

The background features a complex geometric design. It is composed of several overlapping shapes: a large white triangle in the top-left, a dark blue triangle in the top-right, a large orange rectangle in the center, a dark blue rectangle in the bottom-right, and a grey triangle in the bottom-left. The colors are vibrant and the shapes are sharp, creating a modern, abstract aesthetic.

McMillan  
Shakespeare  
Limited

**Annual Report  
2020**

The McMillan Shakespeare Group is a trusted, market-leading provider of salary packaging, novated leasing, disability plan management, asset management and related financial products and services.

Through its subsidiaries, it offers a breadth of services and expertise, designed to responsibly deliver superior long-term value to its customers. The Group employs a highly committed team of 1,300 people across Australia, New Zealand and the United Kingdom and domestically manages programs for some of the largest public, private and charitable organisations.

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## Annual General Meeting

The Annual General Meeting of the members of McMillan Shakespeare Limited A.B.N. 74 107 233 983 will be held online via <https://web.lumiagm.com> (Meeting ID 362-903-017) on 20 October 2020 at 10.00am

[mmsg.com.au](https://mmsg.com.au)



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## Joint Chairman's and Chief Executive Officer's Report



The McMillan Shakespeare (MMS) Group delivered revenue of \$494.0 million and underlying net profit after tax and amortisation (UNPATA) of \$69.0 million in FY20. We are pleased to present the Group's full year results for FY20.

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## Operating Market

Although underlying profitability was below what the Group achieved in FY19, the period's performance reflected a highly challenging operating environment, including the continued decline in the Australian new car market, a changing and uncertain regulatory environment, and the economic impacts from both the summer's catastrophic bushfires and the COVID-19 pandemic.

Group revenue for FY20 of \$494.0 million was down compared with \$549.7 million in FY19, whilst UNPATA declined by 22.2% to \$69.0 million.

The Company recorded a statutory after-tax profit of \$1.3 million for the period as a result of write-downs within the Group's UK Asset Management (AM) business and Retail Financial Services (RFS) segment.

The public health measures that were implemented in response to the COVID-19 pandemic impacted, to varying degrees, consumer confidence and the markets that the Group operates in both domestically and in New Zealand and the UK.

The Company's salary packaging business continued to be largely unaffected by the COVID-19 containment measures, as did our Plan Partners business, which continued to add new clients and provide an uninterrupted level of service.

Notwithstanding the Company's large customer base in the health, public and emergency service sectors, inquiry levels for new novated leases contracted during the period, as consumer confidence fell in the face of the pandemic. Similarly, COVID-19's impact on activity and revenue for our AM clients in Australia, New Zealand and the UK drove a significant decline in new asset financing, whilst we focussed on extending maturing lease contracts and working with impacted customers. The RFS segment was significantly impacted by lower volume of finance originations and the decline in the number of car sales.

All affected businesses responded by managing labour costs and non-essential expenditure in response to the COVID-19 pandemic.

During the period we continued to make sound progress in our strategic initiative to enhance our value proposition through digital innovation. As in previous periods, this progress is most notably reflected in the performance of our Group Remuneration Services (GRS) business and provides an encouraging indication that the Group is well positioned for future growth.

## Our People and Our Customers – Managing a Global Pandemic

The COVID-19 pandemic presented a public health and economic crisis the likes of which the modern world had not before seen. The resilience of our people, and the sacrifices they made throughout this period of disruption, deserve particular recognition.

We are particularly proud of how our teams conducted themselves as they adapted to the challenges of working remotely while continuing to maintain a high level of service to our customers.

A COVID-19 online hub was established, in order to ensure our people were not only healthy and safe, but also connected and empowered during the pandemic. This online hub remains an important central resource, helping teams stay informed as the situation develops, through news from the business, the latest Government health advice and regular updates from senior MMS leaders.

In order to protect our financial health for the longer term, we partially or fully stood down our workforce in parts of the business where there was a material change in workload. We also reduced all non-essential operating and capital expenditure, including reducing the remuneration of our Board, Managing Director and all Group Executives by 35% collectively. We also qualified for the Federal Government's JobKeeper Program, which allowed us to retain all staff that had been stood down.

Future Group operating practices, both short and long-term, have and will continue to be shaped by the learnings and successes of the period and our response to COVID-19. A key objective will be embedding sustainable, flexible working arrangements without degradation of service delivery and profitability, while also looking at avenues for cost reduction.

## Segment Review

While Group revenue and UNPATA were more modest compared to the previous period as noted, our largest business (GRS) performed soundly. Our continued focus on improving our service offering through digital enhancements and targeted customer engagement led to a 5.2% increase in salary packages on FY19, while novated leases grew 5.6%. Although both outperformed the decline in the broader Australian new car sales market, yields were down due to a range of factors attributable to the COVID-19 pandemic and other pressures, including changes in our mix of funders, the tightening of credit assessment criteria and lower insurance penetration.

Despite that, the performance of both salary packaging and novated leasing reinforces that the business platform set in place in recent periods is resilient and we are positioned for longer term growth despite the ongoing broader economic and yield challenges.

Client retention and acquisition in the GRS segment was a highlight for the period and again reflected the ongoing commitment to broadening the value proposition and improving the customer experience. During FY20 we recorded more than 70 new business wins, encompassing a mix of corporate, charitable and not for profit health clients.

Plan Partners continued its strong performance, recording another profitable period in FY20 with funds under administration increasing by more than 100% on FY19. Investments in technology improved our customer offering and created a more attractive proposition for service providers during the period. This capability was particularly important in delivering a range of customer support initiatives during the COVID-19 pandemic. Given this strong performance, we were pleased to move to 100% ownership of the business, having reached an agreement to acquire Disability Services Australia's 25% shareholding, which completed on 30 June 2020.

Our AM segment has operated during the period in a competitive and challenging market. While new asset financing remained subdued, we continued our transition to a more 'capital light' business model, an initiative first launched in FY17, with the intent of holding a third of assets off-balance sheet. More than \$100 million is now written through principal and agency funding arrangements.

During the period, we commenced the restructuring of our UK AM business to concentrate on off-balance sheet originations and fleet management in response to a competitive market and the significant impact of COVID-19, with our existing funding book to be run down and residual equity repatriated. The Group's statutory profit after tax for the period was adversely impacted by approximately \$15.9 million due to a write down of intangibles and restructuring costs.

Our RFS segment faced a challenging environment during FY20, with an uncertain regulatory landscape impacting sales of insurance products. This was further compounded by the soft car market and the effects of COVID-19. In response, we undertook a range of measures to reduce the cost of service and increase customer value through enhancements to our warranty products, systems, processes and procedures.

These changes necessitated a revision in the timing of recognising sales revenue and associated acquisition costs in respect of warranty product sales. The revised approach will see revenue earned and costs incurred more evenly recognised and over a longer period. In transitioning to these revised estimates, MMS incurred a \$10 million charge to the Group's FY20 statutory profit.

The challenging market conditions for the RFS Aggregation business, including shifts in the mix of funders and changing credit assessment criteria, also led to an intangible impairment of \$34 million to FY20 statutory profit. The business also experienced a reduction in finance originations and yields during the period. Our relationship with lenders remain central to our value proposition and we successfully diversified our lender panel, with the addition of new commercial and personal loan lenders.

### **Beyond 2020 Program Update**

Beyond 2020, our business transformation program launched in FY18, continued to focus on improving the customer experience while also reducing the cost to serve, with a notable impact on the performance of the GRS business during FY20. With an ever increasing focus on digital transformation across our business, the team are now looking to FY21 and Beyond.

### **Funding warehouse**

In the second half of FY20 we focused on the creation of a securitisation and funding warehouse, expected to be in place for the beginning of the 2021 calendar year, in order to provide increased optionality in our novated leasing funding arrangements. The intent is to provide solutions that are better aligned with our customers' needs amidst a changing credit market.

### **Our Commitment to Sustainability**

Now in its second year, our Environmental, Social and Governance (ESG) Steering Committee continued to provide strategic direction and oversight to our commitments to the long-term sustainability of the Group's operations. The introduction of a new Environmental Sustainability Policy for the Group aims to minimise the impact our business activities have on the environment. This year's accompanying Sustainability Report provides an update on our progress.

### **The Regulatory Environment**

As the financial services regulatory environment evolves, we remain committed to meeting changing expectations and fulfilling our responsibilities. Amongst other considerations, the Australian Securities and Investments Commission (ASIC) review of finance and add-on insurance products continued through the period, with industry consultations underway and findings likely in FY21. Delays due to COVID-19 also led to the Federal Government announcing a six-month deferral to the implementation of commitments associated with the Royal Commission into Misconduct in the Banking, Superannuation and Financial Services Industry.

## Capital Management and Governance

Despite the significant challenges encountered throughout the year, we are currently well positioned as a result of prudent decision making and active capital management during the onset of the COVID-19 pandemic.

During the year, approximately two-thirds of Australia and New Zealand debt facilities were extended to March 2022, while debt facilities in the UK have been extended by 12 months.

Due to the impacts of COVID-19 and the uncertain economic environment the Board determined that no final dividend would be paid in respect of FY20. This resulted in a total dividend of 34 cents per share for FY20 (paid in March 2020).

In October 2019, we announced the successful completion of an off-market Share Buy-Back. We were pleased that the Buy-Back was well supported with approximately 7% of total shares on issue acquired.

In terms of changes to our Board of Directors, we were pleased to welcome Kathy Parsons as an Independent Non-Executive Director during the period. Kathy is a former Audit Partner at Ernst & Young, with experience spanning Australia, the US and the UK. She brings a wealth of valuable experience and insight to the Group and from September 2020 will Chair our Audit, Risk and Compliance Committee.

In January 2020, long-serving Chief Financial Officer and Company Secretary Mark Blackburn announced he would be stepping down toward the end of the 2020 calendar year. Mark has served the Company for more than nine years and made a significant contribution to our growth over that period of time. We thank him for his contribution and wish him well for the future.

We were also pleased during the period to welcome back to Australia from our UK business, Geoff Kruyt. Geoff was appointed Managing Director of our UK business in 2018, and prior to that held the role of Chief Operating Officer (COO) for the Group. On returning to Australia Geoff has resumed his role as COO with direct responsibility for the GRS, AM and RFS segments, whilst also retaining accountability for our UK operations.

## Outlook

While the impacts of COVID-19 on the economic environment and consumer confidence will continue into the next period and possibly beyond, we must remain agile and adapt our operations to meet the challenges.

Our priorities in FY21 include ensuring we have flexibility in relation to our funding arrangements, the introduction of new products and services in response to changing consumer mobility needs and market dynamics, our continued investment in the Group's digital and information technology roadmap to reduce the cost to serve whilst enhancing service, and protecting the health and welfare of our people whilst ensuring they have the ability and tools to undertake their work where and when required.

We again extend the sincerest thanks to all MMS people for their willingness to go above and beyond in FY20, and additionally we thank our customers and our shareholders for their ongoing support.



**Tim Poole**  
Chairman



**Mike Salisbury**  
Managing Director



# Our Vision, Purpose and Values

MMS' vision, our values and our WHY guide the Group's activities, in both a business sense and in our commitment to our communities and stakeholders, providing a framework to guide us in our day-to-day actions and long-term decision making.

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They are a guarantee to our people, our customers and our broader stakeholders that they are always at the centre of what we do and that there is a considered and deliberate approach to delivering value through all our activities.

## Vision

To build a sustainable business that creates long term value for our people, customers and shareholders.

For our people we create value through long term job security, career opportunities and through being a values-based business.

For our customers we create value through the quality services and products we deliver.

For our shareholders we deliver value through dividends and share value growth.

## Purpose

To create new ways to make people's lives easier.

## Values

**Above and beyond** – always going the extra mile.

**Better together** – always supporting and challenging one another to learn, grow and develop – it's OK to disagree.

**Make it count** – Big or small, we make the most of each and every opportunity and always follow through and do what we say we will.

**Own it** – always taking responsibility for our decisions, actions and interactions.

## Our 'WHY' – Driving What's Possible

We do this by:

- Being a leader, not a follower
- Being a smart, creative driven business
- Investing in/sharing the thrill of BIG ideas
- Seeing things differently
- Challenging ideas and conventions
- Shaping what's to come

# Key Metrics

## Our Customers



**361,000**  
Salary packages  
*Up 5.2%*



**71,800**  
Novated leases  
*Up 5.6%*



**39,600**  
Assets pool – units  
*Down 12.0%*



**\$444m**  
Assets managed – WDV<sup>1</sup>  
*Down 10.8%*



**\$2,617m**  
Net amount financed  
*Down 11.6%*



**90%**  
Online claims take up rate  
*(as at 30 June)*



**\$669m**  
Plan partners client  
funds under administration  
*Up more than 100%*



**52**  
Net Promoter Score (NPS)  
*Retained strong monthly customer  
satisfaction for FY20*

## Our People



**1,295**  
Employees (FTE)  
MMS Group

*as at 30 June*



**79**  
Employee Sustainable  
Engagement Score

*High performance work environment  
ranking. 2019 result (survey biennial)*



**56,751**  
Staff training and  
development hours

*31.8% increase*

## Our Environment<sup>2</sup>



**Carbon emissions  
from MMS car fleet**

*100% of CO<sub>2</sub> emissions offset  
through Greenfleet*



**17%**  
reduction in carbon  
emissions from MMS  
electricity usage



**Carbon neutral printing  
(net zero carbon footprint)**

*achieved from the offset of 100%  
of CO<sub>2</sub> emissions caused by the  
production of printed material.*

<sup>1</sup> Written Down Value (WDV) inclusive of on and off balance sheet funding

<sup>2</sup> Australian operations

Note: Movements compared to prior corresponding period

## Director's 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 2020 (**Group** or **MMS**).

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### Directors

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

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

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

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

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

**Ms Helen Kurincic** (Independent Non-Executive Director)

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

**Ms Kathy Parsons** was appointed to the position of Independent Non-Executive Director effective 22 May 2020.

Details of the qualifications, experience and special responsibilities of the Directors at the date of this Annual Report are set out on pages 18 and 19.

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 2020.

## 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 2020 were as indicated in the table below.

Director	Board Meetings		Audit, Risk & Compliance Committee Meetings		Remuneration & Nomination Committee Meetings	
	Eligible to Attend	Attended	Eligible to Attend	Attended	Eligible to Attend	Attended
Mr T Poole (Chairman)	28	28	8	8	6	6
Mr M. Salisbury (Managing Director and CEO)	28	28				
Mr J. Bennetts	28	28	8	8		
Mr R. Chessari	28	28			6	6
Mr I. Elliot	28	23			6	6
Ms H. Kurincic	28	28	8	8	6	6
Ms K. Parsons	3	3	1	1	2	2

## Principal activities

The principal activities of the Company and its controlled entities during the course of the financial year ended 30 June 2020 were the provision of salary packaging, novated leasing, asset management and related financial products and services.

In the opinion of the Directors, there were no significant changes in the nature of the activities of the Company and its controlled entities during the course of the financial year ended 30 June 2020.

# Director's Report

## Results

Details of the results for the financial year ended 30 June 2020 are as follows:

Results	2020	2019
Net profit after income tax (NPAT) attributable to owners of the Company	\$1,269,264	\$63,672,478
Underlying Net profit after income tax (UNPATA) <sup>1</sup>	\$69,027,191	\$88,696,719
Basic earnings per share (EPS)	1.6 cents	77.0 cents
Underlying earnings per share	87.4 cents	107.3 cents
Earnings per share on a diluted basis (DPS)	1.6 cents	76.4 cents

<sup>1</sup> UNPATA is calculated as NPAT before the after-tax impact of acquisition related items (including impairment charge for intangible assets, acquisition expenses, amortisation of acquired intangible assets and deferred consideration items) and disposal of business. FY20 UNPATA excludes one-off adjustments for Deferred Income and Deferred Acquisition Costs (DAC) of \$9.8m (post tax), class action provision for possible settlement and legal costs of \$5.1m (post tax) and share buy back costs of \$0.4m (post tax). FY19 UNPATA excludes one-off provision for a UK contract of \$3.7m (post tax).

## Dividends

Details of dividends paid by the Company during the financial year ended 30 June 2020 are as follows:

Dividends	2020	2019
Final dividend for the financial year ended 30 June 2019 of 40.0 cents (2018: 40.0 cents) per ordinary share paid on 11 September 2019 fully franked at the tax rate of 30% (2018: 30%).	\$33,281,888	\$33,066,636
Interim dividend for the financial year ended 30 June 2020 of 34.0 cents (2019: 34.0 cents) per ordinary share paid on 20 March 2020 fully franked at the tax rate of 30% (2019: 30%).	\$26,309,576	\$28,106,641
<b>Total</b>	<b>\$59,591,464</b>	<b>\$61,173,277</b>

## Review of operations

The MMS Group delivered a sound performance in FY20, in a highly challenging operating environment punctuated by the ongoing decline in Australian new car sales, an evolving regulatory environment following the Royal Commission into Misconduct in the Banking and Financial Services Sector, the summer's catastrophic bushfires and the onset of the COVID-19 pandemic.

Across the Group, we focussed on enhancing productivity and reducing costs via investment in our digital service capability, leveraging scale, and in response to COVID-19 reducing all non-essential operating and capital expenditure to ensure the sustainability and financial health of the Group for the longer term.

Return on Equity (ROE) was 21.2% and Return on Capital Employed (ROCE) was 19.8% as a percentage of underlying net profit after tax.

Earnings before interest, tax, depreciation and amortisation (EBITDA) was \$99.5 million, down 25.1% on last period. The result was impacted by a marked decline in activity levels in April 2020, followed by commencement of a recovery in Australia and New Zealand over May and June 2020.

Earnings in the GRS business included an improved contribution from Plan Partners and an increase in salary packaging and novated leasing activities. However, the result was impacted by reduced margins on insurance products and lower interest rates in particular. The AM ANZ business was impacted by increases in residual value and credit loss provisions. Earnings in the AM UK business included the write off of a subordinated loan to support the Joint Venture business and a longer COVID-19 impacted period. The RFS business was impacted by an adjustment to deferred income and deferred acquisition costs of \$13.9 million and costs relating to the provision for possible settlement of the class action and associated legal fees.

Statutory net profit after tax (NPAT) was \$1.3 million, down 98% and included impairments to RFS Aggregation of \$34 million and our AM UK business of \$15.9 million, and a write down of obsolete assets in the GRS business.

Initial impacts of COVID-19 on activity levels across the MMS business were significant, with declines in activity levels in April 2020 across all MMS businesses. Eligibility for the Australian Government JobKeeper Program required a decline in GST turnover of greater than 30% against the prior corresponding period. In April, Maxxia satisfied the turnover decline test and qualified for JobKeeper for approximately 1,070 Australian employees, enabling us to retain our people. The financial impact of the JobKeeper payments included in the FY20 result is approximately \$7 million after tax.

In the GRS business, segment UNPATA was \$60.9 million, a 7.8% decrease on the previous period.

Despite a fall in earnings the business achieved growth in both salary packages up 5.2% and novated leasing up 5.6% on FY19, an outperformance of the broader Australian car sales market which declined. A commitment to improve customer engagement, and the Beyond 2020 program's impact on improving digital conversions, were important in the performance of the business. While units themselves increased, margins were impacted in particular by influences attributable to the pandemic, increased refinancing of existing leases, lower insurance penetration, reduced volumes and changes in the mix of funders.

Despite these challenges, the performance of the GRS business was encouraging and reflects our commitment to refining and enhancing the customer experience and our value proposition.

Importantly, we recorded more than 70 new client wins, representing a mix of corporate, charitable and not for profit health clients. These new clients provided us access to an additional 42,000 eligible employees. To date more than 17,300 salary packages and 2,100 novated leases have been transitioned from these new clients. The renewal of several tier 1 client contracts was a highlight for our Maxxia business.

## Director's Report

Both Maxxia and RemServ customers were successfully migrated from Visa to MasterCard for account management services, including digital wallet functionality, during the period. The new card platform delivers a range of benefits to customers, including personalised PIN functionality, smartphone "tap-and-pay" capability, and faster delivery times for new cards, while also reducing the cost base for the business.

A further digital service enhancement during the year was the introduction of an online sign-up process for eligible RemServ customers. This process offers customers the flexibility to establish their salary packaging arrangements at their own convenience and will be made available to Maxxia customers in the next period.

Digital customer engagement initiatives and online distribution capacity were enhanced, particularly during the second half when the COVID-19 pandemic warranted a cessation of on-site activity. This included an increase in online education sessions and webinars.

These customer-centred marketing initiatives and digital enhancements were central to keeping our monthly average Net Promoter Score (NPS) well above the sector benchmark, at 52.4, in line with that achieved in FY19.

In response to the COVID-19 pandemic, we transitioned our customer service team to a remote working model. Our ongoing investment in technology assisted the transition to take place quickly and without an impact on service delivery.

The Beyond 2020 program – a strategic initiative designed to reduce costs and improve sales conversions through digital enhancements - continued to increase operational efficiency and build digital capability to improve productivity, reduce costs and drive sales over the period.

Enhancements to online self-service functions were introduced during FY20, resulting in 90% of combined Maxxia and RemServ claims being submitted online by the end of the period, a 4% increase on FY19.

The Beyond 2020 program also continued to integrate robotic processes, which drove a reduction of more than 21,700 hours of manual processes across the business during the period. A further focus during the year was the adoption and integration of further data driven capability, allowing us to track and measure customer data across digital sales channels, enabling more informed customer engagement.

Consistent with a strategy of optimising and diversifying funding channels to support our breadth of clients and products, the Group progressed the development of a securitisation funding platform with an initial focus on supporting our high-performing novated lease originations.

The addition of this funding platform, expected to be operational in the second half of FY21, will provide a further competitive source of finance for our customers, enhancing the Group's liquidity options and ability to tailor products to best meet the needs of our customers.

Plan Partners delivered a strong performance for the period, with MMS' share of UNPATA increasing by more than 100% to \$2.7 million. Funds Under Administration increased by more than 100% to \$669 million. Our continued focus on building a scalable business has seen profitability increase, stemming from our investment in improving our digital self-service tools. This includes offering next-day reimbursements through our online Dashboards, which has created a more attractive offering for service providers. Over the course of the year the number of National Disability Insurance Scheme (NDIS) participants receiving funding for Plan Management increased by 8.0%, which creates further opportunity to capitalise on the scale we have built. The successful growth of the Plan Partners business led to our decision to acquire Disability Services Australia's minority shareholding for \$8 million, effective 30 June 2020. We are well positioned to continue to grow the business in FY21.

The AM ANZ business operated in a competitive marketplace. Segment UNPATA was \$10.8 million, a reduction of 22.7% from the previous period reflecting the soft retail car market and subdued customer activity exacerbated by the impacts of COVID-19.

Our commitment over several periods to increase principal and agency funding continued, with more than \$100 million worth of assets now held off-balance sheet, an increase of 54.2%. This reflected a pleasing completion of this three-year objective.

Our overall fleet size by units reduced by 7.6% during the period, with a majority of these reductions being pre-paid maintenance contracts stemming from Holden's withdrawal from the Australian market. In response to COVID-19, we focused on extending and restructuring customers' lease arrangements with minimal impact on receivables.



A brand refresh for the Interleasing business was also undertaken which included an update of our digital assets, with the intent of establishing stronger market positioning following the withdrawal of alternate brands. We also implemented new customer facing technology and interfaces, including the Interleasing smartphone app and Dashboard – digital self-service tools designed to enhance the product and improve the customer experience, while reducing cost to serve.

Our Just Honk business provided further integrated benefits to the group in FY20. The dealerships were particularly beneficial during the months of April and May in adding additional revenue through the sale of end of lease vehicles when other sales channels were unavailable due to COVID-19. While resale values declined in April and May, they rebounded in June 2020.

In the UK, the underlying loss after-tax for FY20 was \$4.8 million, a reduction of over 100% on the previous period, reflecting a challenging economic and political environment, a declining domestic new car market and the broader detrimental impacts of COVID-19.

The pandemic compounded an already challenging operating environment, with business confidence and consumer appetite gradually declining over recent periods.

Following a strategic review of the UK operation, it was determined to commence a program of restructure and cost reductions which will be completed in the first half of FY21. Despite the economic uncertainty, Net Amount Financed (NAF) only decreased by 11.6%, to \$873 million and overall assets under management decreased by 15.8% to 20,653 units.

