfolio – the Group as lessor

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

(ii) Operating leases – the Group as lessee

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

(h) Deferred acquisition costs (DAC)

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

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

(i) Unearned premium liability

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

(j) Outstanding claims liability

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

(k) 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.

(l) 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.

(m) Derivative financial instruments

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

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

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

(i) Hedge accounting

At the inception of the hedging instrument, the Group documents the relationship between the instrument and the item it is designated to hedge. The Group also documents its assessment at the inception of the hedging instrument and on an ongoing basis, whether the hedging instruments that are used have been and will continue to be highly effective in offsetting changes in the cash flows of the hedged items.

Notes to the Financial Statements

For the year ended 30 June 2017

(ii) Embedded derivatives

Derivatives embedded in non-derivative host contracts are treated as separate derivatives when they meet the definition of a derivative, their risks and characteristics are not closely related to those of the host contracts and the host contracts are not measured at fair value through profit or loss.

(iii) Non-trading derivatives

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

(n) Foreign currency translation

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

(i) Transactions and balances

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

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

(ii) Group companies

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

(o) Parent entity accounts

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

(p) Issued capital

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

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

34 Events subsequent to the reporting date

Other than matters disclosed in this report, there were no material events subsequent to reporting date.

Directors' Declaration

The Directors are of the opinion that:

1. the financial statements and notes on pages 45 to 98 are in accordance with the *Corporations Act 2001* (Cth), including:

(a) compliance with Accounting Standards, the *Corporations Regulations 2001* (Cth) and other mandatory professional reporting requirements; and

(b) giving a true and fair view of the consolidated entity's financial position as at 30 June 2017 and financial performance for the financial year ended on that date; and

2. there are reasonable grounds to believe that the Company will be able to pay its debts as and when they become due and payable.

3. at the date of this declaration, there are reasonable grounds to believe that the members of the extended closed group identified in Note 32 will be able to meet any obligations or liabilities to which they are, or may become, subject by virtue of the deed of cross guarantee described in Note 32.

Note 2(b) confirms that the financial statements also comply with International Financial Reporting Standards as disclosed as issued by the International Accounting Standards Board.

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

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

Tim Poole
Chairman

Michael Salisbury
Managing Director

30 August 2017
Melbourne, Australia

Independent Audit Report

As at 30 June 2017

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INDEPENDENT AUDITOR'S REPORT TO THE DIRECTORS OF MCMILLAN SHAKESPEARE LIMITED

REPORT ON THE AUDIT OF THE FINANCIAL REPORT

Opinion

We have audited the financial report of McMillan Shakespeare Limited (the Company), and its subsidiaries (the Group) which comprises the consolidated statement of financial position as at 30 June 2017, the consolidated statement of profit or loss and other comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies, and the directors' declaration.

In our opinion, the accompanying consolidated financial report of McMillan Shakespeare Limited, is in accordance with the *Corporations Act 2001*, including:

a Giving a true and fair view of the Group's financial position as at 30 June 2017 and of its performance for the year ended on that date; and

b Complying with Australian Accounting Standards and the *Corporations Regulations 2001*.

Basis for Opinion

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

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

Grant Thornton Audit Pty Ltd ACN 130 913 594
a subsidiary or related entity of Grant Thornton Australia Ltd ABN 41 127 556 389

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Liability limited by a scheme approved under Professional Standards Legislation.