During the year, the business concentrated on growing off-balance sheet originations and fleet management in response to challenging business conditions caused by COVID-19, with the existing funding book ultimately to be run down and residual equity repatriated.

The RFS segment faced a challenging environment during FY20, with ongoing changes to the regulatory landscape impacting penetration of insurance products and an already soft new car sales market further compounded by the effects of COVID-19. UNPATA for FY20 was \$3.0 million, a 53% decrease from FY19.

The RFS Retail business undertook a range of measures to reduce the cost of service delivery during the period and implemented enhancements to its suite of insurance products with a view to adding additional consumer value. These included improving communications with a focus on customer education and transparency, and the introduction of a 30 day 'cooling off' period for insurance and warranty products. Additionally, the Presidian brand was introduced into the new vehicle market, with the intent of driving increased sales penetration through franchised dealerships.

Transitioning to the upgraded suite of products and introduction of the new customer-focused initiatives led to a revision of timing for recognising sales revenue and incurring of acquisition costs with respect to warranty product sales. This review highlighted a shift in the portfolio from lower value products to those with more comprehensive coverage that incur claims over a longer period of time. This approach will see revenue and costs incurred over a longer period and resulted in a \$9.8 million charge to the Group's FY20 statutory profit.

Our RFS Aggregation business experienced a reduction in finance originations and yield, with NAF declining 7.5% from the previous period, the result primarily of soft trading conditions in the Australian new car sales market, increased competition and the impact of COVID-19 on consumer confidence. Our relationships with lenders remained a core strength of our value proposition and over the period we successfully grew and diversified our lender panel, with the addition of new commercial and personal loan lenders.

# Director's Report

## State of affairs

There were no other significant changes in the state of affairs of the Company and its controlled entities during the financial year ended 30 June 2020 that are not otherwise disclosed in this Annual Report.

## Risks

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 the financial and non-financial risks to the Group.

The Board monitors these risks through monthly board meetings, regular reports from the Audit, Risk and Compliance Committee and discussions with senior management.

In the short to medium term key identifiable risks include:

- The COVID-19 pandemic and its potential ongoing adverse impact on consumer movement and confidence, business investment, the health and safety of our people, asset values and access to client and MMS premises;
- Deteriorating global economic conditions and related conditions in the markets we operate in and their influence on business and consumer sentiment;
- Further economic instability in the UK;
- Recommendations arising out of the Royal Commission into Misconduct in the Banking, Superannuation and Financial Services Industry – most notably ASIC and the Federal Treasury's intention to introduce a deferred sales model across add-on financial products sold in connection with a motor vehicle;
- Adverse change in the regulatory conditions relating to consumer lending products and similar change to the policy settings relating to products and services administered or offered by the Group;
- The tightening of credit criteria from lenders in the automotive sector;
- Further weakening in the health of the new and used vehicle sales markets in Australia, including changes to the available supply of vehicles and fluctuations in used vehicle values;
- The loss of a material client or clients to the business;
- The threat of a cyber security attack, including during a period where the overwhelming majority of MMS employees are working remotely;
- The non-performance or failure of key technology and operating systems;
- The occurrence of a significant breach of MMS's privacy obligations.

## Outlook and likely developments

At the date of this report, significant uncertainties remain in the economic environment and the impact of COVID-19 on the business sectors affecting the Group's businesses. Travel restrictions are still extensively administered and a lockdown now operates in Victoria and in Auckland in New Zealand. A second COVID-19 wave may cause the re-imposition of a lockdown in the UK and other locations that the Group's businesses operate in.

Notwithstanding, the focus for the GRS segment in FY21 will be to continue to improve the customer experience through digital enhancements, while reducing risks and operating costs.

A commitment to digital capacity enhancements has proven effective in recent periods in terms of increasing efficiency, lowering costs and improving customer engagement. We will continue to pursue this approach, including further enhancements to self service capability, increased utilisation of robotics and increased digital distribution of customer engagement initiatives.

During FY21, we intend to invest in conducting further customer research at both corporate and consumer levels, with a view to trialling new products and services geared toward customer preferences. This activity will include a focus on further leveraging our strong customer relationships and trusted brand goodwill.

In the AM ANZ business, we will explore growth opportunities in various fleet segments through our Interleasing business.

Execution of the outcomes of the strategic review in the UK business remains a priority. Having restructured the business, we will concentrate on growing our off-balance sheet originations, fleet management, and the winding down of the Maxxia Finance book and the repatriation of capital. In particular, recent finance originations have been robust as COVID-19 restrictions ease in the UK.

In the RFS segment, we will consolidate the changes introduced in FY20 as we look to reduce the cost of sales and improve the customer experience. We will also continue to focus on delivering superior value through our enhanced product suite, which sees our warranty business lead the market in terms of consumer value. Regulatory uncertainty concerning warranty and insurance products remains a key risk for the RFS segment.

In the finance aggregation business, we will aim to further grow and diversify our lender panel while strengthening our relationships with existing lenders and broker partners.

The focus for Plan Partners is to continue to make a positive difference in the lives of people living with disability, and to develop scale and profit through enhancements to our digital offering for both customers and service providers. Through strategic marketing initiatives and further engagement with the National Disability Insurance Agency and other stakeholder groups we will seek to improve the awareness and uptake of external plan management, given the demonstrable benefits for participants.

## Events subsequent to balance date

Other than the matters disclosed at Note 34 of the Financial Report there were no material events subsequent to reporting date.

## Directors' Experience and Special Responsibilities



### Tim Poole *B Com*

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

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

Mr Poole is currently Chairman of Aurizon Holdings Limited and a Non-Executive Director of Reece Limited. Mr Poole was previously an executive of the unlisted infrastructure and private equity manager, Hastings Funds Management (1995 to 2007), including being the Managing Director from 2005. He was formerly the Non-Executive Chairman of Lifestyle Communities 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. Mr Bennetts is a Non-Executive Director of Sacred Heart Mission. He was a founder of Cellestis Limited and private equity investment firm, Mooroolbark Investments Pty Limited (M-Group). He has also previously provided corporate advisory services to a range of companies in Australia and Asia. Prior to the establishment of the M-Group, he was a member of the senior executive of the pioneering Australian multinational IT company, Datacraft Limited.



### Helen Kurincic *MBA, FAICD*

**Appointed:** 15 September 2018

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

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



### Ian Elliot

**Appointed:** 27 May 2014

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

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



### 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.



### Kathy Parsons *B Comm*

**Appointed:** 22 May 2020

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

Ms Parsons is a former audit partner at Ernst & Young where she spent time as a partner in the firm's US, UK and Australian practices. In addition to her audit client responsibilities she was part of the firm's Oceania Assurance Leadership team as the Professional Practice Director with responsibility for assurance quality and risk management in the region. Ms Parsons is considered an independent Director under the Company's definition of independence.



### Mark Blackburn *Dip Bus (acct), CPA, GAICD*

**Appointed:** 26 October 2011

**Positions:** Chief Financial Officer and Company Secretary

Mr Blackburn is also a Non-Executive Director of Lifestyle Communities Limited and has over 30 years' experience in finance, working across a broad range of industries for companies such as WMC, Ausdoc, Laminex Industries, Westpac, AAMI/Promia 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)

## Letter from the Chairman of the Remuneration and Nomination Committee

Dear Shareholders,

On behalf of the Remuneration and Nomination Committee (RNC) and Board of McMillan Shakespeare Limited (the Company), I am pleased to present the Financial Year 2020 (FY20) Remuneration Report (Report).

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

### Overview of Company performance

In FY20 the Company delivered a sound operating performance in a very challenging environment. The GRS business experienced reduced margins but managed to increase salary packages and novated fleet units. Other than Plan Partners all other segments experienced very difficult trading conditions.

Operationally the Company made strategic advances through its investments in the Beyond 2020 program, enhanced productivity and scalability and digital service capability. The re-balancing of principal and agency funding arrangements ensures that the fleet business reduces its use of capital. The Share Buy-Back returned capital and franking credits to shareholders.

### FY20 remuneration outcomes

Group earnings under-performed against plan and PCP and consequently Earnings per Share and Return on Capital Employed targets were not achieved. FY18 Long Term Incentive Plan (LTIP) did not vest and it is considered unlikely that the targets for FY19 and FY20 will be met.

Strategic targets accounted for 30% of FY20 LTIP, 20% of the plan has qualified for vesting. Further details are provided in section 5(b).

### Impact to remuneration as a result of COVID-19

The Board and management are focused on the sustainability and financial health of the Company for the longer term. As a result of COVID-19, measures were put in place to protect its long term future and to put affected business units in a position to stand back up as quickly as possible when circumstances permit, by retaining our workforce.

Effective from 13 April 2020 to 6 July 2020, the Company moved into a partial or full stand down of the workforce in most parts of the business where there had been material change in workload. We matched our workforce to the activity in each of our business units and to support our customers.

The Company qualified for JobKeeper in April and this subsidy enabled the retention of all staff.

MMS further responded to the COVID-19 environment by reducing all non-essential operating and capital expenditure. As part of these cost reduction measures, the Board, Managing Director and all Group Executives elected to reduce their remuneration by approximately 35% collectively.

In addition, it has been determined that there will be no increases in fixed remuneration in FY21 given the current environment.

### Remuneration framework changes for FY21

To maintain the alignment to the long-term strategy of MMS, changes to the LTI scheme are proposed. These changes are further detailed in section 4(e), and at a high level include:

- The transition from fair to face value for LTI allocation methodology, aligning with investor preference and market practice;
- The use of indeterminate rights provides the Company with the flexibility to settle LTI grants in either shares or cash payments depending on the Company's circumstances or preference at the time of exercise or escrow lifting; and
- Introduce a clearly defined Good Leaver and Bad Leaver concept where good leavers may be able to retain their pro-rata awards whilst bad leavers forfeit all unvested awards at the time they cease employment.

### Changes in KMP/MMS leadership

Mark Blackburn, CFO and Company Secretary, will be stepping down from his position on 1 December 2020 after nine years in the role and with the Company. Mr Ashley Conn will assume the role of Chief Financial Officer and Company Secretary on 5 October 2020.

Kathy Parsons was announced as an independent Non-Executive Director of the Company effective from 22 May 2020, joining the Company's Audit, Risk and Compliance Committee and Remuneration and Nomination Committee immediately.

Following stakeholder feedback, we have continued to simplify how we explain our remuneration framework and practices in this year's Report.

We thank you for your support and welcome your feedback.



**Ian Elliot**

Non-Executive Chairman of the Remuneration and Nomination Committee

## 1. Contents

Section	Reference
Key management personnel	Section 2 Page 21
FY20 Remuneration snapshot	Section 3 Page 22
Executive remuneration framework and policy – overview	Section 4 Page 23
FY20 Outcomes and the link to performance	Section 5 Page 29
Remuneration governance	Section 6 Page 32
Executive Remuneration tables	Section 7 Page 35
Non-Executive Director remuneration	Section 8 Page 40

## 2. Key Management Personnel

This Report has been prepared in accordance with *Section 300A of the Corporations Act 2001* and outlines the remuneration arrangements in place for the Key Management Personnel (KMP) of the Company. This comprises all Non-Executive Directors and those senior employees who have authority and responsibility for planning, directing and controlling the activities of the Company.

The table below sets out the Company's Executive KMP and Non-Executive Directors during the 2020 Financial Year.

### Executive KMP

Name	Position	Term as KMP in 2020
Mr M. Salisbury	Chief Executive Officer (CEO) and Managing Director	Full year
Mr M. Blackburn	Group Chief Financial Officer (CFO) and Company Secretary	Full year
Mr G. Kruyt	Managing Director UK (part year) Chief Operating Officer (COO) (part year)	Full year

### Non-Executive Directors

Name	Position	Term as NED in 2020
Mr T. Poole	Non-Executive Chairman	Full year
Mr J. Bennetts	Non-Executive Director	Full year
Mr R. Chessari	Non-Executive Director	Full year
Ms H. Kurincic	Non-Executive Director	Full year
Mr I. Elliot	Non-Executive Director	Full year
Ms K. Parsons <sup>1</sup>	Non-Executive Director	Part year <sup>1</sup>

<sup>1</sup> Appointed 22 May 2020

# Remuneration Report (Audited)

## 3. FY20 Remuneration Snapshot

### Company Performance

The FY20 year was a challenging year for the Company for a range of reasons including the COVID-19 pandemic. MMS demonstrated a sound operating performance. GRS experienced reduced margins but managed to increase salary packages and novated fleet units. Other than Plan Partners all other businesses experienced very difficult trading conditions.

A shift to a digital strategy and changes to the working environment has contributed to a focus on the digital engagement of our customers and teams. This strategy has allowed the Company to continue to promote and sell products in a challenging economic environment.

The Board set strategic goals as part of the FY20 LTIP. The completion of the \$80 million Share Buy-Back, the increase of off-balance sheet fleet funding to at least \$100 million, exceeding Beyond 2020 productivity goals and exceeding Plan Partners profitability through cloud based scalable technology, were all achieved.

### KMP Remuneration

Fixed pay	Long-term incentive
<p>Fixed pay adjustments are made to reflect general market conditions and remuneration offered to comparable roles within related industries.</p> <p>With COVID-19 and the current economic environment, the Managing Director and Group Executives reduced their remuneration by approximately 24% from 13 April 2020 to 6 July 2020.</p> <p>No fixed remuneration increases were applied in respect of FY21.</p>	<p>The Company does not pay short-term incentives to its KMP.</p> <p>Reflecting the link between organisation performance and executive reward, MMS performance hurdles have not been satisfied and no performance options or rights will vest in respect of the FY18 three year LTIP.</p> <p>Furthermore earnings per share and return on capital employed performance targets are considered unlikely to be achieved in the FY19 and FY20 LTIPs.</p> <p>In relation to the strategic targets in the FY20 LTIP, 20% of the plan has qualified for vesting.</p> <p>Following a Board review, several changes have been proposed for the LTIP for FY21 to further align the Company with market practice and stakeholder expectations. Further details are provided in section 4(e) of this report.</p>

### Non-Executive Director Fees

Non-Executive Director fees were reduced by 67% during the June 2020 quarter due to COVID-19. Fees payable to Non-Executive Directors were reinstated during July but will not be increased during FY21.



## 4. Executive remuneration framework and policy – overview

### (a) Strategic Pillars and Design Principles



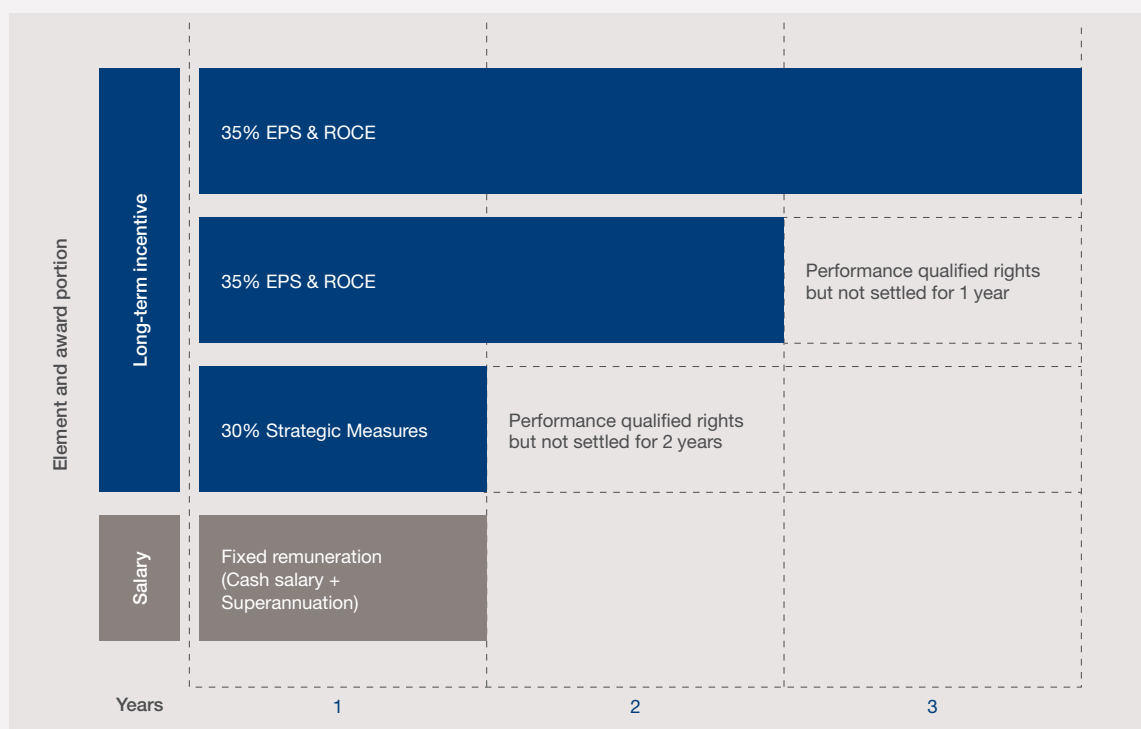
# Remuneration Report (Audited)

## (b) Remuneration framework cycle

During FY20, we undertook a review of our executive long term incentive framework to ensure that it delivers on our Company objectives and is fit for purpose.

In relation to the FY20 framework, fixed remuneration was provided in addition to a long-term incentive granted 100% as Performance Rights, captured as 70% financial measures and 30% as strategic objectives. This is an adjustment from previous years which was provided as 50% Performance Rights and 50% Performance Options for the long-term incentive.

### Our Executive Remuneration Framework (Snapshot)



(c) **Executive remuneration framework**

The RNC and Board of the Company are committed to ensuring our executive remuneration framework remains fit-for-purpose going forward.

The below table describes each element of pay within the framework and the strategic link.

**Our Executive Remuneration Framework**

Element	Strategic link
<p><b>Fixed remuneration</b></p> <p>Fixed remuneration comprises base salary and superannuation (and, in some cases, non-cash benefits such as motor vehicle lease payments and car parking benefits)</p>	<p>Fixed remuneration of the Executive KMP is set to attract and retain the calibre of talent required to drive outcomes for the Company's shareholders and deliver on the Company's strategy.</p> <p>The RNC reviews fixed remuneration annually (or on promotion) to ensure fixed remuneration levels remain appropriate and market competitive.</p>
<p><b>Long-term incentive</b></p> <p>Incentives are delivered wholly in an all-equity LTIP, with Performance Rights measured over a 3 year period and subject to performance measures.</p>	<p>By delivering variable reward wholly as a long-term incentive, our framework encourages sustainable decision making and a focus on the long-term health of the business (including the interests of customers), to drive long term value for shareholders.</p> <p>Vesting of the LTIP is subject to the achievement of performance hurdles to drive a high-performance culture amongst our Executive Team.</p> <p>The ROCE and EPS hurdles are aligned with our strategic pillars and our focus on both earnings and capital optimisation.</p> <p>Non-financial measures align to shorter term business objectives, measured through a combination of better capital management, increased productivity and growth.</p>
<p><b>Short-term incentive</b></p>	<p>MMS does not offer short-term incentives and only provides fixed remuneration and long-term incentives.</p>

Each element of remuneration is outlined in more detail below:

**Fixed annual remuneration in FY20**

Fixed remuneration of the Executive KMP is reviewed by the RNC annually (or on promotion) to determine whether changes are appropriate in order to maintain market competitiveness and attract and retain the talent required to drive outcomes for the Company's shareholders. Fixed remuneration is determined on an individual basis having regard to:

- The individual's role, duties and responsibilities and performance levels;
- General market conditions; and
- Remuneration offered to comparable roles within related industries.

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

Fixed annual remuneration increases of 2.5% were made in respect of FY20 for the Executive KMP. Due to the economic environment and impact of COVID-19, no increases were made to the Executive KMP in respect of FY21.

# Remuneration Report (Audited)

## LTIP awarded in FY20

In FY20, the Executive KMP were granted Performance Rights in four equal parts of 17.5% each aggregating to 70.0% where each part was measured against financial targets and the remaining 30.0% measured against strategic targets.

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

Specific details on the Performance Rights granted to Executive KMP during FY20 are provided in section 7(b) of the report, and the table below outlines the terms of the grants:

## Detailed summary – FY20 LTIP grant

Element	Strategic link																																							
<b>Opportunity levels</b> (% of fixed remuneration)	<p>The opportunity levels offered to the Executive KMP in FY20 were:</p> <ul style="list-style-type: none"> <li>– 75% of fixed remuneration for the CEO;</li> <li>– 75% of fixed remuneration for the CFO; and</li> <li>– 75% of fixed remuneration for the COO.</li> </ul> <p>Opportunity levels in FY20 increased from 45% to 75% as the Board assessed that the amount of opportunity was below market comparatives.</p>																																							
<b>Allocation methodology</b>	<p><b>Performance Rights:</b> Rights are allocated on a fair value basis, however as discussed in section 4(e), this will be transitioning to a face value allocation in FY21.</p>																																							
<b>Performance period</b>	<p>Two and three years in respect of meeting financial targets. One year in relation to strategic targets.</p> <p>The vesting of any LTIP is subject to continued employment with the Company on the date that the Company's financial report is lodged with ASX for the year ending 30 June 2022.</p>																																							
<b>Performance hurdles</b>	<p>Subject to the Executive remaining employed for the performance period, vesting of the Performance Rights is subject to the achievement of two performance hurdles:</p> <p><b>a) Financial targets</b></p> <ul style="list-style-type: none"> <li>– The Company's CAGR in underlying EPS which applies to 35.0% of the Performance Rights; and</li> <li>– Absolute average ROCE over the performance period which applies to 35.0% of the Performance Rights.</li> </ul> <p>The following vesting schedules apply to Performance Rights (with vesting on a straight-line basis between each level of performance).</p> <table border="1"> <thead> <tr> <th rowspan="2">Performance Period</th> <th colspan="3">Underlying EPS CAGR</th> <th colspan="3">Average ROCE</th> </tr> <tr> <th>Level of performance (%)</th> <th>Percentage of awards vesting</th> <th>Allocation of total grant</th> <th>Level of performance (%)</th> <th>Percentage of awards vesting</th> <th>Allocation of total grant</th> </tr> </thead> <tbody> <tr> <td rowspan="2">FY20 and FY21</td> <td>&lt;6%</td> <td>-</td> <td>-</td> <td>&lt;21.5%</td> <td>-</td> <td>-</td> </tr> <tr> <td>6% –10.5%</td> <td>50%-100%</td> <td>17.5%</td> <td>21.5%-23%</td> <td>50%-100%</td> <td>17.5%</td> </tr> <tr> <td rowspan="2">FY20, FY21 and FY22</td> <td>&lt;6%</td> <td>-</td> <td>-</td> <td>&lt;21.5%</td> <td>-</td> <td>-</td> </tr> <tr> <td>6% –10.5%</td> <td>50%-100%</td> <td>17.5%</td> <td>21.5%-24%</td> <td>50%-100%</td> <td>17.5%</td> </tr> </tbody> </table> <p>Calculation of Underlying EPS (CAGR) shall be based on comparing the underlying EPS results in the final year of the performance period to the Underlying EPS results for FY19 as the base year.</p> <p>The ROCE performance condition is based on the Company's average ROCE over the performance period.</p>	Performance Period	Underlying EPS CAGR			Average ROCE			Level of performance (%)	Percentage of awards vesting	Allocation of total grant	Level of performance (%)	Percentage of awards vesting	Allocation of total grant	FY20 and FY21	<6%	-	-	<21.5%	-	-	6% –10.5%	50%-100%	17.5%	21.5%-23%	50%-100%	17.5%	FY20, FY21 and FY22	<6%	-	-	<21.5%	-	-	6% –10.5%	50%-100%	17.5%	21.5%-24%	50%-100%	17.5%
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Element	Strategic link
<p><b>Performance hurdles (continued)</b></p>	<p><b>b) Strategic objectives</b></p> <p>Strategic objectives are set at the discretion of the Board across three strategic areas as follows:</p> <ul style="list-style-type: none"> <li>– Capital management (including, amongst other things, a focus on achieving target levels of principal and agency funding);</li> <li>– Productivity (including, amongst other things, a focus on achieving Beyond 2020 targets); and</li> <li>– Growth (including, amongst other things, a focus on accelerating value creation from Plan Partners).</li> </ul>
<p><b>Process for assessing performance conditions</b></p>	<p>To determine the full extent to which the performance hurdles are satisfied, the RNC relies on the audited financial results and vesting is determined in accordance with the LTIP Rules.</p> <p>The RNC believes this method of assessment provides an appropriate and objective assessment of performance. The RNC will take account of capital raisings and acquisitions where necessary or appropriate to do so.</p> <p>In the event that the Executive takes unpaid leave for a period exceeding three months during FY20, FY21 or FY22, the vesting criteria outlined above with respect to the performance hurdles and the executive's continued employment will be deemed on a pro-rata basis to reflect the period of continuous service during the relevant financial year, unless the Board in its discretion determines otherwise.</p>
<p><b>Voting and dividend entitlements</b></p>	<p>No voting rights or dividend entitlements attach to the Performance Rights.</p>
<p><b>Malus (i.e. forfeiture of awards)</b></p>	<p>If the Board determines that an act of fraud, defalcation or gross misconduct has occurred in relation to the affairs of the Group, the Participant will forfeit any right or interest in the Shares, Rights or Options or other entitlements under the Plan.</p>
<p><b>Treatment upon cessation of employment</b></p>	<p>If the Executive leaves employment with the Company prior to the date specified in the Invitation Letter, the Rights will lapse without any payment to the employee (subject to the discretion of the Board).</p>
<p><b>Change of control</b></p>	<p>On a change of control, the Board has discretion to waive the performance conditions attached to the Performance Rights.</p>
<p><b>Hedging</b></p>	<p>No Executive can enter a transaction that is designed or intended to hedge the Executive's exposure to any unvested option or right. Executives are required to provide declarations to the Board on their compliance with this policy from time to time.</p>

# Remuneration Report (Audited)

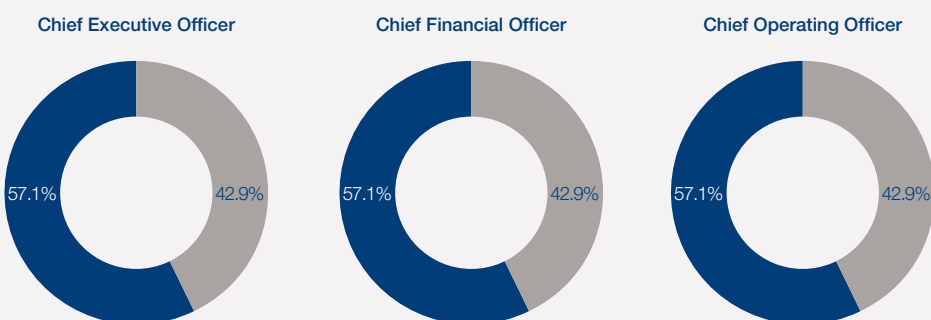
## (d) Pay Mix

### Reward Mix

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

### Key

- Fixed remuneration
- Long-term incentive



## (e) Looking ahead to FY21

As part of the LTI review, we have made the following changes in the LTIP effective FY21:

### LTIP FY21 changes

#### Transition from fair value to face value allocation methodology

To align with market practice among other ASX listed organisations, the Board has decided to issue Rights under the LTIP on a face value (market value of a share) basis from FY21.

The move from a fair value methodology to a face value methodology also aligns with shareholders and advisors' preference for LTIP awards to be calculated using the face value of the underlying shares, rather than the fair value of the Right.

The move from a fair value to face value methodology requires a one-off conversion of the stated 'Target' LTIP opportunity. It is noted that there is no change to the overall remuneration package.

#### Move to an indeterminate right' as the LTI instrument

The shift to indeterminate rights provides the Company with flexibility to settle LTIP grants in either shares or cash payment depending on the Company's circumstance and preference at the time of exercise/escrow lifting.

#### Awards to generally remain on-foot for 'good' leavers

Good Leavers are generally able to retain their awards on a pro rata basis whilst Bad Leavers forfeit all unvested awards at the time they cease employment. The Board retains discretion to determine a different treatment taking into consideration the circumstances of the departure, which may include an appropriate deferral period.

## 5. FY20 Outcomes and the Link to Performance

### (a) MMS financial performance FY16 to FY20

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

Indices	FY20	FY19	FY18	FY17	FY16
Net profit attributable to Company members	\$1,269,264	\$63,672,478	\$50,302,815	\$67,901,770	\$82,469,341
Underlying net profit after income tax (UNPATA) <sup>1</sup>	\$69,028,191	\$88,696,719	\$93,518,774	\$87,166,863	\$87,172,942
NPAT growth	(98.0%)	26.6%	(25.9%)	(17.7%)	22.2%
UNPATA growth	(22.2%)	(5.1%)	7.2%	-	25.3%
Dividends paid	\$59,591,464	\$61,173,277	\$56,216,997	\$54,076,388	\$46,588,889
Dividend payout ratio <sup>2</sup>	38.9%	69.0%	64.5%	63.0%	60.1%
Share price as at 30 June	\$9.08	\$12.21	\$16.00	\$13.40	\$13.68
Market capitalisation (A\$m)	\$702.6	\$1,016.0	1,331.3	1,210.0	1,138.1
Earnings per share (cents)	1.6	77.0	60.9	81.6	99.4
Underlying earnings per share (cents) <sup>3</sup>	87.4	107.3	113.2	104.8	105.1
ROCE <sup>4</sup>	20%	21%	20%	20%	21%

1 UNPATA is calculated as NPAT before the after-tax impact of acquisition related items (including impairment charge for intangible assets, acquisition expenses, amortisation of acquired intangible assets and deferred consideration items) and disposal of business. FY20 UNPATA excludes one-off adjustments for Deferred Income and DAC of \$9.8m (post tax), class action provision for possible settlement and legal costs of \$5.1m (post tax) and share buy back costs \$0.4m (post tax). FY19 UNPATA excludes one-off provision for a UK contract of \$3.7m (post tax).

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

3 Underlying earnings per share is based on UNPATA.

4 Return on capital employed (ROCE) is adjusted to reflect twelve months trading for acquisitions made in the financial year and excludes one-off payments in relation to transaction costs included in the acquisitions, amortisation of acquisition intangibles, one-off adjustments for Deferred Income and DAC, class action provision for possible settlement and associated legal costs, share buy-back costs and impairment of acquired intangible assets.

# Remuneration Report (Audited)

## (b) Company performance outcomes linked to the LTIP

The following table outlines the performance against the LTIP financial performance measures that have been used across the KMP in FY20.

### Alignment between Performance and Remuneration

FY18 Grants – 3 Year Performance LTIP Metric	Minimum Vesting Target	FY17 <sup>1</sup>	FY18	FY19	FY20	Metric Achieved	Vesting Target Met
ROCE <sup>2,3</sup>	20.6%	N/A	13.6%	17.7%	10.5%	13.9%	No
Underlying EPS growth (cps) <sup>2</sup>	6.0%	86.3	61.6	80.8	24.8	(26.1%)	No

FY19 Grants – 3 Year Performance LTIP Metric	Minimum Vesting Target	FY18 <sup>1</sup>	FY19	FY20	Metric Achieved	Vesting Target Met
ROCE <sup>2,3</sup>	22.25%	N/A	17.7%	10.5%	14.1%	Not expected
Underlying EPS growth (cps) <sup>2</sup>	6.0%	61.6	80.8	24.8	(36.5%)	Not expected

FY20 Grant – Tranches for financial performance targets	Minimum Vesting Target	FY19 <sup>1</sup>	FY20	Metric Achieved	Vesting Target Met
ROCE <sup>2,3</sup>	21.5%	-	10.5%	10.5%	Not expected
Underlying EPS cps <sup>2</sup>	6.0%	80.8	24.8	(69.3%)	Not expected

FY20 Grant – Tranches for strategic targets	Allocation of grant	Vesting Target Met	Vesting Allocation
Successful completion of share buy-back	5%	Yes	5%
Completing off-balance sheet funding of \$100 million	5%	Yes	5%
Over-achieving productivity in salary packaging services at new scalable level from Beyond 2020 investment	5%	Yes	5%
Exceeding novated leasing conversion rates from using Beyond 2020 project	5%	No	-
Execute UK strategic review and deliver EPS improvement targets	5%	No	-
Exceeding EBTIDA margin for Plan Partners from cloud-based scalable technology	5%	Yes	5%
<b>Total</b>	<b>30%</b>	<b>-</b>	<b>20%</b>



**(c) Incentive outcomes**

The table below outlines the LTI that qualified for vesting based on the performance against the metrics in FY20. The vesting entitlement is subject to KMP's meeting the employment condition.

	Proportion vesting		
	FY18 Grant	FY19 Grant	FY20 Grant
Mr M. Salisbury <sup>4</sup>	-	Not expected	20%
Mr G. Kruyt <sup>4</sup>	-	Not expected	20%
Mr M. Blackburn <sup>5</sup>	-	-	100%

1 Base year for underlying EPS.

2 ROCE and EPS metrics include impairment charges and the one-off UK contract loss in the UK in FY19.

3 ROCE is based on the average in the performance period.

4 The achievement of the FY20 grants by Mr M. Salisbury and Mr G. Kruyt was based on having met a portion of the strategic objectives in tranche 5 which makes up 30% of the total grant.

5 Mr M. Blackburn had a one year grant of Performance Rights with strategic targets and condition for continuity of employment with the Company until 31 October 2020. The strategic targets included the completion of the share buy-back and completing the off balance sheet funding of a targeted amount in FY20. All strategic targets were met and the employment condition is expected to be met.

The Rights that have qualified and are subject to meeting the relevant employment conditions in the table above will result in 40,824 ordinary MMS shares being provided to the Executives detailed above and will be issued by the MMS Employee Share Trust.

# Remuneration Report (Audited)

## 6. Remuneration Governance

### (a) Responsibility for setting remuneration

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

The Board has established the RNC and its 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 Executive KMP. For further details on the composition and responsibilities of the RNC, please refer to the Corporate Governance Statement on our website [www.mmsg.com.au/overview/#governance](http://www.mmsg.com.au/overview/#governance).

The following chart outlines key stakeholders in the governance of remuneration at MMS.



**(b) Use of independent remuneration consultant**

The RNC obtains external independent advice from remuneration consultants when required, and will use it to guide and inform their decision-making. During FY20, no remuneration recommendations (as defined in the *Corporations Act 2001* (Cth)) were received.

**(c) Board discretion**

The Board has adopted a set of guiding principles when it considers adjustments to performance outcomes under the LTIP. The process for adjustments and principles applied are:

1. **Transparency:** for any adjustments made, MMS will provide clear disclosure and rationale. Where possible, disclosures will be made in advance that may result in necessary adjustments ensuring early communication to shareholders.
2. **Timing of adjustments:** adjustments will be made only to reward outcomes at the time of vesting, applying to both positive and negative adjustments.
3. **Shareholders and management alignment:** adjustments will be made in the interests of balancing the shareholder and management alignment ensuring consistency in Company objectives.

**(d) Details of executive service agreements**

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

Element	Description
Duration	Ongoing
Notice period <sup>1</sup>	<ul style="list-style-type: none"> <li>– <b>CEO:</b> 9 months written notice by the Company or CEO. The agreement may, however, be terminated by the Company for cause without notice or any payment.</li> <li>– <b>Executive KMP:</b> 6 months written notice by the Company or the Executive KMP. The agreement may, however, be terminated by the Company for cause without notice or any payment.</li> </ul>
Termination payments	<p>The Company has discretion to make a payment in lieu of notice in respect of the above notice periods.</p> <p>No contracted retirement benefits are in place with any of the Company's Executives.</p>
Restraint of trade	A restraint period of up to 6 months.

<sup>1</sup> It is noted that Mr M. Blackburn, CFO and Company Secretary, who in January 2020 announced that he would be standing down from his position on 1 December 2020.

# Remuneration Report (Audited)

## (e) Minimum shareholding requirements

In FY18, the Company introduced minimum shareholding requirements for its Executive KMP and Non-Executive Directors to facilitate share ownership and encourage an 'ownership' mindset, refer section 7(f) for further detail on current senior executive and director share ownership.

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

Directors and officers	Description	Effective 1 October 2018
<b>Executive KMP</b>	50% of one year's fixed remuneration	The later of: – 5 years from September 2017; or – 5 years from date of commencement as Executive KMP
<b>Non-Executive Directors<sup>1</sup></b>	100% of one year's base director fees	The later of: – 5 years from September 2017; or – 5 years from date of commencement as Non-Executive Director

<sup>1</sup> Share Ownership and Retention Policy reviewed and updated 26 June 2020

## 7. Executive remuneration tables

### (a) Executive remuneration

The following table sets out the executive remuneration for FY20 in accordance with the requirements of the Accounting Standards and *Corporations Act 2001* (Cth).

Executive KMP		Cash salary/fees <sup>9</sup>	Annual Leave Entitlements	Other Benefits <sup>1</sup>	Superannuation	Long Service Leave	Options and Rights <sup>2,3,4</sup>	Total remuneration	Percentage of remuneration as options and rights	Value of remuneration received <sup>4,5</sup>	Value of options exercised and sold <sup>8</sup>
		\$	\$	\$	\$	\$	\$	\$	%	\$	\$
Mr M. Salisbury (CEO and Managing Director)	FY20	844,502	(14,395)	33,530	25,479	19,456	(81,110)	827,462	n/a	903,511	930,331
	FY19	861,426	14,660	29,448	25,018	18,925	(161,603)	787,874	n/a	915,892	-
Mr G. Kruyt (COO)	FY20	647,743	(10,688)	311,130	47,705	36,802	(74,202)	958,490	n/a	1,006,577	664,522
	FY19	680,617	(25,488)	261,601	93,272	(4,937)	(93,099)	911,966	n/a	1,035,490	-
Mr M. Blackburn <sup>7</sup> (Group CFO and Company Secretary)	FY20	633,220	28,552	6,382	22,747	13,203	25,937	730,041	4%	662,349	788,973
	FY19	638,101	52,727	8,095	25,000	12,807	(93,311)	643,419	n/a	671,196	-
Mr A. Tomas <sup>6</sup> (Managing Director, Fleet and Financial Products)	FY20	-	-	-	-	-	-	-	n/a	-	-
	FY19	11,712	-	6,062	1,528	-	-	19,302	n/a	19,302	-
Total Remuneration	FY20	2,125,465	3,469	351,041	95,931	69,461	(129,375)	2,515,992	-	2,572,437	2,383,826
	FY19	2,191,856	41,899	305,206	144,818	26,795	(348,013)	2,362,561	-	2,641,880	-

- Other benefits reflect motor vehicle packaging payments, travel benefits, housing allowance and car parking benefits.
- The equity value comprises the value of Performance Options issued. No shares were issued to any Non-Executive Director (and no Performance Options were granted to any Non-Executive Director) during the financial years ended 30 June 2019 and 30 June 2020. The value of Performance Options issued to Executive KMP (as disclosed above) are the assessed fair values (less any payments for the options) at the date that the Performance Options were granted to the Executives, allocated equally over the period from when the services are provided to vesting date. Fair values at grant date are determined using a binomial option pricing model that takes into account the exercise price, the expected term of the option, the share price at grant date, the expected price volatility of the underlying share, the expected dividend yield and the risk-free interest rate for the term of the option.
- Performance Rights were granted to Executive KMP during the financial years ended 30 June 2019 and 30 June 2020 (as disclosed in this Report). The value of Performance Rights issued to Executive KMP are the assessed fair values at the date that the Performance Rights were granted to the Executives, allocated equally over the period from when the services are provided to vesting date. Fair values at grant date are determined using the share price of the Company at the date of grant and discounting it by the dividend yield of the Company.
- The expense in FY20 comprises the fair value expense of Performance Rights granted in FY20 and the reversal of Performance Options and Rights granted in FY18 and FY19 with vesting periods in FY20, FY21 and FY22 which may not vest based on the Company's performance against the EPS and ROCE performance targets to date.
- Value of remuneration received comprises salary, benefits and superannuation salary packaged, annual and long service leave used and bonuses paid in the year (excludes value of Options exercised and sold).
- Mr A. Tomas resigned and ended service on 13 July 2018.
- The value of Options and Rights of Mr M. Blackburn is based on vesting entitlement of Rights granted in FY20 that is measured against strategic targets less the reversal of Performance Options and Rights granted in FY18 and FY19.
- The value of options relate to Performance Options granted in FY15 and were exercised and sold in FY20. These options were subject to a 12 month holding lock from vesting date in August 2017 that was effectively extended to April 2019 when the Company terminated its proposed merger with Eclix Ltd. The value is based on the amount realised on disposal less the exercise price (excludes value of remuneration received).
- Cash salary/fees are lower in FY20 due to KMP taking pay reductions during the period 13 April 2020 to 6 July 2020.

# Remuneration Report (Audited)

## (b) Detail of LTIP securities

The terms and conditions of each grant of Performance Options and Performance Rights to Executive KMP affecting their remuneration in FY20 and each relevant future financial year are set out below.

Grant Date	Type of LTI securities	Expiry Date	Share price at valuation date	Exercise Price	Value per option at grant date <sup>1</sup>	Date Exercisable
02/07/18	3 Year Performance Options	12 months following the 3 Year Lodgement Date	\$16.14	\$16.64	\$2.54	3 Year Lodgement Date (expected to be September 2021)
02/07/18	3 Year Performance Rights	Date that the FY21 financial statements are lodged	\$16.14	-	\$14.12	3 Year Lodgement Date (expected to be September 2021)
23/10/18 <sup>2</sup>	3 Year Performance Options	12 months following the 3 Year Lodgement Date	\$15.90	\$16.64	\$2.25	3 Year Lodgement Date (expected to be September 2021)
23/10/18 <sup>2</sup>	3 Year Performance Rights	Date that the FY21 financial statements are lodged	\$15.90	-	\$13.95	3 Year Lodgement Date (expected to be September 2021)
01/07/19	3 Year Performance Rights	Date that the FY22 financial statements are lodged	\$12.37	-	\$10.18	3 Year Lodgement Date (expected to be September 2022)
22/10/19 <sup>3</sup>	3 Year Performance Rights	Date that the FY22 financial statements are lodged	\$14.85	-	\$12.83	3 Year Lodgement Date (expected to be September 2022)
18/12/19	1 Year Performance Rights	31 October 2020	\$12.90	-	\$12.27	31 October 2020

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

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

3 The issue to Mr M. Salisbury occurred on 22 October 2019, after shareholder approval at the Company's AGM.

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

Name	Date of grant	Type of LTI securities	Number of securities granted	Value of securities granted during the year \$	Number of securities vested during year	Vested %	Number of securities forfeited/ lapsed during the year	Forfeited or lapsed %	Year in which securities may vest	Maximum value of securities yet to vest <sup>1</sup> \$
Mr M. Salisbury	24/10/17	2 Year Performance Options	71,140	-	-	-	(71,140)	100	FY20	-
	24/10/17	2 Year Performance Rights	17,860	-	-	-	(17,860)	100	FY20	-
	24/10/17	3 Year Performance Options	66,027	-	-	-	(66,027)	100	FY21	-
	24/10/17	3 Year Performance Rights	18,814	-	-	-	(18,814)	100	FY21	-
	23/10/18	3 Year Performance Options	105,272	-	-	-	-	-	FY22	236,757
	23/10/18	3 Year Performance Rights	18,937	-	-	-	-	-	FY22	264,133
	22/10/19	3 Year Performance Rights	69,178	12.83	-	-	-	-	FY23	840,971
Mr G. Kruyt	03/07/17	2 Year Performance Options	52,846	-	-	-	(52,846)	100	FY20	-
	03/07/17	2 Year Performance Rights	13,266	-	-	-	(13,266)	100	FY20	-
	03/07/17	3 Year Performance Options	49,047	-	-	-	(49,047)	100	FY21	-
	03/07/17	3 Year Performance Rights	13,975	-	-	-	(13,975)	100	FY21	-
	02/07/18	3 Year Performance Options	78,201	-	-	-	-	-	FY22	198,631
	02/07/18	3 Year Performance Rights	14,067	-	-	-	-	-	FY22	198,612
	01/07/19	3 Year Performance Rights	50,491	10.18	-	-	-	-	FY23	487,352
Mr M. Blackburn <sup>2</sup>	03/07/17	2 Year Performance Options	52,965	-	-	-	(52,965)	100	FY20	-
	03/07/17	2 Year Performance Rights	13,297	-	-	-	(13,297)	100	FY20	-
	03/07/17	3 Year Performance Options	49,159	-	-	-	(49,159)	100	FY21	-
	03/07/17	3 Year Performance Rights	14,007	-	-	-	(14,007)	100	FY21	-
	02/07/18	3 Year Performance Options	78,377	-	-	-	(78,377)	100	FY22	-
	02/07/18	3 Year Performance Rights	14,100	-	-	-	(14,100)	100	FY22	-
	01/07/19	3 Year Performance Rights	50,697	10.18	-	-	(50,697)	100	FY23	-
	18/12/19	1 Year Performance Rights	16,899	12.27	-	-	-	-	FY21	80,215

- 1 There is no minimum value attached to the securities at the vesting date. Maximum value is defined as the fair value at grant less amount expensed.  
2 With the exception of the grant on 18 December 2019, all the grants to Mr M. Blackburn will be forfeited when he stands down on 1 December 2020.

# Remuneration Report (Audited)

## (c) Movement of LTIP securities granted

The table below reconciles the Performance Options and Performance Rights held by each Executive KMP from the beginning to the end of FY20.

Name	LTI Securities	Balance at the start of the year	Number Granted during year <sup>1</sup>	Vested during the year	Exercised during the year	Forfeited during year	Other changes during the year	Vested and exercisable at the end of the year	Unvested at the end of the year
Mr M. Salisbury	Performance Options	408,626	-	-	(166,187)	(137,167)	-	-	105,272
	Performance Rights	55,611	69,178	-	-	(36,674)	-	-	88,115
Mr G. Kruyt	Performance Options	298,799	-	-	(118,705)	(101,893)	-	-	78,201
	Performance Rights	41,308	50,491	-	-	(27,241)	-	-	64,558
Mr M. Blackburn	Performance Options	321,437	-	-	(140,936)	(180,501)	-	-	-
	Performance Rights	41,404	67,596	-	-	(92,101)	-	-	16,899

<sup>1</sup> Granted pursuant the Company's LTIP

## (d) Shares issued on Performance Options

No ordinary shares in the Company were issued following the exercise of Performance Options by Executive KMP during FY20. Any shares issued on exercise of options were acquired on market under the terms of the Company's Share Trust Plan.

## (e) Other transactions and balances with KMP

There were no loans made during the year, or remaining unsettled at 30 June 2020, between the Company and its KMP and/or their related parties.



**(f) Executive KMP and director share ownership**

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

	Balance at the start of the year	Shares acquired through option exercise	Other changes during the year	Balance at the end of the year
<b>Non-Executive Directors</b>				
Mr T. Poole	30,000	-	-	30,000
Mr J. Bennetts	3,343,025	-	-	3,343,025
Mr R. Chessari	6,050,941	-	-	6,050,941
Mr I. Elliot	-	-	1,254	1,254
Ms H. Kurincic	11,000	-	9,000	20,000
Ms K. Parsons	-	-	1,400	1,400
<b>Executive KMP</b>				
Mr M. Salisbury	10,276	-	6,250	16,526
Mr G. Kruyt	-	-	7,000	7,000
Mr M. Blackburn	3,000	-	-	3,000

# Remuneration Report (Audited)

## 8. Non-Executive Director remuneration

### (a) Remuneration policy and arrangements

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

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

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

### (b) Fees and other benefits

The Board reviewed its approach to its Non-Executive Director fees (particularly Committee fees) in FY20 and determined that it was appropriate to pay separate fees in respect of Committee membership, as consistent with market practice.

The table below sets out the annual fees payable (inclusive of superannuation) to the directors of MMS (effective from 1 October 2019). The fee schedule has been determined having regard to fees paid to comparable roles within MMS' peers.

Fees are inclusive of superannuation, contributions required under legislation are made by the Company on behalf of Non-Executive Directors. There is no scheme for the payment of retirement benefits or termination payments (other than payments relating to accrued superannuation entitlements).