Independent Audit Report

As at 30 June 2017

Key Audit Matters

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

Key audit matter	How our audit addressed the key audit matter
Warranty revenue, unearned premium liability and deferred acquisition costs (Note 7)	
The warranty area of the business derives revenues through the gross wholesale premiums obtained upon dealers entering into the sale of warranty products to used vehicle consumers. Revenue is recognised over the term of the warranty in line with the profile of expected future claims. This gives rise to the unearned premium liability. We consider this a key audit matter due to the inherent subjectivity over the nature of the estimations used in determining the unearned premium liability.	Our procedures included, amongst others: • verified the mathematical accuracy of the unearned premium liability and warranty revenue calculations to ensure the revenue profile assumptions had been correctly applied; • assessed the reasonableness of management's key assumptions in relation to the revenue profile which is based on the profile of future claim costs; • obtained from management available evidence to support these assumptions in particular historical claims experience; • performed sensitivity analysis on the key assumptions, including the rate of claims; and • tested the accuracy of the gross premiums used in the deferred income calculation by selecting a sample of gross premiums and agreeing amounts and key terms to supporting contracts.
Impairment of goodwill and intangible asset balance (Note 6)	
At 30 June 2017 the Group has $191,186,000 of goodwill and $59,560,000 in other intangible assets contained within separate cash generating units (CGUs). Management are required to perform an impairment test on goodwill and other infinite life intangibles at least annually, and are also required to perform an impairment test on other intangible assets with finite useful lives if indicators of impairment are identified. We consider this a key audit matter due to the nature of the balances and the judgments required in preparing the 'value in use' models and due to the judgement in determining CGU's, impairment indicators and triggers. This involves judgements about the future results of the business, growth and the discount rates applied. The group recognised an impairment against goodwill and other intangible assets totalling $20,000,000 relating to the Retail Financial Services segment risk business CGU.	Our procedures included, amongst others: • reviewed the model for compliance with AASB 136 Impairment of Assets; • assessed managements determination of CGU's based on our understanding of how management monitors the entity's operations and makes decisions about groups of assets that generate independent cash flows; • evaluated management's process for the preparation and review of value-in-use models, taking into consideration the impacts of the sector specific issues; • utilised valuation specialists to review the appropriateness of the value-in-use model, appropriateness of benchmarks to external data and its compliance with the requirements of AASB 136; • verified the mathematical accuracy of the underlying model calculations and assessed the appropriateness of the methodologies including evaluating cash flow projections compared to the historical accuracy of the budgeting process; • assessed the key growth rate assumptions by comparing them to historical results, economic or industry forecasts and the discount rate by reference to the cost of capital for the Group as well as applying specific adjustments for the particular CGU where the CGU had a higher risk of impairment; • performed sensitivity analysis in relation to the cash flow projections, discount and growth rate assumptions on CGU's with a higher risk of impairment. The impairment analysis considered the individual and collective impacts; and

Independent Audit Report

As at 30 June 2017

Key audit matter	How our audit addressed the key audit matter
	• assessed the adequacy of the Group's disclosures within the financial statements.
Maintenance instalments received in advance (Note 19)	
The Group receive fixed payments from customers for future tyre and maintenance services for which the Group is liable. The profit or loss on these contracts is uncertain given the incidence and amount of tyre and maintenance costs is uncertain. The profit or loss on these contracts is recognised each reporting period by reference to the stage of completion when the outcome of the service contracts can be estimated reliably. We consider this a key audit matter due to the judgement required by management in preparing the tyre and maintenance provision calculation and the inherent subjectivity over the nature of the estimation.	Our procedures included, amongst others: • reviewed the contractual arrangements to understand the types of services and costs to be provided under the arrangements; • verified the mathematical accuracy of the tyre and maintenance provision model including the consistency of the formulas applied; • reviewed the validity of the underlying data used in the calculation; • evaluated the key assumptions applied in the model for reasonableness and performed sensitivity on these key assumptions; • analytically reviewed movements in the provision from the prior period in the context of understanding the changes in the businesses operations and the market; • selected a sample of contracts included in the calculation and agreed details to supporting documentation; and • verified the key inputs into the provision (including the cost profile and profit and loss margins) and selected a sample of contracts and agreed the details included in the calculation to supporting documentation.

Information Other than the Financial Report and Auditor's Report Thereon

The Directors are responsible for the other information. The other information comprises the information in the Group's annual report for the year ended 30 June 2017, but does not include the financial report and the auditor's report thereon.

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

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

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

Responsibilities of the Directors for the Financial Report

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

Independent Audit Report

As at 30 June 2017

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

Auditor's Responsibilities for the Audit of the Financial Report

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

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

REPORT ON THE REMUNERATION REPORT

Opinion on the Remuneration Report

We have audited the Remuneration Report included the directors' report for the year ended 30 June 2017.

In our opinion, the Remuneration Report of McMillan Shakespeare Limited, for the year ended 30 June 2017, complies with section 300A of the Corporations Act 2001.

Responsibilities

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

GRANT THORNTON AUDIT PTY LTD
Chartered Accountants

B.A. Mackenzie
Partner - Audit & Assurance

Melbourne, 30 August 2017

Auditor's Independence Declaration

As at 30 June 2017

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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 2017, I declare that, to the best of my knowledge and belief, there have been:

a no contraventions of the auditor independence requirements of the Corporations Act 2001 in relation to the audit; and

b no contraventions of any applicable code of professional conduct in relation to the audit.