Role		FY20 Fee (Effective 1 October 2019)
Chairman		\$210,125
Non-Executive Directors		\$115,000
Audit, Risk and Compliance Committee	Chair	\$25,000
	Membership	\$12,500
Remuneration and Nomination Committee	Chair	\$20,000
	Membership	\$10,000

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

The fees paid or payable to the directors of the Company in respect of the 2020 financial year are set out below.

		Cash salary/fees <sup>1</sup>	Other Benefits <sup>2</sup>	Super-annuation	Total value of remuneration received	Total remuneration
		\$	\$	\$	\$	\$
<b>Non-Executive Directors</b>						
Mr T. Poole (Non-Executive Chairman)	FY20	143,921	-	13,673	157,594	157,594
	FY19	190,725	-	18,119	208,844	208,844
Mr J. Bennetts (Non-Executive Director)	FY20	87,329	-	8,296	95,625	95,625
	FY19	113,585	-	10,790	124,375	124,375
Mr R. Chessari (Non-Executive Director)	FY20	84,471	1,146	8,134	93,751	93,751
	FY19	94,142	17,730	10,628	122,500	122,500
Mr I. Elliot (Non-Executive Director)	FY20	117,123	-	11,127	128,250	128,250
	FY19	122,146	-	11,604	133,750	133,750
Ms H. Kurincic <sup>5</sup> (Non-Executive Director)	FY20	119,292	-	11,333	130,625	130,625
	FY19	99,410	-	9,444	108,854	108,854
Ms K. Parsons <sup>3</sup> (Non-Executive Director)	FY20	10,763	-	1,023	11,786	11,786
	FY19	-	-	-	-	-
Ms S. Dahn <sup>4</sup> (Non-Executive Director)	FY20	-	-	-	-	-
	FY19	34,247	-	3,253	37,500	37,500
<b>Total Remuneration</b>	FY20	562,899	1,146	53,586	617,631	617,631
	FY19	654,255	17,730	63,838	735,823	735,823

1 Cash salary/fees are lower in FY20 due to Directors taking pay reductions during the period 13 April 2020 to 6 July 2020.

2 Other benefits comprise salary packaging.

3 Ms K. Parsons was appointed as a Non-Executive Director of the Company with effect from 22 May 2020.

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

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

Signed in accordance with a resolution of the Directors made pursuant to s.298(2) of the *Corporations Act 2001*.

On behalf of the Directors.



**Ian Elliot**  
Non-Executive Chairman of the RNC



**Tim Poole**  
Non-Executive Chairman of the Board

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	541,843	\$16.64	30 September 2022
Voluntary Options	8,979	\$13.45	30 September 2020
Voluntary Options	12,500	\$13.45	30 September 2021

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

## Directors' interests

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

Director	Rights	Options	Ordinary shares
Mr T. Poole (Chairman)	-	-	30,000
Mr M. Salisbury (Managing Director)	88,115	105,272	16,526
Mr J. Bennetts	-	-	3,343,025
Mr R. Chessari	-	-	6,050,941
Mr I. Elliot	-	-	1,254
Ms H. Kurincic	-	-	20,000
Ms K. Parsons	-	-	6,000

No Director during FY20, became entitled to receive any benefit (other than a benefit included in the aggregate amount of remuneration received or due and receivable by the Directors shown in the Remuneration Report or the fixed salary of a full time employee of the Company) by reason of a contract made by the Company or a controlled entity with the Director or an entity in which the Director has a substantial financial interest or a firm in which the Director is a member other than for payment of \$27,468 for the provision of IT services on arms' length terms by Mailguard Pty Ltd, of which John Bennetts has an economic interest.

## 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 FY20, are disclosed in Note 32 to the Financial Statements.

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

The ARCC have reviewed the services other than the statutory audit provided by Grant Thornton Audit Pty Ltd during the financial year ended 30 June 2020. The other services relate to non statutory audit services and other assurance services which are compatible with the general standard of independence for auditors imposed by the *Corporations Act 2001* (Cth). This has been formally advised to the Board. Consequently, the Directors are satisfied that the provision of non-audit services during the year by the auditor and its related practices did not compromise the auditor independence requirements of the *Corporations Act 2001* (Cth).

## Corporate governance practices

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

## Auditor's independence declaration

A copy of the auditor's independence declaration, as required under section 307C of the *Corporations Act 2001* (Cth), is set out on page 119 of this Annual Report.

## Directors' declaration

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

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

Signed in accordance with a resolution of the Directors.



**Tim Poole**  
Chairman



**Mike Salisbury**  
Managing Director

7 September 2020  
Melbourne, Australia

# Directors' Report

Five-Year Summary 2016 – 2020	2020	2019	2018	2017	2016
<b>Financial Performance</b>					
<b>Group</b>					
Revenue (\$m)	494.0	549.7	545.4	523.4	504.7
NPAT (\$m)	1.3	63.7	50.3	67.9	82.5
UNPATA (\$m) <sup>1</sup>	69.0	88.7	93.5	87.2	87.2
<b>Group Remuneration Services segment</b>					
Segment revenue (\$m)	214.8	221.9	207.7	189.7	188.3
Segment NPAT (\$m)	60.9	66.1	64.1	58.3	58.7
Segment UNPATA (\$m) <sup>3</sup>	60.9	66.1	64.1	58.3	58.7
<b>Asset Management segment</b>					
Segment revenue (\$m) <sup>2</sup>	229.3	245.8	243.7	226.1	204.8
Segment NPAT (\$m)	(9.9)	12.4	25.5	16.6	14.6
Segment UNPATA (\$m) <sup>3</sup>	6.0	17.2	21.6	17.5	15.3
<b>Retail Financial Services segment</b>					
Segment revenue (\$m)	49.5	80.7	92.5	106.0	110.0
Segment NPAT (\$m)	(47.3)	(14.0)	(38.5)	(5.0)	11.8
Segment UNPATA (\$m) <sup>3</sup>	3.0	6.4	8.6	12.4	14.0
<b>Shareholder value</b>					
Dividends per share (cps)	34.0	74.0	73.0	66.0	63.0
Dividend payout ratio (%) <sup>4</sup>	39	69	65	63	60
Basic earnings per share (cps)	1.6	77.0	60.9	81.6	99.4
Return on Equity (%) <sup>5</sup>	21	23	24	24	26
Underlying earnings per share (cps) <sup>6</sup>	87.4	107.3	113.2	104.8	105.1
Return on capital employed (%) <sup>5</sup>	20	21	20	20	21
<b>Other</b>					
Employees (FTE) <sup>7</sup>	1295	1334	1,283	1,195	1,124
Employee engagement score (%) <sup>8</sup>	No survey	79	No survey	76	No survey

1 UNPATA is calculated as NPAT before the after-tax impact of acquisition related items (including impairment charge for intangible assets, acquisition expenses, amortisation of acquired intangible assets and deferred consideration items) and disposal of business. FY20 UNPATA excludes one-off adjustments for Deferred Income and DAC of \$9.8m (post tax), class action provision for possible settlement and legal costs of \$5.1m (post tax) and share buy back costs \$0.4m (post tax). FY19 UNPATA excludes one-off provision for a UK contract of \$3.7m (post tax).

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

3 Segment UNPATA does not include unallocated public company costs and interest from Group treasury funds.

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

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

6 Underlying earnings per share is based on UNPATA.

7 As at 30 June.

8 Employee engagement survey conducted biennially.

McMillan  
Shakespeare  
Limited

**Financial Report  
2020**

# Statements of Profit or Loss and Other Comprehensive Income

For the year ended 30 June 2020

	Note	Consolidated Group		Parent Entity	
		2020 \$'000	2019 \$'000	2020 \$'000	2019 \$'000
Revenue from contracts with customers	7	493,116	547,894	-	-
Interest income	8	846	1,781	154	776
Other		-	-	-	265
Dividends received	8	-	-	59,591	189,173
<b>Revenue from continuing operations</b>		<b>493,962</b>	<b>549,675</b>	<b>59,745</b>	<b>190,214</b>
<b>Expenses</b>					
Employee benefit expense		(128,879)	(138,774)	(905)	(1,093)
Leasing and vehicle management expenses		(103,312)	(100,355)	-	-
Brokerage commissions and incentives		(30,892)	(36,478)	-	-
Depreciation and amortisation expenses	9(d)	(83,290)	(81,108)	-	-
Net claims incurred		(13,591)	(13,097)	-	-
Other operating expenses	9(c)	(47,794)	(46,802)	(2,048)	(539)
Finance costs		(8,786)	(10,514)	(512)	(817)
Operational expenses excluding impairment items		(416,544)	(427,128)	(3,465)	(2,449)
Other impairment charges	9(a)	(50,139)	(18,254)	(74,348)	-
Impairment of financial assets		(3,822)	(5,765)	(3,621)	-
Contingent consideration fair valuation	23(a)	1,459	1,168	-	-
Impairment items		(52,502)	(22,851)	(77,969)	-
<b>Total expenses</b>		<b>(469,046)</b>	<b>(449,979)</b>	<b>(81,434)</b>	<b>(2,449)</b>
<b>Profit / (loss) before income tax</b>		<b>24,916</b>	<b>99,696</b>	<b>(21,689)</b>	<b>187,765</b>
Income tax (expense) / benefit	10(a)	(22,585)	(35,879)	643	424
<b>Net profit / (loss) for the year</b>		<b>2,331</b>	<b>63,817</b>	<b>(21,046)</b>	<b>188,189</b>
<b>Profit is attributable to:</b>					
Owners of the Company		1,269	63,672	(21,046)	188,189
Non-controlling interest		1,062	145	-	-
		2,331	63,817	(21,046)	188,189
<b>Other comprehensive income</b>					
<i>Items that may be re-classified subsequently to profit or loss:</i>					
Changes in fair value of cash flow hedges		(524)	(1,194)	(89)	157
Exchange differences on translating foreign operations		3	1,036	-	-
Income tax on other comprehensive income		111	279	27	(47)
<b>Other comprehensive income / (loss) for the year</b>		<b>(410)</b>	<b>121</b>	<b>(62)</b>	<b>110</b>
<b>Total comprehensive income / (loss) for the year</b>		<b>1,921</b>	<b>63,938</b>	<b>(21,108)</b>	<b>188,299</b>
<b>Total comprehensive income / (loss) for the year is attributable to:</b>					
Owners of the Company		859	63,793	(21,108)	188,299
Non-controlling interest		1,062	145	-	-
<b>Total comprehensive income for the year</b>		<b>1,921</b>	<b>63,938</b>	<b>(21,108)</b>	<b>188,299</b>
Basic earnings per share (cents)	11	1.6	77.0		
Diluted earnings per share (cents)	11	1.6	76.4		

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 2020

	Note	Consolidated Group		Parent Entity	
		2020 \$'000	2019 \$'000	2020 \$'000	2019 \$'000
<b>Current assets</b>					
Cash and cash equivalents	13	91,408	137,762	220	9,044
Trade and other receivables	14	69,384	61,028	12,863	49,350
Finance lease receivables	15	43,936	57,412	-	-
Assets under operating lease	18(a)	62,272	74,030	-	-
Inventory		7,715	12,310	-	-
Prepayments		3,299	6,076	20	21
Deferred acquisition costs	9(f)	5,206	2,859	-	-
Derivative financial instruments		-	-	-	88
<b>Total current assets</b>		<b>283,220</b>	<b>351,477</b>	<b>13,103</b>	<b>58,503</b>
<b>Non current assets</b>					
Assets under operating lease	18(a)	153,670	206,675	-	-
Property, plant and equipment	18(a)	5,269	7,427	-	-
Right-of-use assets	18(f)	15,953	-	-	-
Finance lease receivables	15	69,150	80,654	-	-
Intangible assets	6	140,413	191,328	-	-
Deferred tax assets	10(c)	10,122	13,008	-	-
Deferred acquisition costs	9(f)	6,641	2,929	-	-
Other financial assets	16(b),16(a)	-	-	211,123	286,243
<b>Total non current assets</b>		<b>401,218</b>	<b>502,021</b>	<b>211,123</b>	<b>286,243</b>
<b>TOTAL ASSETS</b>		<b>684,438</b>	<b>853,498</b>	<b>224,226</b>	<b>344,746</b>
<b>Current liabilities</b>					
Trade and other payables	19	94,462	94,588	128,324	87,150
Contract liabilities	20	8,098	6,051	-	-
Provisions	21	13,800	11,088	-	-
Unearned premium liability	9(f)	18,083	9,075	-	-
Current tax liability		5,274	2,490	3,433	4,775
Other liabilities	20	2,341	8,847	-	-
Borrowings	4,22	11,706	8,779	5,761	5,761
Lease liabilities	18(f)	6,523	-	-	-
Derivative financial instruments		1,678	1,157	-	-
<b>Total current liabilities</b>		<b>161,965</b>	<b>142,075</b>	<b>137,518</b>	<b>97,686</b>
<b>Non current liabilities</b>					
Borrowings	4, 22	251,914	319,520	9,115	13,585
Lease liabilities	18(f)	17,913	-	-	-
Unearned premium liability	9(f)	20,483	8,116	-	-
Provisions	21	1,608	1,365	-	-
Deferred tax liabilities	10(c)	1,669	9,677	814	947
Contingent consideration	23	-	1,374	-	-
<b>Total non current liabilities</b>		<b>293,587</b>	<b>340,052</b>	<b>9,929</b>	<b>14,532</b>
<b>TOTAL LIABILITIES</b>		<b>455,552</b>	<b>482,127</b>	<b>147,447</b>	<b>112,218</b>
<b>NET ASSETS</b>		<b>228,886</b>	<b>371,371</b>	<b>76,779</b>	<b>232,528</b>
<b>Equity</b>					
Issued capital	24(a)	76,419	135,868	76,419	135,868
Reserves		(12,078)	(4,760)	360	934
Retained earnings		164,545	240,263	-	95,726
<b>TOTAL EQUITY</b>		<b>228,886</b>	<b>371,371</b>	<b>76,779</b>	<b>232,528</b>

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

# Statements of Changes in Equity

For the year ended 30 June 2020

		Consolidated Group							
		Issued capital	Retained Earnings	Share-based Payment reserve	Cash flow Hedge Reserve	Foreign Currency Translation Reserve	Outside Equity Interest	Acquisition Reserve	Total
		\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
	Note								
Equity as at beginning of year as originally reported	24	135,868	240,263	872	(878)	(4,560)	(194)	-	371,371
Change in accounting policies	2(c)	-	(2,307)	-	-	-	-	-	(2,307)
Re-stated equity as at the beginning of period		135,868	237,956	872	(878)	(4,560)	(194)	-	369,064
Net profit after-tax		-	1,269	-	-	-	1,062	-	2,331
Other comprehensive income after tax		-	-	-	(410)	542	-	-	132
<b>Total comprehensive income for the period</b>		-	1,269	-	(410)	542	1,062	-	2,463
<i>Transactions with owners in their capacity as owners:</i>									
Share buyback	24(d)	(10,366)	(69,650)	-	-	-	-	-	(80,016)
Share-based expense		-	-	(512)	-	-	-	-	(512)
Dividends paid	12	-	(59,591)	-	-	-	-	-	(59,591)
Equity contribution	24(b)	5,478	-	-	-	-	-	-	5,478
Acquisition of Outside Equity Interest	25(d)	-	-	-	-	-	(868)	(7,132)	(8,000)
Capital reduction	24(c)	(54,561)	54,561	-	-	-	-	-	-
<b>Equity as at 30 June 2020</b>		<b>76,419</b>	<b>164,545</b>	<b>360</b>	<b>(1,288)</b>	<b>(4,018)</b>	<b>-</b>	<b>(7,132)</b>	<b>228,886</b>

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

# Statements of Changes in Equity

For the year ended 30 June 2020

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

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 2020

		Parent Entity				
		Issued Capital \$'000	Retained Earnings \$'000	Share- based Payment Reserve \$'000	Cash Flow Hedge Reserve \$'000	Total \$'000
	Note					
2020						
Equity as at beginning of year	24	135,868	95,726	872	62	232,528
Profit attributable to members of the parent entity		-	(21,046)	-	-	(21,046)
Other comprehensive income after tax		-	-	-	(62)	(62)
<b>Total comprehensive income for the year</b>		-	(21,046)	-	(62)	(21,108)
<i>Transactions with owners in their capacity as owners:</i>						
Share-based expense		-	-	(512)	-	(512)
Share buyback	24(d)	(10,366)	(69,650)	-	-	(80,016)
Equity contribution	24(b)	5,478	-	-	-	5,478
Dividends paid	12	-	(59,591)	-	-	(59,591)
Capital reduction	24(c)	(54,561)	54,561	-	-	-
<b>Equity as at 30 June 2020</b>		<b>76,419</b>	<b>-</b>	<b>360</b>	<b>-</b>	<b>76,779</b>

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

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 2020

	Note	Consolidated Group		Parent Entity	
		2020 \$'000	2019 \$'000	2020 \$'000	2019 \$'000
<b>Cash flows from operating activities</b>					
Receipts from customers		554,699	574,529	-	-
Payments to suppliers and employees		(293,697)	(338,662)	(4,556)	-
Proceeds from sale of assets under lease		67,878	90,239	-	-
Proceeds from sale of lease portfolio	27(c)	111,474	182,000	-	-
Payments for assets under lease		(232,357)	(318,756)	-	-
Government subsidies		7,696	-	-	-
Interest received		846	1,781	154	776
Interest paid		(9,168)	(9,541)	(501)	(791)
Dividends received		-	-	59,591	189,173
Income taxes paid		(18,911)	(48,702)	-	-
<b>Net cash from operating activities</b>	27(a)	<b>188,460</b>	<b>132,888</b>	<b>54,688</b>	<b>189,158</b>
<b>Cash flows from investing activities</b>					
Payments for capitalised software	6(c)	(13,494)	(15,197)	-	-
Payments for plant and equipment		(1,212)	(4,184)	-	-
Payment to acquire Outside Equity Interest	25(d)	(8,000)	-	-	-
Payments for joint venture subordinated loans		(4,596)	(812)	-	-
Net reimbursement for acquisition costs		-	1,113	-	-
Payments for contingent consideration		-	(3,741)	-	-
Payments for subsidiary investments (net of cash acquired)		-	-	-	(4,641)
<b>Net cash used in investing activities</b>		<b>(27,302)</b>	<b>(22,821)</b>	<b>-</b>	<b>(4,641)</b>
<b>Cash flows from financing activities</b>					
Dividends paid by parent entity	12	(59,591)	(61,173)	(59,591)	(61,173)
Proceeds from borrowings	27(d)	107,949	148,278	-	-
Repayment of borrowings	27(d)	(171,086)	(159,244)	(4,481)	(10,762)
Payments for lease liabilities		(7,923)	-	-	-
Payments for borrowing costs		(1,828)	-	-	-
Payments for share buyback	24(d)	(80,016)	-	(80,016)	-
Payments for share expenses		(548)	-	(548)	-
Proceeds from exercise of share options	24(b)	5,478	-	5,478	-
Proceeds from controlled entities		-	-	75,646	(107,529)
Other		-	125	-	-
<b>Net cash used in financing activities</b>		<b>(207,565)</b>	<b>(72,014)</b>	<b>(63,512)</b>	<b>(179,464)</b>
Effect of exchange changes on cash and cash equivalents		53	42	-	-
<b>Net (decrease) / increase in cash and cash equivalents</b>		<b>(46,354)</b>	<b>38,095</b>	<b>(8,824)</b>	<b>5,053</b>
Cash and cash equivalents at beginning of year		137,762	99,667	9,044	3,991
<b>Cash and cash equivalents at end of year</b>	13	<b>91,408</b>	<b>137,762</b>	<b>220</b>	<b>9,044</b>

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

# Notes to the Financial Statements

For the year ended 30 June 2020

## 1 General information

The financial report of McMillan Shakespeare Limited and its subsidiaries for the year ended 30 June 2020 was authorised for issue in accordance with a resolution of the directors on 7 September 2020 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* (Cth).

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* (Cth). McMillan Shakespeare Limited is a for-profit entity for the purpose of preparing the financial statements. Material accounting policies adopted in the preparation of these financial statements are presented below or in the notes to the financial statements 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

A new accounting standard was adopted at the beginning of the financial year in AASB 16: Leases that affected the Group's accounting policies. These are discussed below together with the impact on the financial statements.

The new Standard introduces a single comprehensive on-balance sheet accounting model for lease arrangements that apply to lessors and lessees. The new Standard has no impact on the Group's accounting for leases as lessor. Where the Group previously accounted for its operating lease arrangements as a lessee and disclosed in off-balance sheet commitments, these have now been recognised on the balance sheet from 1 July 2019. This has resulted in the recognition of a right-of-use asset (ROU) being the asset that is leased and a corresponding amount in liabilities that is used to finance the leased asset. Committed payments that were previously recognised as rental expense have been replaced by the depreciation of the ROU and finance expense for the interest incurred on the lease liability.

On transition, for operating leases with a remaining term of less than 12 months and for leases of low-value assets, the Group has applied the optional exemptions to not recognise the right-of-use asset but to account for the lease expense on a straight-line basis over the remaining term of the lease.

The following is a reconciliation of total operating lease commitments at 30 June 2019 to the lease liabilities recognised on 1 July 2019.

	\$'000
Total operating lease commitments disclosed at 30 June 2019 (note 28 to the Financial Statements for the year ended 30 June 2019)	56,927
Change to the estimate at 30 June 2019 which included the option to extend existing lease terms which will not be extended	(23,986)
Recognition exemption for leases with remaining lease term of less than 12 months	(502)
Other minor lease arrangements not included in commitment disclosures	3,015
Operating lease liabilities before discounting	35,454
Effect of discounting using the incremental borrowing rate at 1 July 2019	(3,586)
Total lease liabilities recognized under AASB 16 at 1 July 2019	31,868

# Notes to the Financial Statements

For the year ended 30 June 2020

The new Standard has been applied using the modified retrospective approach, with the cumulative effect on transition being recognised in equity as an adjustment to the opening balance of retained earnings for the current period. Prior period comparative information has not been restated. Under the modified retrospective approach, an incremental borrowing rate of 3.6% has been applied at the date of transition as a practical expedient. The Group has benefitted from the use of hindsight for determining lease term and when considering options to extend and terminate leases.

The following is a summary of the amounts recognised in the financial statements on transition at 1 July 2019.

	\$'000
<b>Assets</b>	
Right-of-use asset	20,990
<b>Liabilities</b>	
Lease liabilities	31,868
Unearned property incentives reduced	(8,571)
Retained earnings	(2,307)

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

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

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

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

- Rental expense previously recognised will be replaced by the depreciation of the ROU and the interest expense on the lease liability. This will consequently, increase EBITDA and EBIT respectively.
- Interest cover ratio will improve and the lease liability will add to the total borrowings and consequently, affects the borrowing ratio.
- Rental payments in the period that used to be included in the payments to suppliers as an operating activity in the Statements of Cash Flows will be replaced by the interest charge on the lease liability as a finance charges paid in operating activities and the principal that is applied against the lease liability as payments to lease liabilities in financing cash flows.

## (d) Summary of Other Accounting Policies

### Principles of consolidation

#### Subsidiaries

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

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

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

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

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

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

# Notes to the Financial Statements

For the year ended 30 June 2020

## **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)). 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 equity is not re-measured at subsequent reporting dates and its subsequent settlement is accounted for within equity.

## **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 no 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.

## **Financial instruments**

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

### **Financial assets**

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

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



# Notes to the Financial Statements

For the year ended 30 June 2020

**(i) Financial assets at amortised cost**

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

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

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

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

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

**(iii) De-recognition**

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

**Financial liabilities**

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

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

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

**(ii) Amortised Cost**

**Borrowings**

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

**Payables**

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

**Other employee benefits**

**Superannuation**

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

**Bonuses**

A liability for employee benefits in the form of bonuses is recognised in employee benefits. This liability is based upon pre-determined plans tailored for each participating employee and is measured on an ongoing basis during the financial period. The amount of bonuses is dependent on the outcomes for each participating employee.

**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.

**Leasing**

A new accounting policy for leases was adopted on 1 July 2019 as disclosed in note 2 (c). Until 30 June 2019, the accounting policy for leases where the Group is the lessee is set out below.

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

**Operating leases – the Group as lessee**

Until 30 June 2019, leases of property where the risks and rewards of ownership were not transferred to the Group as lessee were classified as operating leases. Operating lease payments were recognised as an expense less any landlord incentives received 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 was consumed.

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

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

# Notes to the Financial Statements

For the year ended 30 June 2020

## **Deferred acquisition costs (DAC)**

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

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

## **Unearned premium liability**

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

## **Outstanding claims incurred**

An outstanding claims liability is recognised for claims authorised but unpaid at reporting date and claims reported which are not authorised for payment but are assessed a probability for payment.

Net claims incurred is the expense recognised in the settlement of extended warranty claims net of amounts recovered from third parties.

As at reporting date, \$1,870,000 (2019: \$646,000) is included in the unearned premium liability balance.

## **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.

## **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.

## **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.

## **Cash flow hedge accounting**

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

## **Non-trading derivatives**

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

# Notes to the Financial Statements

For the year ended 30 June 2020

## **Provisions**

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

### **Provision for residual value**

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

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

### **Foreign currency translation**

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

### **Transactions and balances**

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

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

## **Group companies**

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

### **Issued capital**

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

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

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

# Notes to the Financial Statements

For the year ended 30 June 2020

## 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. Significant judgement was required to derive reasonable estimates of the significant uncertainties including COVID-19 on future business plans, operating capability and cash flow projections. Included below are the matters that required judgement to make reasonable estimates.

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

### Goodwill and indefinite life intangible assets

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

Cash projections used in the financial models to assess the carrying value of goodwill and indefinite life intangible assets required significant estimates in very uncertain economic and business environments. These are discussed in more detail in note 6.

### Lease assets residual value

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

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

### Tyre and maintenance services

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

### Underwriting premium revenue and deferred acquisition costs

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

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

During the year, the Group engaged external actuarial services to assess the deferred income and acquisition costs of active contracts that may give rise to future claims. Whilst the underlying methodology had not changed, the critical variables in the claims profile were refreshed to assume the pattern and timing of claims affected by more recent history of claims as well as the impact of recent regulatory changes and product changes by the Group.

### Impairment of financial assets

Finance lease receivables, trade and other receivables are assessed for expected credit loss (ECL). The ECL for finance lease receivables includes the inherent risk attached to the credit assessment of each customer, estimate of customer default risk, environment and inventory risk and other factors affecting recoverability. COVID-19 affected the credit quality of many customers at varying levels. The continuing impact of COVID-19 on the future credit quality of finance lease customers was indeterminable and ECL was adjusted to include a downgrade to the credit rating of all customers where their industry is more exposed to the effects of COVID-19.

No other judgements, estimates or assumptions are considered significant.

# Notes to the Financial Statements

For the year ended 30 June 2020

## 4 Financial Risk Management

The Group's activities expose it to a variety of financial risks: market risk (including currency risk and interest rate risk), credit risk and liquidity risk. The Group's overall risk management approach is to identify the risk exposures and implement safeguards which seek to manage these exposures and minimise potential adverse effects on the financial performance of the Group. The Board is responsible for monitoring and managing the financial risks of the Group. The Board monitors these risks through monthly board meetings, regular reports from the Audit, 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/Head of Credit, including sensitivity analysis in the case of interest rate risk and aging / exposure reports for credit risk. These committee reports are discussed at Board meetings monthly, along with management accounts. All exposures to risk and management strategies are consistent with prior year, other than as noted below.

### (a) Liquidity risk

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

#### *Liquidity management strategy*

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

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

#### *Financing arrangements*

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

Asset Management revolving borrowing facilities in local currency		30 June 2020			30 June 2019		
		Facility	Used	Unused	Facility	Used	Unused
Revolving borrowing facilities (AUD '000)		322,115	240,648	81,467	384,342	296,880	87,462
Secured bank borrowings (excluding borrowing costs)	Maturity dates	Facility	Used	Unused	Facility	Used	Unused
AUD'000	31/03/2022	130,670	112,800	17,870	-	-	-
AUD'000	31/03/2023	45,000	25,000	20,000	-	-	-
AUD'000	31/03/2024	20,000	4,000	16,000	-	-	-
AUD'000	31/03/2021	-	-	-	85,000	65,000	20,000
AUD'000	31/03/2021	-	-	-	35,000	35,000	-
AUD'000	31/03/2021	-	-	-	90,000	80,800	9,200
NZD'000	31/03/2022	30,000	27,200	2,800	-	-	-
NZD'000	31/03/2023	15,000	7,100	7,900	-	-	-
NZD'000	31/03/2021	-	-	-	20,000	13,700	6,300
NZD'000	31/03/2021	-	-	-	15,000	14,700	300
GBP'000	31/10/2021	47,000	37,200	9,800	-	-	-
GBP'000	31/01/2021	-	-	-	35,000	16,700	18,300
GBP'000	31/03/2021	-	-	-	22,000	21,200	800
GBP'000	31/03/2021	-	-	-	22,000	12,000	10,000

# Notes to the Financial Statements

For the year ended 30 June 2020

The revolving borrowing facilities above have been provided by a financing club of three major Australian banks operating under common terms and conditions. The bank loans are denominated in local currency of the principal geographical markets to remove associated foreign currency cash flow exposure.

The revolving facilities are further augmented by uncommitted P&A facilities of \$211 million and a residual value facility of \$123 million. At reporting date, \$106 million of the P&A facilities were used and \$70 million of the residual value facility was utilised. The residual value is subject to a put and call option that reverts the lease asset to the Group at the termination of the lease. The carrying value of the residual value of these assets was assessed at the lower of book value and estimated disposal value resulting in the recognition of a provision for loss in value of \$0.8 million for those assets identified to be possibly below book value. The potential profit from disposal of these assets are not included in the carrying value assessment.

The Group believes that the balanced arrangement of internal funded fleet assets and the use of P&A facilities improves liquidity, provides funding diversification and helps to optimise capital management.

Total borrowing facilities at reporting date decreased by approximately \$62.2 million as the Group re-balanced its funding requirements to achieve the Company's desired mix of on and off balance sheet financing using P&A arrangements. Loan maturities were extended for some facilities with the Club of financiers during the year. The revolving facilities for Australian operations of \$210 million that were due to mature on 31 March 2021 were reduced to \$196 million and extended for another 1 to 3 years. Committed bank facilities for UK operations reduced by GBP32 million in aggregate as the mix of internal funding and the employment of P&A in the provision of lease financing continue to evolve. The facilities that were due to mature in January 2021 has been extended to October 2021 pending the restructure of UK operations. Total unused committed facilities available at reporting date was \$82 million. This will provide funding to meet immediate funding requirements together with the headroom from the \$211 million of uncommitted P&A facilities and residual value facility of \$123 million, a GBP 6 million committed working capital facility for the Company's UK joint venture supported by an unsecured guarantee by the Company, together with contractual lease receivable cash flows, will provide the necessary funding requirements for the next twelve months of forecast new lease additions.

Other amortising borrowing facilities in local currency	2020			2019		
	Facility	Used	Unused	Facility	Used	Unused
Amortising borrowing facilities (AUD '000)	24,726	24,726	-	31,565	31,565	-
<b>Total Borrowings (AUD '000)<sup>1</sup></b>	<b>346,841</b>	<b>265,374</b>	<b>81,467</b>	<b>415,907</b>	<b>328,445</b>	<b>87,462</b>

<sup>1</sup> Borrowings do not include capitalised borrowing costs of \$1,754,000.

The amortising facilities are borrowed in local currency as follows.

Secured bank borrowings (excluding borrowing costs)	Maturity dates	Facility	Used	Unused	Facility	Used	Unused
AUD'000	31/12/2022	7,650	7,650	-	8,927	8,927	-
AUD'000	29/09/2022	7,224	7,224	-	10,435	10,435	-
GBP'000	31/01/2021	1,540	1,540	-	2,520	2,520	-
GBP'000	31/03/2022	3,950	3,950	-	4,307	4,307	-

### Maturities of financial liabilities

The table on the following page summarises the maturity profile of the Group and the parent entity's financial liabilities based on contractual undiscounted payments at the expected settlement dates. Contracted payments are based on amounts brought to account on the balance sheet and property lease commitments not brought to account.

# Notes to the Financial Statements

For the year ended 30 June 2020

Consolidated Group – at 30 June 2020: 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	24,577	-	-	-	-	24,577	24,577
Other creditors and liabilities	77,786	5,900	-	-	-	83,686	71,886
Lease liabilities	4,341	3,344	4,315	20,842	52,573	85,415	24,436
Borrowings	8,197	8,923	219,242	34,118	-	270,480	265,374
	114,901	18,167	223,557	54,960	52,573	464,158	386,273

Consolidated Group – at 30 June 2019: Contractual maturities of financial liabilities	Less than 6 months \$'000	6–12 months \$'000	1–2 years \$'000	2–5 years \$'000	Over 5 years \$'000	Total contractual cash flows \$'000	Carrying Amount / liabilities \$'000
Trade payables	27,150	-	-	-	-	27,150	27,150
Other creditors and liabilities	80,137	6,983	2,112	682	-	89,914	89,859
Borrowings	11,988	11,599	317,462	19,474	-	360,523	328,445
	119,275	18,582	319,574	20,156	-	477,587	445,454

Parent – at 30 June 2020: 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	128,324	-	-	-	-	128,324	128,324
Borrowings	4,267	2,955	5,837	2,086	-	15,145	14,876
Financial guarantee contracts	3,930	5,968	213,405	32,032	-	255,335	-
	136,521	8,923	219,242	34,118	-	398,804	143,200

Parent – at 30 June 2019: Contractual maturities of financial liabilities	Less than 6 months \$'000	6–12 months \$'000	1–2 years \$'000	2–5 years \$'000	Over 5 years \$'000	Total contractual cash flows \$'000	Carrying Amount (assets)/ liabilities \$'000
Amounts payable to wholly owned entities and other payables	87,150	-	-	-	-	87,150	87,150
Borrowings	3,185	3,073	5,922	7,924	-	20,104	19,346
Financial guarantee contracts	6,293	6,107	306,876	5,311	-	324,587	-
	96,628	9,180	312,798	13,235	-	431,841	106,496

# Notes to the Financial Statements

For the year ended 30 June 2020

## (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	
	2020 \$'000	2019 \$'000	2020 \$'000	2019 \$'000
Trade and other receivables	69,384	55,002	-	-
Deposits with banks	91,408	137,762	220	9,044
Finance lease & hire purchase receivables	113,086	138,066	-	-
Operating lease assets	215,942	280,705	-	-
	<b>489,820</b>	<b>611,535</b>	<b>220</b>	<b>9,044</b>

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

### Credit risk management strategy

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

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

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

## (c) Market risk

### Interest rate risk

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

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

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

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



# Notes to the Financial Statements

For the year ended 30 June 2020

	2020		2019	
	Borrowings '000	Weighted average interest rate %	Borrowings '000	Weighted average interest rate %
AUD'000	190,976	1.64%	227,051	2.72%
GBP'000	42,693	1.88%	56,727	1.91%
<b>Total AUD'000</b>	<b>265,381</b>	<b>1.69%</b>	<b>328,445</b>	<b>2.56%</b>

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 2020, the Group's borrowings for the Asset Management business of \$168,479,000 (2019: \$256,591,000) were covered by interest rate swaps at a fixed rate of interest of 2.72% (2019: 2.94%).

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:

	2020	2019
	Balance \$'000	Balance \$'000
Cash and deposits	91,408	137,762
Bank loans (Asset Management segment) <sup>1</sup>	(250,499)	(309,083)
Interest rate swaps (financed amounts)	168,479	256,591
Bank loans (Presidian Group acquisition) <sup>1</sup>	(14,874)	(19,362)
<b>Net exposure to cash flow interest rate risk</b>	<b>(5,486)</b>	<b>65,908</b>

1. Excluding capitalised borrowing costs of \$1,761,000 (2019: \$146,000) for Asset Management and \$26,000 in 2019 for the bank loan for Presidian.

### Sensitivity analysis – floating interest rates:

At 30 June 2020, 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 \$721,000 (2019: \$780,408) higher or lower and the parent entity \$26,000 (2019: \$18,056) higher or lower, depending on which way the interest rates moved based on the cash and cash equivalents and borrowings balances at reporting date.

### Foreign currency risk

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

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

### Other market price risk

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

# Notes to the Financial Statements

For the year ended 30 June 2020

## (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 and the residual value of leases under P&A facilities of \$285,942,000 (2019: \$280,744,000) included a residual value provision of \$4,548,000 (2019: \$4,182,000).

## 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, 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. The provision of administrative services include plan management and support coordination services to participants in the National Disability Insurance Scheme (NDIS).

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

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

# Notes to the Financial Statements

For the year ended 30 June 2020

## (b) Segment information managed by the CEO

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

<b>2020</b>	Group Remuneration Services \$'000	Asset Management \$'000	Retail Financial Services \$'000	Unallocated \$'000	Consolidated \$'000
Revenue from contracts with customers	214,822	228,755	49,539	-	493,116
Interest revenue	-	533	-	313	846
<b>Segment revenue</b>	<b>214,822</b>	<b>229,288</b>	<b>49,539</b>	<b>313</b>	<b>493,962</b>
Timing of revenue recognition:					
– At a point in time	121,589	130,815	41,238	-	293,642
– Over time	93,233	97,940	8,301	-	199,474
<b>Segment revenue from contracts with customers</b>	<b>214,822</b>	<b>228,755</b>	<b>49,539</b>	<b>-</b>	<b>493,116</b>
Underlying net profit after tax and amortisation (UNPATA)	60,946	6,038	3,005	(961)	69,028
Reconciliation to statutory net profit after tax attributable to members of the parent entity					
Impairment of goodwill and other intangible assets	-	(16,174)	(33,965)	-	(50,139)
Amortisation of intangible assets acquired on business combination	-	(1,753)	(2,141)	-	(3,894)
Other, including class action legal costs and settlement provision (refer to note 29(b))	-	-	(7,255)	-	(7,255)
Deferred revenue and acquisition costs valuation	-	-	(13,930)	-	(13,930)
Share buyback expenses	-	-	-	(548)	(548)
Other, including due diligence and restructuring expenses	-	(123)	-	(1,165)	(1,288)
Fair valuation of deferred consideration and finance charge	-	1,459	-	-	1,459
Total adjustments pre-tax	-	(16,591)	(57,291)	(1,713)	(75,595)
Income tax	-	673	6,998	165	7,836
UNPATA adjustments	-	(15,918)	(50,293)	(1,548)	(67,759)
<b>Statutory net profit / (loss) after-tax attributable to members of the parent entity</b>	<b>60,946</b>	<b>(9,880)</b>	<b>(47,288)</b>	<b>(2,509)</b>	<b>1,269</b>

# Notes to the Financial Statements

For the year ended 30 June 2020

<b>2019</b>	Group Remuneration Services \$'000	Asset Management \$'000	Retail Financial Services \$'000	Unallocated \$'000	Consolidated \$'000
Revenue from contracts with customers	221,851	245,089	80,689	265	547,894
Interest revenue	-	704	-	1,077	1,781
<b>Segment revenue</b>	<b>221,851</b>	<b>245,793</b>	<b>80,689</b>	<b>1,342</b>	<b>549,675</b>
Timing of revenue recognition:					
– At a point in time	137,562	134,563	48,992	265	321,382
– Over time	84,289	110,526	31,697	-	226,512
<b>Segment revenue from contracts with customers</b>	<b>221,851</b>	<b>245,089</b>	<b>80,689</b>	<b>265</b>	<b>547,894</b>
<b>Underlying net profit after tax and amortisation (UNPATA)</b>	<b>66,069</b>	<b>17,229</b>	<b>6,359</b>	<b>(960)</b>	<b>88,697</b>
<b>Reconciliation to statutory net profit after-tax attributable to members of the parent entity</b>					
Amortisation of intangible assets acquired on business combination	-	(1,687)	(3,145)	-	(4,832)
Fair valuation of contingent consideration	-	1,168	-	-	1,168
Acquisition costs	-	(863)	-	265	(598)
Provision for finance lease contract loss	-	(4,600)	-	-	(4,600)
Impairment of goodwill and intangible assets	-	-	(18,254)	-	(18,254)
<b>Total UNPATA adjustments</b>	<b>-</b>	<b>(5,982)</b>	<b>(21,399)</b>	<b>265</b>	<b>(27,116)</b>
Income tax	-	1,147	1,024	(80)	2,091
<b>UNPATA adjustments after-tax</b>	<b>-</b>	<b>(4,835)</b>	<b>(20,375)</b>	<b>185</b>	<b>(25,025)</b>
<b>Statutory net profit / (loss) after-tax attributable to members of the parent entity</b>	<b>66,069</b>	<b>12,394</b>	<b>(14,016)</b>	<b>(775)</b>	<b>63,672</b>

## (c) Other segment information

### Segment revenue

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

	2020 \$'000	2019 \$'000
<b>Total segment revenue</b>	<b>493,116</b>	<b>547,894</b>

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.

# Notes to the Financial Statements

For the year ended 30 June 2020

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 \$57,026,000 (2019: \$60,498,000) from the Group's largest contract. This is the only customer representing greater than 10% of total segment revenue.

## Other segment information

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

2020	Group Remuneration Services \$'000	Asset Management \$'000	Retail Financial Services \$'000	Unallocated <sup>1</sup> \$'000	Consolidated \$'000
Segment assets	199,491	465,918	76,669	(57,640)	684,438
Segment liabilities	79,978	308,169	48,147	19,258	455,552
Additions to segment non-current assets	13,217	69,164	5	-	82,386
Segment depreciation and amortisation <sup>2</sup>	15,872	80,183	37,374	-	133,429

2019	Group Remuneration Services \$'000	Asset Management \$'000	Retail Financial Services \$'000	Unallocated <sup>1</sup> \$'000	Consolidated \$'000
Segment assets	175,394	540,400	103,374	34,330	853,498
Segment liabilities	66,380	362,466	27,543	25,738	482,127
Additions to segment non-current assets	14,848	95,078	840	-	110,766
Segment depreciation and amortisation <sup>2</sup>	7,530	69,675	22,157	-	99,362

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

2. Depreciation and amortisation includes impairment of goodwill and other intangibles of \$50.1 million (2019: 18.2 million).

## (d) Geographical segment information

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

	Revenue from external customers		Non-current assets <sup>1</sup>	
	2020 \$'000	2019 \$'000	2020 \$'000	2019 \$'000
Australia	425,343	472,711	259,669	335,882
United Kingdom	55,861	65,073	92,638	117,238
New Zealand	12,445	10,814	38,789	35,892
	493,649	548,598	391,096	489,012

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

# Notes to the Financial Statements

For the year ended 30 June 2020

## 6 Intangible Assets

### (a) Carrying values

	Consolidated Group		Parent Entity	
	2020 \$'000	2019 \$'000	2020 \$'000	2019 \$'000
<b>Goodwill</b>				
Cost	198,122	197,748	-	-
Impairment loss	(108,796)	(60,321)	-	-
Net carrying value	89,326	137,427	-	-
<b>Brands</b>				
Brands at cost – indefinite life	22,443	22,443	-	-
Impairment loss	(13,171)	(13,171)	-	-
Sub-total	9,272	9,272	-	-
Brands at cost – finite life	6,598	6,598	-	-
Impairment loss and disposal	(6,598)	(5,720)	-	-
Net carrying value	9,272	10,150	-	-
<b>Dealer relationships</b>				
Cost	28,637	28,602	-	-
Accumulated amortisation	(14,299)	(12,216)	-	-
Impairment and disposal	(6,990)	(5,298)	-	-
Net carrying value	7,348	11,088	-	-
<b>Software development costs</b>				
Cost <sup>1</sup>	65,842	60,673	-	-
Accumulated amortisation and disposal	(32,948)	(30,286)	-	-
Net carrying value	32,894	30,387	-	-
<b>Contract rights</b>				
Cost	13,269	13,070	-	-
Accumulated amortisation	(13,269)	(13,070)	-	-
Net carrying value	-	-	-	-
<b>Customer list and relationships</b>				
Cost	6,679	6,657	-	-
Accumulated amortisation	(5,106)	(4,381)	-	-
Net carrying value	1,573	2,276	-	-
<b>Total Intangibles</b>	<b>140,413</b>	<b>191,328</b>	<b>-</b>	<b>-</b>

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

# Notes to the Financial Statements

For the year ended 30 June 2020

## (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.

### *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.

### *Identifiable intangible assets acquired from business combination*

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

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

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

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

### *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.

### *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.

# Notes to the Financial Statements

For the year ended 30 June 2020

## (c) Reconciliation of written down values

<b>Consolidated Group 2020</b>	Goodwill \$'000	Brands \$'000	Dealer relationships \$'000	Customer lists and relationships \$'000	Software development costs \$'000	Contract rights \$'000	Total \$'000
<b>Net book amount</b>							
Balance beginning of year	137,427	10,150	11,088	2,276	30,387	-	191,328
Additions	-	-	-	-	13,494	-	13,494
Impairment	(48,475)	-	(1,664)	-	-	-	(50,139)
Amortisation	-	(878)	(2,270)	(746)	(11,700)	-	(15,594)
Other	-	-	-	-	713	-	713
Changes in foreign currency	374	-	194	43	-	-	611
<b>Closing balance</b>	<b>89,326</b>	<b>9,272</b>	<b>7,348</b>	<b>1,573</b>	<b>32,894</b>	<b>-</b>	<b>140,413</b>

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

## (d) Impairment test of goodwill and other intangible assets

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.



# Notes to the Financial Statements

For the year ended 30 June 2020

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

	Consolidated Group					
	Goodwill	Intangibles	Total	Goodwill	Intangibles	Total
	2020 \$'000	2020 \$'000	2020 \$'000	2019 \$'000	2019 \$'000	2019 \$'000
Maxxia Pty Limited (Maxxia)	24,190	23,820	48,010	24,190	20,235	44,425
Remuneration Services (Qld) Pty Limited (RemServ)	9,102	6,288	15,390	9,102	7,058	16,160
CLM Fleet Management plc (CLM)	7,799	311	8,110	12,955	682	13,637
Anglo Scottish Finance Limited (ASF)	13,139	2,710	15,849	16,753	3,192	19,945
Retail Financial Services Segment Aggregation Business (RFS Aggregation)	31,894	12,828	44,722	65,859	14,811	80,670
Capex Asset Finance Limited (CAPEX)	3,202	2,791	5,993	5,081	3,208	8,289
Other	-	2,339	2,339	3,487	4,715	8,202
	<b>89,326</b>	<b>51,087</b>	<b>140,413</b>	<b>137,427</b>	<b>53,901</b>	<b>191,328</b>

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

### Cash flow projections

The cash flow projections are based off the FY2021 budget that incorporates Board approved business plans and initiatives. The growth assumptions used for subsequent years reflect strategic business plans and forecast growth rates. Financial projections also take into account any risk exposures in changes to the trading, market and regulatory environments.

The impact of COVID-19 has resulted in significant uncertainty in the economic environment affecting the Group's businesses. The imposition of lockdown restrictions reduced the effectiveness of operations and reduced motor vehicle originations. The scale of the restrictions, changing economic and social environment and pace of recovery has created inherent uncertainty to the projection of cash flows assumed in the financial models. The value-in-use assessment models have adopted a probability weighted outcome of various scenarios in the cash flow projections.

The after-tax discounted cash flow models were based on after-tax cash flows discounted by an after-tax discount rate. The equivalent pre-tax discount rates are provided below.

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

### GRS CGUs

The Maxxia and RemServ CGUs that form the GRS segment operate largely in the same business environment and are exposed to similar risks. The equivalent pre-tax discount rate of 15% (2019: 15.8%) was applied in the value-in-use calculation.

The salary packaging service was not severely impacted by COVID-19. The novated leasing service was however, significantly affected by COVID-19 given the exposure to the motor vehicle industry that was affected by the economic uncertainty.

The cash flow projections for GRS in FY2021 are substantially higher than the carrying value of goodwill in these CGUs and consequently, any reasonable changes to the key assumptions would not cause an impairment and hence, 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 lease businesses. 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 to April 2021 and November 2021 respectively.

# Notes to the Financial Statements

For the year ended 30 June 2020

## Asset Management CGUs

### Impairment assessment model for Asset Management CGUs

The Asset Management CGUs used a probability weighted model for the impairment assessments that included scenarios and an annual probability weighting for each scenario. One scenario, the base case, used the business plans that formed the FY2021 budget and the growth assumptions for the subsequent years as disclosed for each CGU below. An at-risk scenario that assumed the base case plus the impact of a second COVID-19 wave imposing a lockdown as well as a projection risk for the possibility of under-performing the FY2021 budget.