GRANT THORNTON AUDIT PTY LTD
Chartered Accountants

B A Mackenzie
Partner - Audit & Assurance

Melbourne, 30 August 2017

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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 9 August 2017, the number of shares held by substantial shareholders and their associates is as follows:

Shareholder	Number of Ordinary Shares	Percentage of Ordinary Shares [1]
HSBC Custody Nominees (Aust) Ltd	32,467,520	39.02
JP Morgan Nominees Australia Limited	6,825,457	8.20
Chessari Holdings Pty Limited [2]	6,050,941	7.27
Citicorp Nominees Limited	5,405,392	6.50

1 As at 9 August 2017, 83,204,720 fully paid ordinary shares have been issued by the Company.
2 Chessari Holdings Pty Limited is a company associated with Mr Ross Chessari, a Non-Executive Director.

NUMBER OF SHARE & OPTION HOLDERS

As at 9 August 2017, 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	6,007
Options exercisable at $10.18 and expiring on 30 September 2019	4
Options exercisable at $10.18 and expiring on 30 September 2018	12
Options exercisable at $10.83 and expiring on 30 September 2018	1
Options exercisable at $11.87 and expiring on 30 September 2018	1
Options exercisable at $12.88 and expiring on 30 September 2018	2
Options exercisable at $13.82 and expiring on 30 September 2018	2

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 9 August 2017, 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	3,506
1,001 – 5,000	1,956
5,001 – 10,000	302
10,001 – 100,000	187
100,000+	26

As at 9 August 2017 there were 224 shareholders who held less than a marketable parcel of 35 fully paid ordinary shares in the Company.

ON-MARKET BUY BACK

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

Shareholder Information

TOP 20 SHAREHOLDERS

As at 9 August 2017, the details of the top 20 shareholders in the Company are as follows:

No.	Name	Number of Ordinary Shares	Percentage of Ordinary Shares [1]
1	HSBC Custody Nominees (Aust) Ltd		39.02
2	J P Morgan Nominees Australia Limited		8.20
3	Chessari Holdings Pty Ltd[2]		7.27
4	Citicorp Nominees Pty Limited		6.50
5	Asia Pac Technology Pty Ltd[3]		4.02
6	National Nominees Limited		3.96
7	UBS Nominees Pty Ltd		3.14
8	BNP Paribas Noms Pty Ltd <DRP>		2.55
9	Ann Leslie Ryan		1.21
10	CPU Share Plans Pty Ltd <MMS Options Unallocated A/C>		1.09
11	BNP Paribas Nominees Pty Ltd <Agency Lending Drp A/C>		0.96
12	RBC Investor Services Australia Nominees Pty Limited <MBA A/C>		0.85
13	Milton Corporation Limited		0.76
14	MOHL Invest Pty Ltd <MOHL Super Fund A/C>		0.50
15	AMP Life Limited		0.45
16	CS Fourth Nominees Pty Limited <HSBC Cust Nom Au Ltd 11 A/C>		0.42
17	AFICO Pty Ltd		0.41
18	MOHL Invest Pty Ltd <MOHL Family A/C>		0.41
19	Warbont Nominees Pty Ltd <Unpaid Entrepot A/C>		0.37
20	NWC Group Pty Ltd		0.34
Totals: Top 20 holders of issued Capital		68,585,792	82.43
Total Remaining Holders Balance		14,618,928	17.57

1 As at 9 August 2017, 83,204,720 fully paid ordinary shares have been issued by the Company.

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

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

RESTRICTED SECURITIES

As at the date of this Annual Report, the following securities in the Company were subject to voluntary escrow.

Number of ordinary shares	Date of escrow expiry
503,212	31 July 2017
279,470	26 February 2019

UNQUOTED SECURITIES

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

Class	Number of Securities	Number of Holders
Options exercisable at $10.18 and expiring on 30 September 2019	978,417	4
Options exercisable at $10.18 and expiring on 30 September 2018	398,789	12
Options exercisable at $10.83 and expiring on 30 September 2018	107,877	1
Options exercisable at $11.87 and expiring on 30 September 2018	76,048	1
Options exercisable at $12.88 and expiring on 30 September 2018	85,692	2
Options exercisable at $13.82 and expiring on 30 September 2018	33,436	2
Options do not carry a right to vote		

Corporate Directory

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Company Auditor
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Melbourne Victoria 3000

Share Registry
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