### CAPEX and ASF

CAPEX and ASF operate largely in the same business sector and are exposed to relatively similar types of risks.

COVID-19 in the UK curtailed the corporate broker business of CAPEX and ASF with volumes falling sharply during the initial period of the lockdown. April and May 2020 experienced business volumes dropping by approximately 50% but has since reported signs of recovery. The following are growth rates assumed in the cash flow projections for each scenario.

Probability weighting assumptions were applied to each year in the scenarios between 40% and 60%. If the probability weightings were changed by 10% the impact to the assessed carrying value of CAPEX and ASF are \$0.3m and \$0.5m respectively.

From other sensitivity tests applied to CAPEX and ASF, a 0.25% change to the discount rate indicated an impact of \$0.2m and \$0.5m respectively and a 5% change to revenue indicated an impact of \$0.9m and \$3.4m respectively.

An impairment of \$1,972,000 and \$3,711,000 has been estimated from the weighted probability of the cash flow scenarios modelled for Capex and ASF respectively. The equivalent pre-tax discount rate of 12.2% (2019: 15.8%) was applied in the value-in-use calculation.

Revenue growth rate assumptions	FY2021	FY2022	FY2023 –FY2025	
<b>Base scenario</b>				
CAPEX	(30%)	34%	0-1%	The severe impact of COVID-19 to the corporate brokering industry was relieved by a Government support programme which terminates in September 2020. Business activities are assumed to remain subdued for most of FY2021 followed by a gradual recovery in the latter months and reaching pre-COVID-19 run rates in FY2022.
ASF	(19%)	11%	0-3%	
<b>At-risk scenario</b>				
CAPEX	(46%)	35%	0-1%	The impact of a second COVID-19 wave is included in FY2021 as is a projection risk for under-performing against planned targets.
ASF	(37%)	28%	2-3%	

# Notes to the Financial Statements

For the year ended 30 June 2020

## CLM

As CLM's business is driven by transactional activities related to the delivery, service, maintenance, repair and disposal of motor vehicles, the COVID-19 lockdown period had an immediate impact on these sectors causing a substantial loss to CLM's maintenance management and outsourced fleet management services. A recovery is anticipated on the back of pent-up demand for required services but inherent uncertainty remains affecting the level and pace of recovery.

Probability weighting assumptions were applied to each year in the scenarios between 40% and 60%. If the probability weightings were changed by 10% the impact to the assessed carrying value of CLM is \$0.2m.

From other sensitivity tests applied, a 0.25% change to the discount rate indicated an impact of \$0.2m and a 5% change to revenue indicated an impact of \$1.3m.

An impairment of \$5,283,000 has been estimated from the weighted probability of the cash flow scenarios modelled for CLM. The equivalent pre-tax discount rate of 12.2% (2019: 15.8%) was applied in the value-in-use calculation.

Revenue growth rate assumptions	FY2021	FY2022	FY2023 –FY2025	
<b>CLM</b>				
Base scenario	7%	2%	1%	The easing of lockdown restrictions allows a quicker recovery in CLM's business activities as withheld required services are re-instated. Beyond this short surge, FY2021 is assumed a relatively modest recovery that continues for the next 4 years.
At-risk scenario	(60%)	149%	1%	As CLM's business is severely impacted by COVID-19, the assumption of a second wave will probably have a severe impact to its business in FY2021. An upturn in business is assumed in the subsequent period for the pent-up demand for required motor vehicle services on the recovery. A projection risk for under-performing planned targets based on prior year experience is also factored in.

# Notes to the Financial Statements

For the year ended 30 June 2020

## RFS Aggregation CGU

In the later part of FY2020 the RFS Aggregation business operated at reduced finance originations and yields due to increased competition and the general decline in the volume of motor vehicle sales. COVID-19 restrictions and the general economic conditions in the fourth quarter exacerbated business conditions affecting volumes. Volume originations have been recovering but yields have remained lower due to competition.

Given that significant uncertainty remains with the economic environment and impact of COVID-19, the sustainability and level of recovery from COVID-19 and as RFS Aggregation seeks to hold and recover its market position, the impairment assessment has been modelled on the weighted probability of three outcomes. The base case uses the plan for FY2021, a second scenario factors a projection risk for COVID-19 and other factors and a third scenario as a growth model that seeks to recover market share and yields ("alternative growth"). An equivalent pre-tax discount rate of 15.0% (2019: 14.1%) has been used for the pre-tax value-in-use calculations.

Probability weighting assumptions were applied to each year in the scenarios of 50% / 40% / 10% for the base, at-risk and alternate growth scenarios in FY2021 respectively. The base scenario probability assumption of 50% is unchanged in all the years in the model. If the probability weightings of the at-risk and alternative growth scenarios changed by 10% with no change to the base scenario, the impact to the assessed carrying value is \$2.5m.

From other sensitivity tests applied, a 0.25% change to the discount rate indicated an impact of \$1.0m and a 5% change to revenue indicated an impact of \$5.2m.

From the weighted probability of the three outcomes, an impairment of \$33,965,000 has been estimated and brought to account in the year.

Revenue growth rate assumptions	FY2021	FY2022	FY2023 –FY2025	
<b>RFS Aggregation</b>				
Revenue growth rates				
Base	(11%)	11%	2%	The volume of finance originations is assumed to be lower by 6% in FY2021 and at lower expected net yields as the business faces increased competition and a change in financier mix. It is assumed that pre-COVID-19 run rates and including the current competition effects is not recovered until the end of FY2021.
At-risk	(19%)	15%	2%	The base scenario is assumed to be potentially at risk for a projection risk for under-performing against planned targets based on prior year experience.
Alternative growth	(8%)	7%	2%	As recovery was relatively steady in the immediate months following stage 3 restrictions, the growth model assumes recovery to pre-COVID-19 run rates but includes the new competition effects for most of FY2021. The growth model also assumes a recovery of net yields as the business changes its financier mix and recovers market share.

# Notes to the Financial Statements

For the year ended 30 June 2020

## 7 Revenue from contracts with customers

	Consolidated Group		Parent Entity	
	2020 \$'000	2019 \$'000	2020 \$'000	2019 \$'000
Remuneration services	214,765	221,831	-	-
Lease rental services	111,226	126,560	-	-
Proceeds from sale of leased assets	86,234	82,036	-	-
Brokerage commissions and financial services	80,612	116,621	-	-
Other	279	846	-	-
<b>Total revenue from contract with customers</b>	<b>493,116</b>	<b>547,894</b>	<b>-</b>	<b>-</b>

### **Remuneration services**

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

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

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

### **Lease rental services**

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

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

### **Sale of leased assets**

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

# Notes to the Financial Statements

For the year ended 30 June 2020

## **Brokerage commissions and financial services**

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

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

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

## 8 Other revenue items

	Consolidated Group		Parent Entity	
	2020 \$'000	2019 \$'000	2020 \$'000	2019 \$'000
Interest revenue	846	1,781	154	776
Dividends received	-	-	59,591	189,173
<b>Other revenue</b>	<b>846</b>	<b>1,781</b>	<b>59,745</b>	<b>189,949</b>

### **Interest**

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

### **Dividends**

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

## 9 Profit and loss information

### (a) Impairment charges

	Consolidated Group		Parent Entity	
	2020 \$'000	2019 \$'000	2020 \$'000	2019 \$'000
<b>Other impairment charges</b>				
Impairment of goodwill	48,475	17,985	-	-
Impairment of other intangible assets	1,664	269	-	-
Impairment of investment in subsidiaries	-	-	74,348	-
	<b>50,139</b>	<b>18,254</b>	<b>74,348</b>	<b>-</b>

# Notes to the Financial Statements

For the year ended 30 June 2020

## (b) Impairment of financial assets

	Consolidated Group		Parent Entity	
	2020 \$'000	2019 \$'000	2020 \$'000	2019 \$'000
Impairment of subordinated loan	4,596	812	-	-
Trade debtors specific and expected loss allowance	1,248	79	-	-
Finance receivables specific loss allowance	(1,844)	4,600	-	-
Finance lease receivable loss allowance	(178)	274	-	-
Related entities loan impairment	-	-	3,621	-
	<b>3,822</b>	<b>5,765</b>	<b>3,621</b>	<b>-</b>

### Group

The Group's impairment of goodwill and other intangible assets relate to the RFS Aggregation segment and the business in the UK. The UK operations have projected lower future cash flows affected by a weaker economic environment including the effects of the COVID-19 pandemic (COVID-19) affecting the products and markets that the businesses trade in. RFS Aggregation experienced increasing competitive pressures during the year affecting finance originations and yields in addition to the impact of COVID-19. Refer note 6(e) for the assumptions used in the assessment.

The subordinated loan loss allowance of \$4,596,000 relates to the net investment in Maxxia Limited in the UK to which the Group has a joint venture arrangement.

Finance lease receivable Expected Credit Loss Allowance (ECL) of \$178,000 is the excess of the provision in the course of the year affected largely by the reduction of the carrying value of Finance Lease receivables of \$113,086,000 from \$138,066,000 in 2019. The Group uses the assessment criteria from its credit management system and adds forward looking indicators to reflect macro-economic factors to estimate ECL. Forward looking factors at reporting date included the downgrade of the credit rating of some clients due to their industry COVID-19 risk, resulting in the weighted average expected loss rate increasing to 0.86% from 0.79% in 2019.

Finance receivables specific loss allowance release of \$1,844,000 is the discharge of a provision for lease assets recovered from distressed clients.

### Parent entity

The Parent entity's carrying value of its investments in its controlled entities were assessed for its recoverable value that has resulted in an impairment of \$74,348,000 (refer note 16). The assessment of the recoverable value of loans to related entities has resulted in an impairment of \$3,621,000.

## (c) Other operating expenses

	Consolidated Group		Parent Entity	
	2020 \$'000	2019 \$'000	2020 \$'000	2019 \$'000
Consulting <sup>1</sup>	11,678	5,180	1,616	199
Marketing	7,735	6,106	-	-
Property and corporate	4,065	10,939	432	340
Technology and communication	13,197	13,044	-	-
Other	11,119	11,533	-	-
	<b>47,794</b>	<b>46,802</b>	<b>2,048</b>	<b>539</b>

1. Consulting expenses include legal consulting expenses of \$6.5m which was mostly related to the class action proceedings and \$2m for the provision of the class action settlement (refer note 29(b))

# Notes to the Financial Statements

For the year ended 30 June 2020

## (d) Other expense items

	Consolidated Group		Parent Entity	
	2020 \$'000	2019 \$'000	2020 \$'000	2019 \$'000
<b>Depreciation and amortisation expenses</b>				
Depreciation of assets under operating lease	58,980	66,246	-	-
Amortisation of software development	11,700	6,519	-	-
Depreciation of plant and equipment	3,191	3,511	-	-
Amortisation of intangibles	3,893	4,832	-	-
Depreciation of ROU	5,526	-	-	-
	<b>83,290</b>	<b>81,108</b>	-	-
<b>Superannuation</b>				
Defined contribution superannuation expense	8,863	8,796	-	-

## (e) Government subsidies

JobKeeper Payment	10,029	-	-	-
Coronavirus Job Retention Scheme	1,237	-	-	-
	<b>11,266</b>	-	-	-

The Group is in receipt of the Federal Government economic response subsidy, JobKeeper Payment, for the Australian entities for the period from April to June 2020. The UK entities were in receipt of the Coronavirus Job Retention Scheme, a temporary relief to provide financial support to assist in the retention of employees who may otherwise be laid off during the COVID-19 pandemic. The JobKeeper subsidy enabled the Company to retain all its employees and reduce the levels of stand down. In the UK, the subsidy was a pass through for those employees that were furloughed.

The subsidies have been accounted for as a reduction to employee benefit expense in the Statement of Profit or Loss.

## (f) Impact of change in estimates

	Consolidated Group		Parent Entity	
	2020 \$'000	2019 \$'000	2020 \$'000	2019 \$'000
<b>Unearned premium liability and deferred acquisition costs</b>				
Unearned premium liability	20,704	-	-	-
Deferred acquisition costs	(6,774)	-	-	-
	<b>13,930</b>	-	-	-

Revenue from warranty premium is deferred on the basis of the earnings pattern over the unexpired portion of contracts using projected future claims obligations. Direct acquisition costs associated with the unexpired portion of contracts are also deferred. During the year, the estimated value of future claims obligations was independently assessed using the methodology consistent with prior years and applying current risk factors and a refreshed claims profile. The current claims profile reflects a slower earning pattern and the extension of validity of claims both as a consequence of changes to products and operations. The resulting effect is to defer a larger portion to meet future claims.

The impact of the transition to the new estimates decreased Revenue from contracts with customers by \$20,704,000 and decreased Brokerage commissions and incentives by \$6,774,000 in the Statements of Profit or Loss. The balance of unearned premium liability and acquisition costs in the Statements of Financial Position at reporting date are as follows:



# Notes to the Financial Statements

For the year ended 30 June 2020

	Consolidated Group		Parent Entity	
	2020 \$'000	2019 \$'000	2020 \$'000	2019 \$'000
Unearned premium liability - current	16,213	8,429	-	-
Unearned premium liability – non-current	20,483	8,116	-	-
Warranty claims	1,870	646	-	-
	<b>38,566</b>	<b>17,191</b>	-	-
Deferred acquisition costs - current	5,206	2,859	-	-
Deferred acquisition costs – non- current	6,641	2,929	-	-
	<b>11,847</b>	<b>5,788</b>	-	-

## 10 Income Tax Expense / (Benefit)

### (a) Components of tax expense / (benefit)

	Consolidated Group		Parent Entity	
	2020 \$'000	2019 \$'000	2020 \$'000	2019 \$'000
Current tax expense / (benefit)	26,101	42,075	(537)	(766)
Adjustments for current tax of prior years	1,369	56	-	-
Deferred tax	(4,885)	(6,252)	(106)	342
Income tax expense / (benefit)	<b>22,585</b>	<b>35,879</b>	<b>(643)</b>	<b>(424)</b>

### (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	
	2020 \$'000	2019 \$'000	2020 \$'000	2019 \$'000
Profit / (loss) before income tax	24,916	99,696	(21,689)	187,765
Prima facie tax payable on profit before income tax at 30% (2019: 30%)	7,475	29,908	(6,507)	56,329
Add tax effect of:				
– non-deductible impairment expense	12,946	5,396	23,391	-
– non-deductible subordinated loan	836	-	-	-
– non-deductible costs	774	668	350	-
– contingent consideration fair valuation	(277)	(222)	-	-
– share-based payments	(154)	-	-	-
– overseas tax rate differential of subsidiaries	2,354	(251)	-	-
– acquisition expenses	-	233	-	-
– share of joint venture loss	-	203	-	-
– over-provision of tax from prior year	(1,369)	(56)	-	-
	<b>22,585</b>	<b>35,879</b>	<b>17,234</b>	<b>56,329</b>
Less tax effect of:				
– dividends received	-	-	(17,877)	(56,753)
Income tax expense / (benefit)	<b>22,585</b>	<b>35,879</b>	<b>(643)</b>	<b>(424)</b>

# Notes to the Financial Statements

For the year ended 30 June 2020

## (c) Deferred tax asset / (liability)

	Consolidated Group		Parent Entity	
	2020 \$'000	2019 \$'000	2020 \$'000	2019 \$'000
The balance comprises temporary differences attributed for:				
<b>Amounts recognised in profit or loss</b>				
Doubtful debts	717	292	-	-
Provisions	8,477	6,795	-	-
Property, plant and equipment	(3,737)	(6,686)	-	-
Accrued expenses	7,582	9,778	79	160
Other receivables/prepayments	460	(1,718)	(1,051)	(1,134)
Other	131	-	131	-
Losses	123	589	-	-
Deferred acquisition expenses	285	325	-	53
Intangible assets	(5,814)	(6,126)	-	-
Unearned income	(55)	(127)	-	-
	<b>8,169</b>	<b>3,122</b>	<b>(841)</b>	<b>(921)</b>
<b>Amounts recognised in equity</b>				
Derivatives recognised directly in equity	284	209	27	(26)
Closing balance at 30 June	<b>8,453</b>	<b>3,331</b>	<b>(814)</b>	<b>(947)</b>
Recognised as:				
Deferred tax asset	10,122	13,008	-	-
Deferred tax liability	(1,669)	(9,677)	(814)	(947)
	<b>8,453</b>	<b>3,331</b>	<b>(814)</b>	<b>(947)</b>
<b>Movements in deferred tax asset / (liability)</b>				
Opening balance at 1 July	3,331	(3,204)	(947)	(558)
Charged to profit or loss	4,885	6,252	106	(342)
Charged to other comprehensive income	111	279	27	(47)
FX	126	4	-	-
Closing balance at 30 June	<b>8,453</b>	<b>3,331</b>	<b>(814)</b>	<b>(947)</b>

## (d) Income tax asset

Income tax asset	-	6,026	-	-
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The income tax receivable in 2019 relating to income tax assessments for FY 2012, FY 2013 and FY 2014 were settled with the taxation authorities and the refund is included in income taxes paid in the Statement of Cash Flows.

# Notes to the Financial Statements

For the year ended 30 June 2020

## (e) Unrecognised temporary differences

	Consolidated Group		Parent Entity	
	2020 \$'000	2019 \$'000	2020 \$'000	2019 \$'000
<i>Temporary differences that have not been tax effected:</i>				
Unused tax losses for which no deferred tax asset has been recognised	1,251	1,329	-	-
Foreign currency translation reserve for investment in subsidiaries	4,018	4,560	-	-
	5,269	5,889	-	-

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

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

## (f) Recognition and measurement

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

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

### *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.

### *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.

### *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 2020

## 11 Earnings Per Share

	Consolidated Group	
	2020	2019
<b>Basic earnings per share</b>		
Basic EPS – cents per share	1.6	77.0
Net profit after tax (\$'000)	\$1,269	\$63,672
Weighted average number of ordinary shares outstanding during the year used in the calculation of basic EPS ('000)	78,945	82,667

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

<b>Diluted earnings per share</b>		
Diluted EPS – cents per share	1.6	76.4
Earnings used to calculate basic earnings per share (\$'000)		
Weighted average number of ordinary shares outstanding during the year used in the calculation of basic EPS ('000)	78,945	82,667
Weighted average number of options on issue outstanding ('000)	869	2,392
Weighted average number of ordinary shares outstanding during the year used in the calculation of diluted EPS ('000)	79,814	85,059

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 the employee incentive plan.

# Notes to the Financial Statements

For the year ended 30 June 2020

## 12 Dividends

	Consolidated Group		Parent Entity	
	2020 \$'000	2019 \$'000	2020 \$'000	2019 \$'000
Final fully franked ordinary dividend for the year ended 30 June 2019 of \$0.40 (2018: \$0.40) per share franked at the tax rate of 30% (2018: 30%)	33,281	33,066	33,281	33,066
Interim fully franked ordinary dividend for the year ended 30 June 2020 of \$0.34 (2019: \$0.34) per share franked at the tax rate of 30% (2019: 30%)	26,310	28,107	26,310	28,107
	59,591	61,173	59,591	61,173
Franking credits available for subsequent financial years based on a tax rate of 30% (2019 – 30%)	91,455	128,758	91,455	128,758

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

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

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

### Recognition and measurement

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

# Notes to the Financial Statements

For the year ended 30 June 2020

## 13 Cash and Cash Equivalents

	Consolidated Group		Parent Entity	
	2020 \$'000	2019 \$'000	2020 \$'000	2019 \$'000
Cash on hand	5	9	-	4
Bank balances	90,178	103,377	220	9,040
Short term deposits	1,225	34,376	-	-
	91,408	137,762	220	9,044

### (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 FY 2020, the floating interest rates for the Group and parent entity were between 0.59% and 1.22% (2019: 0.77% and 1.80%). The short term deposits are also subject to floating rates, which in 2020 were between 1.43% and 2.34% (2019: 1.76% and 2.53%). These deposits have an average maturity of 90 days (2019: 90 days) and are highly liquid.

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

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

	Consolidated Group		Consolidated Group	
	2020		2019	
	Average interest rate %	\$'000	Average interest rate %	\$'000
Client monies in trust, interest accruing to the Group	1.46%	408,676	2.50%	380,123
Client monies in trust, interest accruing to clients	1.29%	23,092	2.36%	32,518
		431,768		412,641

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

Pursuant to contractual agreement with clients, the Company received the following interest for managing client monies and as part substitute for administration service fees at an average interest rate of 1.46% (2019: 2.50%).

	Consolidated Group	
	2020 \$'000	2019 \$'000
Interest received	5,976	9,570

# Notes to the Financial Statements

For the year ended 30 June 2020

## 14 Trade and Other Receivables

Current	Consolidated Group		Parent Entity	
	2020 \$'000	2019 \$'000	2020 \$'000	2019 \$'000
Trade receivables	32,306	41,516	-	-
Other receivables	37,078	13,486	-	-
Income tax receivable (refer note 10(d))	-	6,026	-	-
Amounts receivable from wholly owned entities	-	-	12,863	49,350
	<b>69,384</b>	<b>61,028</b>	<b>12,863</b>	<b>49,350</b>

### (a) Trade receivables

Trade receivables are amounts due from customers for services performed in the ordinary course of business and held with the objective of collecting cash flows. They are generally settled within 30 days and the carrying amount includes a loss allowance of \$967,000 (FY19: \$793,000) and specific doubtful debts allowance of \$1,074,000 (2019: nil). The carrying amount is generally considered to equal their fair value and recoverable.

#### Impairment of trade receivables

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

	Consolidated Group		Parent Entity	
	2020 \$'000	2019 \$'000	2020 \$'000	2019 \$'000
Expected loss rate	2.82%	1.87%	-	-
Gross carrying amount	34,347	42,309	-	-
Loss allowance	967	793	-	-
Specific loss allowance	1,074	-	-	-
<b>Total loss allowance</b>	<b>2,041</b>	<b>793</b>	<b>-</b>	<b>-</b>

Ageing and expected credit loss of trade receivables	2020			2019		
	Total \$'000	Loss allowance \$'000	Amount not impaired \$'000	Total \$'000	Loss allowance \$'000	Amount not impaired \$'000
Not past due	28,052	(821)	27,231	36,720	-	36,720
Past due 30 days	2,442	(55)	2,387	3,176	-	3,176
Past due 31-60 days	1,374	(221)	1,153	1,062	-	1,062
Past due 61-90 days	674	(341)	333	457	(131)	326
Past due > 90 days	1,805	(603)	1,202	894	(662)	232
	<b>34,347</b>	<b>(2,041)</b>	<b>32,306</b>	<b>42,309</b>	<b>(793)</b>	<b>41,516</b>

### (b) Concentration of risk

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

# Notes to the Financial Statements

For the year ended 30 June 2020

## (c) Other receivables

Other receivables include \$25,560,000 from the sale of a portfolio of operating leases at written down value to a financier to discharge the internal financing of lease assets as the Group operates more off-Balance Sheet funding through Principal and Agency (P&A). The receivable was settled in July 2020. The balance of other receivables includes non-revenue related transactions accruing to the Group and client related expenses administered by the Group that are to be recovered.

The 2019 balance of Other receivables of \$13,486,000 was re-stated from \$31,366,000 as a result of re-classifying \$17,880,000 to Trade receivables for amounts due from customers for services rendered but not invoiced.

None of the other current receivables are impaired or past due.

## 15 Finance Lease Receivables

	Consolidated Group		Parent Entity	
	2020 \$'000	2019 \$'000	2020 \$'000	2019 \$'000
Current finance lease receivables	43,936	57,412	-	-
Non-current finance lease receivables	69,150	80,654	-	-
	<b>113,086</b>	<b>138,066</b>	-	-

### Recognition and measurement

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

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

### Impairment of financial assets

	Consolidated Group		Parent Entity	
	2020 \$'000	2019 \$'000	2020 \$'000	2019 \$'000
<b>Finance lease receivables loss provision</b>				
Expected credit loss provision	950	1,128	-	-
Specific provision	189	2,021	-	-
	<b>1,139</b>	<b>3,149</b>	-	-

	Consolidated Group		Parent Entity	
	2020 \$'000	2019 \$'000	2020 \$'000	2019 \$'000
<b>The movement in the expected loss provision is set out below.</b>				
Balance at start of year	3,149	191	-	-
Re-statement of loss provision on transition to AASB 9	-	1,223	-	-
Re-stated carrying value at start of the financial year	3,149	1,414	-	-
Specific loss allowance <sup>1</sup>	177	4,874	-	-
Expected loss allowance	(178)	-	-	-
Loss allowance discharged	(2,021)	(3,059)	-	-
Changes in foreign currency	12	(80)	-	-
<b>Balance at end of year</b>	<b>1,139</b>	<b>3,149</b>	-	-

<sup>1</sup> Includes the one-off provision for a UK contract of \$4,600,000 in 2019.



# Notes to the Financial Statements

For the year ended 30 June 2020

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

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

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

	Consolidated Group		Parent Entity	
	2020 \$'000	2019 \$'000	2020 \$'000	2019 \$'000
Expected loss rate	0.86%	0.79%	-	-
Gross carrying amount	110,782	142,829	-	-
Loss allowance	950	1,128	-	-

	Consolidated Group			
	Minimum lease payments	Present value of lease payments	Minimum lease payments	Present value of lease payments
	2020 \$'000	2020 \$'000	2019 \$'000	2019 \$'000
<b>Amounts receivable under finance lease receivables</b>				
Within one year	47,296	43,936	67,579	56,796
Later than one but not more than five years	72,233	68,062	80,513	80,985
Later than five years	1,138	1,088	292	285
	120,667	113,086	148,384	138,066
Less: unearned finance income	(7,581)	-	(10,318)	-
Present value of minimum lease payments	113,086	113,086	138,066	138,066

	Consolidated Group			
	Carrying amount	Carrying amount	Fair value	Fair value
	2020 \$'000	2019 \$'000	2020 \$'000	2019 \$'000
<b>Fair value measurement</b>				
Finance lease receivables	113,086	138,066	113,496	134,643

Current finance lease receivables are short term and their carrying amount is considered to equal their fair value. The fair value of 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% (2019: 3.30%). They are classified as level 3 fair values in the fair values hierarchy due to the inclusion of unobservable inputs.

# Notes to the Financial Statements

For the year ended 30 June 2020

## 16 Other financial assets

### (a) Investment in subsidiaries

	Consolidated Group		Parent Entity	
	2020 \$'000	2019 \$'000	2020 \$'000	2019 \$'000
Shares in subsidiaries at cost	-	-	211,123	286,243

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

Name	Country of Incorporation	% Owned 2020	% Owned 2019	Principal activities
<b>Parent entity</b>				
McMillan Shakespeare Limited	Australia			
<b>Subsidiaries in Group</b>				
Maxxia Pty Limited <sup>1</sup>	Australia	100%	100%	Remuneration services provider
Remuneration Services (Qld) Pty Limited <sup>1</sup>	Australia	100%	100%	Remuneration services provider
Easilease Pty Ltd	Australia	100%	100%	Remuneration services provider
Interleasing (Australia) Ltd <sup>1</sup>	Australia	100%	100%	Asset management and services
TVPR Pty Ltd <sup>1</sup>	Australia	100%	100%	Asset management and services
Presidian Holdings Pty Ltd	Australia	100%	100%	Retail financial services
Davantage Group Pty Ltd	Australia	100%	100%	Retail financial services
Money Now Pty Ltd	Australia	100%	100%	Retail financial services
National Finance Choice Pty Ltd	Australia	100%	100%	Retail financial services
Franklin Finance Group Pty Ltd	Australia	100%	100%	Retail financial services
Australian Dealer Insurance Pty Ltd	Australia	100%	100%	Retail financial services
National Finance Solutions Pty Ltd	Australia	100%	100%	Retail financial services
National Insurance Choice Pty Ltd	Australia	100%	100%	Retail financial services
National Dealer Services Pty Ltd	Australia	100%	100%	Retail financial services
Motorsure Pty Ltd	Australia	100%	100%	Retail financial services
Presidian Management Services Pty Ltd	Australia	100%	100%	Retail financial services
ADU Investments Pty Ltd	Australia	100%	100%	Retail financial services
United Financial Services Pty Ltd	Australia	100%	100%	Retail financial services
United Financial Services Network Pty Ltd	Australia	100%	100%	Retail financial services
United Financial Services (QLD) Pty Ltd	Australia	100%	100%	Retail financial services
Just Honk Pty Ltd	Australia	100%	100%	Asset management
Plan Management Partners Pty Ltd	Australia	100%	75%	Plan management services
Carila 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 plc	United Kingdom	100%	100%	Fleet management services
European Vehicle Contracts Limited	United Kingdom	100%	100%	Fleet management services
Capex Asset Finance Limited	United Kingdom	100%	100%	Fleet management services
Maxxia Limited	New Zealand	100%	100%	Dormant
Maxxia Fleet Limited	New Zealand	100%	100%	Asset management and services
Wuxi McMillan Software Co. Ltd	Peoples Republic of China	100%	100%	Software development

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

# Notes to the Financial Statements

For the year ended 30 June 2020

## Recognition and measurement

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

During the year, the Parent entity recognised impairments for its investments in Presidian Holdings Pty Ltd of \$51,457,000 and in Maxxia UK Holdings plc of \$22,891,000 based on the assessment of their recoverable value.

On 30 June 2020, the Group acquired the remaining 25% of the share capital in Plan Management Partners Pty Ltd.

### (b) Subordinated loan receivable

	Consolidated Group		Parent Entity	
	2020 \$'000	2019 \$'000	2020 \$'000	2019 \$'000
Carrying value at start of the financial year previously stated	-	1,169	-	-
Reverse share of losses of equity accounted joint venture – refer note 2(e)(i)	-	6,129	-	-
Expected loss allowance – refer note 2(e)(i)	-	(7,298)	-	-
<b>Re-stated carrying value at start of the financial year</b>	-	-	-	-
New loans during year	4,596	812	-	-
Specific credit loss allowance	(4,596)	(812)	-	-
<b>Carrying value at end of the financial year</b>	-	-	-	-

## Recognition and measurement

The loan and other expense receivable is made up of advances to the joint venture with Maxxia Limited in the UK ("JV", refer note 17) as part of the working capital facility provided pursuant to the Group's investment arrangement and forms part of the next investment in the JV. The loan is classified as a financial asset at amortised cost.

At reporting date the subordinated loan was assessed to be impaired and \$4,596,000 (2019: \$812,000) was expensed in the Statement of Profit and Loss.

The loan accrues interest at commercial rates and the balance at reporting date approximates to fair value.

# Notes to the Financial Statements

For the year ended 30 June 2020

## 17 Investment in joint venture

	Consolidated Group		Parent Entity	
	2020 \$'000	2019 \$'000	2020 \$'000	2019 \$'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. Under the current contractual agreement, the Group together with the joint venture partner jointly control the economic activities and key decisions of the JV entity. The arrangement requires unanimous consent of the parties for key strategic, financial and operating policies that affect the Group's returns. By agreement, the Group assumes responsibility for key decisions of the joint venture entity when its interest is greater than 75%. The Group has an option to acquire the residual interest in the joint venture entity from the joint venture partner after five years from acquisition and the joint venture partner has an option to sell its interest to the Group during the same period. At reporting date, the fair value of the option is not materially different to the carrying value.

The interest in the JV is equity accounted in the financial statements where the Group's share of the post-acquisition net result after tax is recognised in the Group's consolidated profit after income tax. The Group's share of losses exceeds its investment cost in the JV and accordingly, the excess is applied to the extent of 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.

	Consolidated Group	
	2020 \$'000	2019 \$'000
Current assets	16,155	9,550
Non-current assets	121	97
<b>Total assets</b>	<b>16,276</b>	<b>9,647</b>
Current liabilities	23,013	16,906
Non-current liabilities	11,665	8,057
<b>Total liabilities</b>	<b>34,678</b>	<b>24,963</b>
<b>Net liabilities</b>	<b>(18,402)</b>	<b>(15,316)</b>

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

Net liabilities of JV	(18,402)	(15,316)
Group ownership interest (50%)	(9,201)	(7,658)
Carrying amount	-	-
<b>Cumulative losses of JV equity accounted</b>	<b>-</b>	<b>-</b>

The Group's share of the JV losses is limited to the carrying value of its net investment in the JV. During the year, the Group recognised an impairment of \$4,596,000 for the subordinated loan to the JV which at reporting date was fully written-down.

# Notes to the Financial Statements

For the year ended 30 June 2020

Joint venture financial results	Consolidated Group	
	2020 \$'000	2019 \$'000
Revenues	5,186	6,164
Expenses	(8,202)	(9,077)
Loss before income tax	(3,016)	(2,913)
Income tax	-	-
Loss after income tax	(3,016)	(2,913)
Group's share of loss after income tax	-	-
Share of joint venture capital commitments	-	-

## 18 Property, Plant and Equipment

### (a) Plant and equipment

	Consolidated Group		Parent Entity	
	2020 \$'000	2019 \$'000	2020 \$'000	2019 \$'000
<b>Plant and equipment</b>				
At cost	20,840	25,385	-	-
Less accumulated depreciation	(15,571)	(17,958)	-	-
	5,269	7,427	-	-
<b>Assets under operating lease</b>				
At cost	360,876	434,508	-	-
Less accumulated depreciation	(144,934)	(153,803)	-	-
	215,942	280,705	-	-
<b>Total plant and equipment</b>	<b>221,211</b>	<b>288,132</b>	<b>-</b>	<b>-</b>
Total current	62,272	74,030	-	-
Total non-current	158,939	214,102	-	-
<b>Total plant and equipment</b>	<b>221,211</b>	<b>288,132</b>	<b>-</b>	<b>-</b>
<b>Carrying value of assets under operating lease</b>				
Written down value of operating lease assets terminating within the next 12 months	62,272	74,030	-	-
Written down value of operating lease assets terminating after more than 12 months	153,670	206,675	-	-
	215,942	280,705	-	-

# Notes to the Financial Statements

For the year ended 30 June 2020

## (b) Movements in cost and accumulated depreciation

	Consolidated Group		
	Plant and equipment \$'000	Assets under operating lease <sup>1</sup> \$'000	Total \$'000
<b>Year ended 30 June 2020</b>			
Balance at the beginning of year	7,427	280,705	288,132
Additions	1,212	67,679	68,891
Transfer from software development	348	-	348
Disposals / transfers to assets held for sale	(485)	(72,496)	(72,981)
Depreciation expense	(3,191)	(58,980)	(62,171)
Residual value adjustment	-	(551)	(551)
Change in foreign currency	(42)	(415)	(457)
<b>Balance at 30 June</b>	<b>5,269</b>	<b>215,942</b>	<b>221,211</b>
<b>Year ended 30 June 2019</b>			
Balance at the beginning of year	7,243	302,128	309,371
Additions	3,395	91,921	95,316
Transfer from software development	518	-	518
Disposals / transfers to assets held for sale	(63)	(48,457)	(48,520)
Depreciation expense	(3,511)	(66,246)	(69,757)
Residual value adjustment	-	472	472
Change in foreign currency	(155)	887	732
<b>Balance at 30 June</b>	<b>7,427</b>	<b>280,705</b>	<b>288,132</b>

1. Accumulated provision for impairment loss at reporting date is \$4,733,000 (2019: \$4,182,000).

## (c) Recognition and measurement

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

### Assets under operating lease

Assets held under operating leases are for contracts with customers other than finance leases. The Group's initial investment in the lease is added as a cost to the carrying value of the leased assets and 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 basis 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.

# Notes to the Financial Statements

For the year ended 30 June 2020

## (f) Leases

This note discloses the Group as lessee for operating lease arrangements for the use of property and equipment.

### i. Right of use assets

	Consolidated Group		Parent Entity	
	2020 \$'000	2019 \$'000	2020 \$'000	2019 \$'000
Re-statement of assets carrying value on transition to AASB 16	20,990	-	-	-
New assets leased in the period	489	-	-	-
Depreciation included in profit or loss	(5,526)	-	-	-
	15,953	-	-	-

### ii. Lease liabilities

	Consolidated Group		Parent Entity	
	2020 \$'000	2019 \$'000	2020 \$'000	2019 \$'000
Re-statement of lease liabilities on transition to AASB 16	31,868	-	-	-
New assets leased in the period	489	-	-	-
Finance charge included in profit or loss	1,031	-	-	-
Lease payments	(8,952)	-	-	-
	24,436	-	-	-
<b>Carrying value of lease liabilities</b>				
Current	6,523	-	-	-
Non-current	17,913	-	-	-
	24,436	-	-	-

### Recognition and measurement of lease assets and liabilities

From 1 July 2019, leases for property and other assets are classified as Right-Of-Use (ROU) with a corresponding lease liability. ROU and the lease liability are initially measured on a present value basis. Most of the (ROU) assets of the Group are for property that have more than twelve months left in the rental period from the time of recognition. The value of leases are brought to account are for the value of the property and exclude non-lease components.

Lease liabilities include the net present value of fixed rental payments less any lease incentives plus any rental adjustments where the extensions available under the lease will probably be exercised. Lease payments are discounted using the Group's incremental borrowing rate.

ROU is measured at cost comprising the amount of the initial measurement of lease liability, any initial direct costs and any provision for make-good or restoration. ROU is depreciated over the shorter of the asset's useful life and lease term on a straight line basis.

Payments for short term leases of less than 12 months and low-value leases are expensed on a straight line basis to the profit or loss when incurred.

The principal portion of payments is included in financing activities in the Statements of Cash Flows and the finance charges is included in operating activities.

# Notes to the Financial Statements

For the year ended 30 June 2020

## 19 Trade and Other Payables

	Consolidated Group		Parent Entity	
	2020 \$'000	2019 \$'000	2020 \$'000	2019 \$'000
<b>Unsecured liabilities</b>				
Trade payables	24,577	27,150	-	-
GST payable	4,594	6,177	-	-
Sundry creditors and accruals	65,291	61,261	103	1,741
Amounts payable to wholly owned entities	-	-	128,221	85,409
	<b>94,462</b>	<b>94,588</b>	<b>128,324</b>	<b>87,150</b>

### Recognition and measurement

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

## 20 Other Liabilities

### (a) Other liabilities

	Consolidated Group		Parent Entity	
	2020 \$'000	2019 \$'000	2020 \$'000	2019 \$'000
Customer receipts in advance	2,341	3,257	-	-
Unearned property incentives	-	5,590	-	-
	<b>2,341</b>	<b>8,847</b>	<b>-</b>	<b>-</b>

### Recognition and measurement

#### Revenue received in advance

Customer receipts in advance represent payments for future services.

#### Unearned property incentives

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

### (b) Contract liabilities

	Consolidated Group		Parent Entity	
	2020 \$'000	2019 \$'000	2020 \$'000	2019 \$'000
Maintenance fees received in advance	4,051	3,388	-	-
Rebates and cancellations	4,047	2,663	-	-
	<b>8,098</b>	<b>6,051</b>	<b>-</b>	<b>-</b>

#### Maintenance fees received in advance

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

#### Rebates and cancellations

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



# Notes to the Financial Statements

For the year ended 30 June 2020

## 21 Provisions

	Consolidated Group		Parent Entity	
	2020 \$'000	2019 \$'000	2020 \$'000	2019 \$'000
<b>Current</b>				
Employee benefit liabilities	11,800	10,339	-	-
Provision for class action	2,000	-	-	-
Provision for onerous contracts	-	749	-	-
	<b>13,800</b>	<b>11,088</b>	-	-
<b>Non current</b>				
Provision for long service leave	1,608	1,365	-	-
Provision for onerous contracts	-	-	-	-
	<b>1,608</b>	<b>1,365</b>	-	-

	Employee benefit liabilities		Provision for onerous rent		Provision for class action	
	2020 \$'000	2019 \$'000	2020 \$'000	2019 \$'000	2020 \$'000	2019 \$'000
Balance at start of the year	11,704	11,120	749	1,404	-	-
Employee benefits earned and accrued in the year	8,901	7,929	-	-	-	-
Finance charges and provision adjustments	-	-	(290)	(147)	-	-
Payments in the year	(7,197)	(7,345)	(459)	(508)	-	-
Provision made in the year	-	-	-	-	2,000	-
<b>Balance at the end of the year</b>	<b>13,408</b>	<b>11,704</b>	<b>-</b>	<b>749</b>	<b>2,000</b>	<b>-</b>

### Recognition and measurement

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

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

### Employee benefits

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

Annual leave and long service leave that 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.

# Notes to the Financial Statements

For the year ended 30 June 2020

## **Provision for class action**

The provision for class action of \$2,000,000 is based on the possible settlement of the class action dispute currently under mediation (refer note 29 (b)).

## **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.

## 22 Borrowings

	Consolidated Group		Parent Entity	
	2020 \$'000	2019 \$'000	2020 \$'000	2019 \$'000
<b>Current</b>				
Bank loans – at amortised cost	11,706	8,779	5,761	5,761
<b>Non-current</b>				
Bank loans – at amortised cost	251,914	319,520	9,115	13,585
<b>Total borrowings</b>	<b>263,620</b>	<b>328,299</b>	<b>14,876</b>	<b>19,346</b>

### (a) Recognition and measurement

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

### (b) Security

The parent entity guarantees all bank loans of subsidiaries in the Group, totalling \$250,498,000 (2019: \$309,953,000).

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

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

- (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, earnings covenants and fleet asset portfolio performance.
- (iii) The business exposures of the Interleasing Group and Maxxia Finance Ltd satisfy various business parameters.

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

### (c) Fair value disclosures

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

### (d) Risk exposures

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

# Notes to the Financial Statements

For the year ended 30 June 2020

## 23 Contingent consideration

	Consolidated Group		Parent Entity	
	2020 \$'000	2019 \$'000	2020 \$'000	2019 \$'000
Contingent consideration – Non-current	-	1,374	-	-

### (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.

	2020 \$'000	2019 \$'000	2020 \$'000	2019 \$'000
<b>Movement in contingent consideration</b>				
Balance at the beginning of the year	1,374	6,158	-	-
Fair value adjustment in Profit or Loss	(1,459)	(1,168)	-	-
Finance expense	-	265	-	-
Payments	-	(3,741)	-	-
Change in foreign currency	85	(140)	-	-
<b>Balance at 30 June</b>	<b>-</b>	<b>1,374</b>	<b>-</b>	<b>-</b>

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

Based on the performance to date and expected performance and plans to the date of the earnouts, it was considered unlikely that further payments will be required to be made in the acquisition of Anglo Scottish plc.

# Notes to the Financial Statements

For the year ended 30 June 2020

## 24 Issued Capital

### (a) Share capital

	Consolidated Group		Parent Entity	
	2020 \$'000	2019 \$'000	2020 \$'000	2019 \$'000
77,381,107 (2019: 83,204,720) fully paid ordinary shares	76,419	135,868	76,419	135,868

### (b) Movements in issued capital

	Number of shares	Issue price	Ordinary shares \$'000
Shares issued at 1 July 2019	83,204,720		135,868
Treasury shares	(538,129)		-
Shares held by external shareholders at the beginning of the year	82,666,591		135,868
Share buy-back	(5,823,613)	\$1.78	(10,366)
Treasury shares distributed in the year on the exercise of employee options	538,129	\$10.18	5,478
Capital reduction	-		(54,561)
Shares held by external shareholders at 30 June 2020	77,381,107		76,419

	Number of shares	Issue price	Ordinary shares \$'000
Shares issued at 1 July 2018	83,204,720	-	135,868
Treasury shares	(538,129)	-	-
Shares held by external shareholders at 30 June 2019	82,666,591		135,868

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) Capital reduction

The net assets of the parent were affected by the loss in value of its investments in and receivable balances from its subsidiaries amounting to \$77,969,000 resulting in a deficit in retained earnings of \$54,561,000 at 30 June 2020. In order to avoid the limitation on the Company's capacity to pay a dividend, the deficit in retained earnings has been applied as a reduction against share capital for the value that is no longer represented in assets in accordance with S.258F of the Corporations Act. The loss in value of assets is summarised as follows.

	Consolidated Group	
	2020 \$'000	2019 \$'000
Investment in subsidiaries	74,348	-
Loan receivables from subsidiaries	3,621	-
Loss in value of assets	77,969	-

# Notes to the Financial Statements

For the year ended 30 June 2020

The loss in value of the investment in subsidiaries has resulted from the impairment of the carrying value of intangibles assets of the RFS Aggregation and the Asset Management subsidiaries in the UK (refer note 16(a)) and the recoverable value of another subsidiary investment. The parent entity's assessment of the recoverability of loans receivable from its subsidiaries has resulted in an impairment of \$3,621,000.

The capital reduction is non-cash and the impairment of the parent's investment in its subsidiaries and loan receivables does not impact the consolidated financial statements and does not affect net assets of the parent or the Consolidated Group.

## (d) Share buy-back

In October 2019, the Company completed an off-market share buy-back of 5,823,613 fully paid ordinary shares at \$13.74 per share that was funded from cash of \$80,016,443. The share buy-back comprised a capital component of \$1.78 which reduced share capital by \$10,366,031 and a fully franked dividend per share of \$11.96 that was paid out of retained earnings of \$69,650,412.

## (e) Treasury shares

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

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

## (f) Options

At 30 June 2020, there were 593,656 (2019: 2,030,950) unissued ordinary shares for which options were outstanding and exercisable at an average price of \$16.52 (2019: \$13.68). Details relating to options issued, exercised and lapsed during the year and options outstanding at the end of the reporting period is set out in Note 31.

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

## (g) 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.

## (h) Capital management strategy

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

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

The Groups' gearing ratio was 43% (2019: 27%) calculated as net debt of \$172,212,000 (2019: \$190,713,000) divided by total debt and equity of \$401,098,000 (2019: \$699,843,000). The capital structure of the Group is reviewed on an ongoing basis and considers the allocation and type of capital and the associated risks and returns.

# Notes to the Financial Statements

For the year ended 30 June 2020

## 25 Reserves

### (a) Share-based payment reserve

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

The balance in reserves representing share-based equity rights and options are transferred to retained earnings upon vesting. In 2019 \$9,969,000 of the reserve for vested equity based rights and options was transferred to retained earnings.

### (b) Cash flow hedge reserve

	Consolidated Group		Parent Entity	
	2020 \$'000	2019 \$'000	2020 \$'000	2019 \$'000
Revaluation - gross	(1,293)	(1,157)	-	88
Deferred tax	111	279	-	(26)
<b>Balance at the end of the financial year</b>	<b>(1,182)</b>	<b>(878)</b>	<b>-</b>	<b>62</b>

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

### (c) Foreign currency translation reserve

	Consolidated Group		Parent Entity	
	2020 \$'000	2019 \$'000	2020 \$'000	2019 \$'000
<b>Balance at the end of the financial year</b>	<b>(4,018)</b>	<b>(4,560)</b>	<b>-</b>	<b>-</b>

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

### (d) Acquisition reserve

At 30 June 2020, the Company acquired Outside Equity Interest's (OEI) remaining interest in Plan Partners Pty Ltd for \$8,000,000. The OEI shareholding was acquired at amortised cost of \$868,000 and the remaining balance of \$7,132,000 was placed in reserve.

# Notes to the Financial Statements

For the year ended 30 June 2020

## 26 Fair value measurement

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

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

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

Financial asset/ (financial liability)	Fair value at		Fair value hierarchy	Valuation technique and key input
	2020 \$'000	2019 \$'000		
Interest rate swaps – cash flow hedge	(1,293)	(1,157)	2	Discounted cash flow using estimated future cash flows based on forward interest rates (from observable yield curves at the end of the reporting period) and contract interest rates, discounted to reflect the credit risk of various counterparties.
Contingent consideration	-	(1,374)	3	The contingent consideration is assessed as unlikely to be payable (refer note 23). In 2019 the discounted cash flow used a discount rate of 2.8%, average annual revenues of approximately \$9.5m and EBITDA in the region of \$3.2m.

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 2020

## 27 Cash Flow Information

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

	Consolidated Group		Parent Entity	
	2020 \$'000	2019 \$'000	2020 \$'000	2019 \$'000
Profit for the year	2,331	63,817	(21,046)	188,189
<b>Non cash flows in profit from operating activities</b>				
Amortisation	15,593	11,351	-	-
Right of use depreciation	5,526	-	-	-
Impairment	54,735	19,066	77,969	-
Depreciation	62,171	69,757	-	-
Loss allowance	583	4,874	-	-
Option expense	(512)	(750)	(512)	-
Fair valuation of contingent consideration	(1,462)	(1,168)	-	-
Finance lease receivables principle repayments and disposals	172,141	227,104	-	-
Purchase of assets under lease	(232,459)	(318,756)	-	-
Written down value of assets sold	76,573	42,996	-	-
Share buy-back expenses	548	-	-	-
Other	1,390	-	-	-
<b>Changes in assets and liabilities, net of the effects of purchase of subsidiaries</b>				
(Decrease) / Increase in trade receivables and other assets	(17,667)	(4,403)	(4)	179
Increase / (Decrease) in trade payables and accruals	27,509	25,233	(270)	2,162
Increase / (Decrease) in income taxes payable	8,810	(6,347)	(1,316)	(1,760)
(Decrease) / increase in deferred taxes	(5,214)	(5,962)	(133)	388
Increase in unearned revenue	21,119	3,103	-	-
(Decrease) / increase in provisions	(3,255)	2,973	-	-
<b>Net cash from operating activities</b>	<b>188,460</b>	<b>132,888</b>	<b>54,688</b>	<b>189,158</b>

### (b) Working capital

The Group received relief to withhold \$10.7 million of Federal, State and Corporate taxes for the reporting months of April to June 2020 and these will be payable in FY2021.

Included in receivables is \$25.6 million from the sale of a portfolio of operating lease contracts which was received in July 2020.

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

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

### (d) Proceeds and repayments of borrowings

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



# Notes to the Financial Statements

For the year ended 30 June 2020

## (e) Net debt reconciliation

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

Financing cash flow from liabilities	Consolidated Group		Parent Entity	
	2020 \$'000	2019 \$'000	2020 \$'000	2019 \$'000
Borrowings (excluding capitalised borrowing costs)	265,381	328,430	14,876	19,362
Payable due to wholly owned entities	-	-	114,844	36,059
<b>Financing liabilities</b>	<b>265,381</b>	<b>328,430</b>	<b>129,720</b>	<b>55,421</b>

Financing cash flow from liabilities	Consolidated Group		Parent Entity	
	2020 \$'000	2019 \$'000	2020 \$'000	2019 \$'000
Liabilities at the start of the period	328,430	338,312	55,421	179,978
Cash flows relating to borrowings	(63,137)	(10,696)	(4,481)	(10,762)
Cash flows relating to payables due to wholly owned entities	-	-	78,780	(113,795)
Foreign exchange adjustments	88	814	-	-
<b>Liabilities at the end of the period</b>	<b>265,381</b>	<b>328,430</b>	<b>129,720</b>	<b>55,421</b>

## 28 Commitments

### (a) Operating lease commitments

The commitments at reporting date relate to a non-cancellable property lease that commences in January 2023 and has not been brought to account in the Statement of Financial Position. The commitments in 2019 were for property leases that have now been brought to account in the Statement of Financial Position on transition to the AASB 16: Leases (refer note 3(a)).

	Consolidated Group		Parent Entity	
	2020 \$'000	2019 \$'000	2020 \$'000	2019 \$'000
Minimum lease payments				
– Not later than 12 months	-	8,024	-	-
– Between 1 and 5 years	14,770	31,808	-	-
– Greater than 5 year	39,604	17,095	-	-
<b>Current payables</b>	<b>54,374</b>	<b>56,927</b>	<b>-</b>	<b>-</b>

# Notes to the Financial Statements

For the year ended 30 June 2020

## 29 Contingent Liabilities

### (a) Financial guarantees

	Consolidated Group		Parent Entity	
	2020 \$'000	2019 \$'000	2020 \$'000	2019 \$'000
Guarantee provided for the performance of a contractual obligation not supported by term deposit	11,550	12,550	-	50
Guarantees provided for obligations under principal and agency facilities	14,088	14,478	13,908	11,171
Guarantee provided in respect of a working capital facility	10,768	10,724	10,768	10,724
Guarantees provided in respect of property leases	5,603	5,512	-	-
Guarantees provided in respect of property leases	448	-	-	-
	<b>42,457</b>	<b>43,264</b>	<b>24,676</b>	<b>21,945</b>

### (b) Class action update

On 14 August 2018, a class action proceeding was commenced in the Federal Court against Davantage Group Pty Ltd (trading as "National Warranty Company"), a subsidiary of the Company, in relation to certain warranty products. Davantage Group Pty Ltd was acquired by the Company in February 2015 and the claim relates to certain warranties entered into between 1 July 2013 and 28 May 2015. A significant portion of the relevant period to which the claim relates is in respect of a time when the "National Warranty Company" was not owned by the MMS Group.

Davantage Group Pty Ltd attended a mediation in June 2020 and the matter is now scheduled to return before the Federal Court on 22 September 2020.

A provision of \$2 million for possible settlement has been recognised in the Company's financial statements for the year ended 30 June 2020.

# Notes to the Financial Statements

For the year ended 30 June 2020

## 30 Related Party Transactions

### (a) Wholly owned group

Transactions between the Company and other entities within the wholly owned group during the years ended 30 June 2020 and 2019 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	
	2020 \$	2019 \$	2020 \$	2019 \$
Dividend revenue	-	-	59,591,464	189,173,277
Aggregate amounts payable to entities within the wholly owned group at balance date:				
Current receivables	-	-	12,863,000	49,350,000
Current payables	-	-	127,707,000	85,409,000

### (b) Key management personnel compensation

	Consolidated Group		Parent Entity	
	2020 \$	2019 \$	2020 \$	2019 \$
Compensation				
Short-term employment benefits	3,044,020	3,210,946	2,095,836	2,276,442
Post-employment benefits	149,517	208,656	101,812	113,856
Long-term employment benefits	69,461	26,795	32,659	31,732
Share-based payments	(129,375)	(348,013)	(55,173)	(254,914)
	3,133,623	3,098,384	2,175,134	2,167,116

# Notes to the Financial Statements

For the year ended 30 June 2020

## 31 Share-Based Payments

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

During the year, the Company issued Performance Rights with a three year vesting period. The issuance to the Managing Director was granted on 22 October 2019 following shareholder approval on that day.

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

### *Performance Options*

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

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

### *Voluntary Options*

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

### *Performance Rights*

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

### *Performance hurdles and vesting entitlements*

Refer page 26 for details of the terms and conditions for Performance Rights issued in the year.

### *Recognition and measurement*

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

# Notes to the Financial Statements

For the year ended 30 June 2020

## (a) Options

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

Performance Options		Consolidated Group and parent entity - 2020						
Grant date	Expiry date	Exercise price	Balance at start of the year	Granted during the year	Exercised or sold during the year	Forfeited during the year	Balance at end of the year	Exercisable at end of the year
19 August 2014	30 September 2019	\$10.18	538,129	-	(538,129)	-	-	-
3 July 2017	30 September 2020	\$13.45	332,381	-	-	(332,381)	-	-
26 September 2017	30 September 2020	\$14.97	17,340	-	-	(17,340)	-	-
24 October 2017	30 September 2020	\$13.45	71,140	-	-	(71,140)	-	-
3 July 2017	30 September 2021	\$13.45	308,488	-	-	(308,488)	-	-
26 September 2017	30 September 2021	\$14.97	15,920	-	-	(15,920)	-	-
24 October 2017	30 September 2021	\$13.45	66,027	-	-	(66,027)	-	-
3 July 2018	30 September 2022	\$16.64	576,253	-	-	(109,348)	466,905	-
23 October 2018	30 September 2022	\$16.64	105,272	-	-	-	105,272	-
			2,030,950	-	(538,129)	(920,644)	572,177	-
Weighted average exercise price			\$13.68	-	\$10.18	\$13.88	\$16.64	-

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

# Notes to the Financial Statements

For the year ended 30 June 2020

## Voluntary Options

### Consolidated Group and parent entity - 2020

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

## Voluntary Options

### Consolidated Group and parent entity - 2019

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

## (b) Rights

Set out below is a summary of Performance Rights granted under the Plan.

2020		Balance at the start of the year	Granted during the year	Forfeited during the year <sup>1</sup>	Balance at end of the year	Exercisable at end of the year
Grant date	Exercise date <sup>1</sup>					
3 July 2017	30 September 2019	83,429	-	(83,429)	-	-
26 September 2017	30 September 2019	4,365	-	(4,365)	-	-
24 October 2017	30 September 2019	17,860	-	(17,860)	-	-
3 July 2017	30 September 2020	87,883	-	(87,883)	-	-
26 September 2017	30 September 2020	4,598	-	(4,598)	-	-
24 October 2017	30 September 2020	18,814	-	(18,814)	-	-
3 July 2018	30 September 2021	103,648	-	(19,670)	83,978	-
23 October 2018	30 September 2021	18,937	-	-	18,937	-
1 July 2019	30 September 2022	-	334,336	(56,823)	277,513	-
22 October 2019	30 September 2022	-	69,178	-	69,178	-
18 December 2019	31 October 2020	-	16,899	-	16,899	-
		339,534	420,413	(293,442)	466,505	-

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

# Notes to the Financial Statements

For the year ended 30 June 2020

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

## Fair value of Performance Rights granted

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

Grant	Share price at grant date	Expected life (years)	Expected dividend yield	Fair value
1 July 2019	\$12.37	3.3	5.9%	\$10.18
22 October 2019	\$14.85	2.9	5.0%	\$12.83
18 December 2019	\$12.90	0.9	5.7%	\$12.27

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

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

	Consolidated Group		Parent Entity	
	2020 \$	2019 \$	2020 \$	2019 \$
Performance Options issued under the LTIP	(432,342)	(359,636)	-	-
Voluntary Options issued under the LTIP	3,552	4,960	-	-
Performance Rights issued under the LTIP	(83,400)	(405,103)	-	-
	(512,190)	(759,779)	-	-

# Notes to the Financial Statements

For the year ended 30 June 2020

## 32 Auditor's Remuneration

	Consolidated Group		Parent Entity	
	2020 \$	2019 \$	2020 \$	2019 \$
<b>Remuneration of the auditor (Grant Thornton Audit Pty Ltd) of the parent entity for:</b>				
Audit or review of the financial report of the entity and any other entity in the Consolidated Group	301,200	285,200	-	-
Assurance related	157,970	219,220	-	-
<b>Remuneration of a network firm of the parent entity auditor:</b>				
Audit or review of the financial statements (UK)	179,813	182,673	-	-
Assurance related for non-statutory audit services	10,009	-	-	-



# Notes to the Financial Statements

For the year ended 30 June 2020

## 33 Deed of Cross Guarantee

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

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

Set out below is a statement of comprehensive income, statement of financial position and a summary of movements in consolidated retained profits for the year ended 30 June 2020 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

	2020 \$'000	2019 \$'000
<b>Statement of Comprehensive Income</b>		
Revenue and other income	331,702	360,794
Employee and director benefits expenses	(93,827)	(101,400)
Depreciation and amortisation expenses and impairment	(69,138)	(69,318)
Leasing and vehicle management expenses	(43,261)	(39,598)
Consulting cost expenses	(3,065)	(3,622)
Marketing expenses	(6,781)	(4,739)
Property and corporate expenses	(2,405)	(7,947)
Technology and communication expenses	(10,205)	(10,391)
Finance costs	(5,005)	(6,681)
Other expenses	(3,868)	(2,038)
Impairment	(74,348)	-
<b>Profit / (loss) before income tax</b>	<b>19,799</b>	<b>115,060</b>
Income tax expense	(26,504)	(33,841)
<b>Profits / (losses) attributable to members of the parent entity</b>	<b>(6,705)</b>	<b>81,219</b>
<b>Other comprehensive income</b>		
Other comprehensive (loss) / income for the year after tax	(62)	110
<b>Total comprehensive (loss) / income for the year</b>	<b>(6,767)</b>	<b>81,329</b>
<b>Movements in consolidated retained earnings</b>		
Retained earnings at the beginning of the financial year	232,072	202,057
Profits for the year	(6,705)	81,219
Dividends paid	(59,591)	(61,173)
Intra-equity transfer from option reserve	-	9,969
Share buyback	(69,650)	-
Capital reduction	54,561	-
Lease transition	(2,219)	-
<b>Retained earnings at the end of the financial year</b>	<b>148,468</b>	<b>232,072</b>

# Notes to the Financial Statements

For the year ended 30 June 2020

## (b) Consolidated Statement of Financial Position

	2020 \$'000	2019 \$'000
<b>Current assets</b>		
Cash and cash equivalents	44,750	100,806
Trade and other receivables	47,981	31,293
Finance lease receivables	10,358	11,061
Assets under operating lease	-	74,030
Inventory	5,149	7,026
Income tax receivable	-	6,026
<b>Total current assets</b>	<b>108,238</b>	<b>230,242</b>
<b>Non current assets</b>		
Property, plant and equipment	193,006	177,571
Intangible assets	56,740	60,600
Deferred tax asset	6,515	8,284
Finance lease receivables	9,007	11,410
Other financial assets	107,558	174,760
<b>Total non current assets</b>	<b>372,826</b>	<b>432,625</b>
<b>TOTAL ASSETS</b>	<b>481,064</b>	<b>662,867</b>
<b>Current liabilities</b>		
Trade and other payables	69,618	77,181
Current tax liability	3,634	4,775
Provisions	11,788	10,324
Borrowings	7,037	11,484
Lease liabilities	4,749	-
<b>Total current liabilities</b>	<b>96,826</b>	<b>103,764</b>
<b>Non current liabilities</b>		
Provisions	1,603	2,076
Borrowings	149,153	188,153
Lease liabilities	15,356	-
<b>Total non current liabilities</b>	<b>166,112</b>	<b>190,229</b>
<b>TOTAL LIABILITIES</b>	<b>262,938</b>	<b>293,993</b>
<b>NET ASSETS</b>	<b>218,126</b>	<b>368,874</b>
<b>Equity</b>		
Issued capital	76,420	135,868
Reserves	(6,762)	934
Retained earnings	148,468	232,072
<b>TOTAL EQUITY</b>	<b>218,126</b>	<b>368,874</b>

# Notes to the Financial Statements

For the year ended 30 June 2020

## 34 Events subsequent to the reporting date

At the date of this report, significant uncertainties remain in the economic environment and the impact of COVID-19 on the business sectors affecting the Group's businesses. Travel restrictions are still extensively administered and a lockdown now operates in Victoria and in Auckland in New Zealand. A second COVID-19 wave may cause the re-imposition of a lockdown in the UK and other locations that the Group's businesses operate in. Accordingly, there is significant uncertainty to the condition of markets that the Group operates in that may affect the recoverable value of assets, adequacy of liability of provisions and the financial cash flow assumptions used to assess the carrying value of non-current assets.

The Group is expected to receive \$7.6m (after-tax) in JobKeeper Payments for July to September 2020.

Other than the above and matters disclosed in this Annual Report there were not material events subsequent to reporting date.

## Directors' Declaration

The Directors are of the opinion that:

1. the financial statements and notes on pages 46 to 113 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 2020 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 33 will be able to meet any obligations or liabilities to which they are, or may become, subject by virtue of the deed of cross guarantee described in Note 33.

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

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

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



**Tim Poole**  
Chairman



**Michael Salisbury**  
Managing Director

7 September 2020  
Melbourne, Australia

# Independent Audit Report

As at 30 June 2020



**Grant Thornton Audit Pty Ltd**  
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## Independent Auditor's Report

To the Members of McMillan Shakespeare Limited

### Report on the audit of the financial report

#### Opinion

We have audited the financial report of McMillan Shakespeare Limited (the Company) and its subsidiaries (the Group), which comprises the consolidated statement of financial position as at 30 June 2020, the consolidated statement of profit or loss and other comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies, and the Directors' declaration.

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

- a giving a true and fair view of the Group's financial position as at 30 June 2020 and of its performance for the year ended on that date; and
- b complying with Australian Accounting Standards and the *Corporations Regulations 2001*.

#### Basis for opinion

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

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

#### Key audit matters

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

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# Independent Audit Report

As at 30 June 2020



## Key audit matter

## How our audit addressed the key audit matter

### Impairment of goodwill and intangible assets (Note 6 and 9(a))

At 30 June 2020 the Group has \$89,326,000 of goodwill and \$18,193,000 in other intangible assets (excluding software development costs) contained within separate cash generating units (CGUs).

During the year, the group recognised an impairment against goodwill and other intangible assets totalling \$50,139,000 including the following CGU's:

- Retail Financial Services Aggregation;
- CLM Fleet Management;
- Anglo Scottish Finance; and
- Capex Asset Finance.

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 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.

Our procedures included, amongst others:

- reviewing the impairment assessment value-in-use (VIU) models for compliance with AASB 136 *Impairment of Assets*;
- reviewing the completeness and accuracy of the underlying data used in the impairment assessment VIU models;
- assessing management's determination of CGUs based on our understanding of how management monitors the entity's operations and makes decisions about groups of assets that generate independent cash flows;
- evaluating management's process for the preparation and review of the impairment assessment VIU models, taking into consideration the impacts of sector specific issues;
- utilising internal valuation specialists to review the appropriateness of the impairment assessment VIU models, appropriateness of benchmarks compared to external data and compliance with the requirements of AASB 136;
- evaluating the mathematical accuracy of the VIU model calculations and assessing the appropriateness of the methodologies including evaluating cash flow projections compared to the historical accuracy of the budgeting process;
- assessing 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 relevant components and the Group as well as applying specific adjustments for the particular CGU where the CGU had a higher risk of impairment;
- performing 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
- assessing the adequacy of the Group's disclosures within the financial statements.

### Warranty revenue and unearned premium liability (Note 9f)

The warranty area of the business derives revenues through the gross wholesale premiums obtained from 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. At year-end this balance represented a liability of \$38,566,000.

We consider this a key audit matter due to the inherent subjectivity over the nature of the estimations used in determining the unearned premium liability.

Our procedures included, amongst others:

- verifying the mathematical accuracy of the unearned premium liability and warranty revenue calculations to ensure the revenue profile assumptions have been correctly applied;
- reviewing the completeness and accuracy of the underlying data used in the calculation;
- assessing the reasonableness of management's key assumptions in relation to the revenue profile, which is based on the profile of future claim costs by:
  - analytically reviewing the claims pattern during the year to determine the appropriateness of the percentages in the unearned premium model; and
  - selecting a sample of claims in the current year and agreeing their details to supporting documentation and payments;
- testing the accuracy of the gross premiums used in the unearned premium calculation by selecting a sample of gross premiums and agreeing amounts and key terms to supporting contracts; and
- assessing the adequacy of the Group's disclosures within the financial statements.

# Independent Audit Report

As at 30 June 2020



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

The Directors are responsible for the other information. The other information comprises the information included in the Group's annual report for the year ended 30 June 2020, but does not include the financial report and our auditor's report thereon.

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

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

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

## Responsibilities of the Directors for the financial report

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

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

## Auditor's responsibilities for the audit of the financial report

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

A further description of our responsibilities for the audit of the financial report is located at the Auditing and Assurance Standards Board website at: [https://www.auasb.gov.au/auditors\\_responsibilities/ar1\\_2020.pdf](https://www.auasb.gov.au/auditors_responsibilities/ar1_2020.pdf). This description forms part of our auditor's report.

## Report on the remuneration report

### Opinion on the remuneration report

We have audited the Remuneration Report included in pages 20 to 41 of the Directors' report for the year ended 30 June 2020.

In our opinion, the Remuneration Report of McMillan Shakespeare Limited, for the year ended 30 June 2020 complies with section 300A of the *Corporations Act 2001*.

# Independent Audit Report

As at 30 June 2020



## 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*

Grant Thornton Audit Pty Ltd  
Chartered Accountants

*Darren Scammell*

Darren Scammell  
Partner – Audit & Assurance  
Melbourne, 7 September 2020



# Auditor's Independence Declaration

For the year ended 30 June 2020



**Grant Thornton Audit Pty Ltd**  
 Level 22 Tower 5  
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 727 Collins Street  
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 Melbourne VIC 3008  
 T +61 3 8320 2222

## 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 (the Company) and its subsidiaries (the Group) for the year ended 30 June 2020, I declare that, to the best of my knowledge and belief, there have been:

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

*Grant Thornton*

Grant Thornton Audit Pty Ltd  
 Chartered Accountants

*Darren Scammell*

Darren Scammell  
 Partner – Audit & Assurance

Melbourne, 7 September 2020

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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 14 August 2020, the number of shares held by substantial shareholders and their associates is as follows:

Shareholder	Number of Ordinary Shares	Percentage of Ordinary Shares <sup>1</sup>
HSBC Custody Nominees (Aust) Ltd	31,899,313	41.22
JP Morgan Nominees Australia Limited	9,094,470	11.75
Chessari Holdings Pty Limited <sup>2</sup>	6,050,941	7.82
Citicorp Nominees Limited	5,406,438	6.99
Asia Pac Technology Pty Ltd <sup>3</sup>	3,343,025	4.32

1 As at 14 August 2020, 77,381,107 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.

### NUMBER OF SHARE & OPTION HOLDERS

As 14 August 2020, the number of holders of ordinary shares and options in the Company was as follows:

Class of Security	Number of Holders
Fully paid ordinary shares	5,651
Options exercisable at \$13.45 and expiring on 30 September 2020	1
Options exercisable at \$13.45 and expiring on 30 September 2021	2
Options exercisable at \$16.64 and expiring on 30 September 2022	24

### 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 14 August 2020, 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	3,570
1,001 – 5,000	1,653
5,001 – 10,000	249
10,001 – 100,000	153
100,000+	26

As at 14 August 2020 there were 401 shareholders who held less than a marketable parcel of 54 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 14 August 2020, the details of the top 20 shareholders in the Company are as follows:

No.	Name	Number of Ordinary Shares	Percentage of Ordinary Shares <sup>1</sup>
1	HSBC Custody Nominees (Aust) Ltd	31,899,313	41.22
2	J P Morgan Nominees Australia Pty Limited	9,094,470	11.75
3	Chessari Holdings Pty Ltd <sup>2</sup>	6,050,941	7.82
4	Citicorp Nominees Pty Limited	5,406,438	6.99
5	Asia Pac Technology Pty Ltd	3,343,025	4.32
6	National Nominees Limited	1,509,821	1.95
7	UBS Nominees Pty Ltd	1,491,226	1.93
8	BNP Paribas Noms Pty Ltd <DRP>	1,358,623	1.76
9	BNP Paribas Nominees Pty Ltd <Agency Lending DRP A/C>	1,124,872	1.45
10	Ann Leslie Ryan	1,008,418	1.30
11	Milton Corporate Limited	803,532	1.04
12	MOHL Invest Pty Ltd <MOHL Super Fund A/C>	475,000	0.61
13	AFICO Pty Ltd	455,012	0.59
14	CS Third Nominees Pty Limited <HSBC Cust Nom Au Ltd 13 A/C>	396,824	0.51
15	AMP Life Limited	380,264	0.49
16	Warbont Nominees Pty Ltd <Unpaid Entrepot A/C>	238,553	0.31
17	Neweconomy Com Au Nominees Pty Limited <900 Account>	213,397	0.28
18	HSBC Custody Nominees (Australia) Limited-GSCO ECA	198,131	0.26
19	HSBC Custody Nominees (Australia) Limited – A/C 2	196,601	0.25
20	Citicorp Nominees Pty Limited <Colonial First State Inv A/C>	189,542	0.24
<b>Totals: Top 20 holders of issued Capital</b>		<b>65,834,003</b>	<b>85.08</b>
<b>Total Remaining Holders Balance</b>		<b>11,547,104</b>	<b>14.92</b>

<sup>1</sup> As at 14 August 2020, 77,381,107 fully paid ordinary shares have been issued by the Company.

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

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

## 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 \$13.45 and expiring on 30 September 2020	8,979	1
Options exercisable at \$13.45 and expiring on 30 September 2021	12,500	2
Options exercisable at \$16.64 and expiring on 30 September 2022	541,843	24

Options do not carry a right to vote

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## McMillan Shakespeare Limited

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### Company Auditor

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### Share Registry

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McMillanShakespeareGroup

