

MOTORCYCLE HOLDINGS LIMITED

# ANNUAL REPORT

# 2018

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# CHAIRMAN'S REPORT



**DAVID FOSTER**  
CHAIRMAN

Dear Shareholder

In our second full year of operations as a listed company, MotorCycle Holdings has confirmed its position as the largest motorcycle dealership operator in Australia, with the diversified business performing well across key divisions and continuing to capitalise on opportunities to deliver strong growth in the future.

During the past three years, we set out to achieve a number of key objectives, driven by our core strategy to grow the motorcycle business both organically and through acquisitions.

The growth strategy focused on the transition to public ownership to establish the financial capacity for future growth and to strengthen our ability to play a role in restructuring and consolidating the fragmented motorcycle sales industry.

In addition, we recognised the importance of driving improvements at existing dealerships and enhancing the productivity of the current network to deliver organic growth.

Our performance in 2018 reflects the progress we have made towards achieving the objectives of strategy and establishes a firm platform for future growth.

The year saw the most significant acquisition in the company's history, with the acquisition of Cassons, a leading wholesaler and retailer of motorcycle accessories.

The addition of Cassons to the MotorCycle Holdings Group aligns with our strategy to develop our accessories business and realise further revenue growth by expanding our distribution networks.

As part of the acquisition, we welcomed Rob Cassen to the Board as an Executive Director, as well as more than 200 members of the Cassons team.

We also enhanced our business footprint with the acquisition of two new dealerships and opening one new greenfield site, expanding the dealership network to 30 locations spread across the eastern states.

The company's revenue increased to \$302.4 million for the year, with solid contributions across each business division, demonstrating the value of our diversified revenue streams. Underlying EBITDA increased 36% to \$19.8 million while net profit after tax was impacted by acquisition costs and declined 2% to \$9.1 million.

Directors have declared a final dividend of 6.5 cents per share (fully franked) to be paid to shareholders registered as at September 12, 2018, bringing the total full year dividend to 12 cents per share (fully franked). This payout ratio of 81% of NPAT is higher than usual due to reduced acquisition activity over the next 12 months, while we consolidate and streamline operations. The payout ratio is expected to return to 50-70% of NPAT going forward.

The company's strategy of growth through acquisitions has diversified our revenue streams and strengthened the resilience of the company, which has been a crucial factor enabling us to withstand some challenging trading conditions this year.

While there was an overall decline in motorcycle sales across the industry, we increased sales of new and used motorcycles by 9% to 17,754 units for the year ended 30 June 2018.

We also continued to increase our market share of new motorcycle sales, securing approximately 9.5% of national new bike sales during the financial year, compared with 8% in the prior year.

It is encouraging to see the recent industry-wide sales during the six months to 30 June 2018, which although less than the comparable period in 2017, suggest that the industry's cyclical downturn is moderating and the market has stabilised.

During the next 12 months, the company will undergo a period of consolidation, which will include work to finalise the integration of recent acquisitions, as well as improving processes, upgrading systems and improving operating efficiencies to support future growth.

MotorCycle Holdings' strong result is an outcome of both the successful implementation of our growth strategy and the outstanding team who implemented it.



Throughout the year we employed more than 700 staff nationally who have been instrumental in delivering this strong performance, while also successfully integrating new dealerships into the business.

I would like to sincerely thank the company's management team and employees for their contribution, as well as our shareholders and customers for their continued support.

**David Foster**  
Chairman

**Our performance in 2018 reflects the progress we have made towards achieving the objectives of our strategy and establishes a firm platform for future growth.**

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# MANAGING DIRECTORS' REPORT



**DAVID AHMET**  
MANAGING DIRECTOR

It has been another year of milestones for MotorCycle Holdings.

We achieved steady growth in the year to 30 June 2018, with motorcycle sales and revenue growth, primarily due to the acquisition of Cassons and expansion of our dealership network.

## FINANCIAL RESULTS

Underlying earnings before interest, tax and depreciation (EBITDA) increased 36% to \$19.8 million (2017: \$14.6 million) while net profit after tax was impacted by acquisition costs and declined 2% to \$9.1 million (2017: \$9.3 million). The underlying EBITDA margin was 6.5%. These results were achieved on revenue increasing 28.5% to \$302.4 million (2017: \$235.3 million).

While motorcycle sales were down across the industry, the company increased sales 9% to 17,754 units (2017: 16,310 units). Comparable store sales declined by 6.8% over the year.

|                                     | 2017   | 2018   | 2017 v<br>2018 (%)* |
|-------------------------------------|--------|--------|---------------------|
| <b>Motorcycle sales (units)</b>     | 16,310 | 17,754 | 9                   |
| <b>Revenue (\$M)</b>                | 235.3  | 302.4  | 29                  |
| <b>Underlying EBITDA (\$M)</b>      | 14.6   | 19.8   | 36                  |
| <b>Underlying EBITDA margin (%)</b> | 6.2    | 6.5    | 4                   |
| <b>NPAT (\$M)</b>                   | 9.3    | 9.1    | (2)                 |

\* Rounded figures

EBITDA of \$17.7M is after allowing for \$2.1M of acquisition expenses.

Without these expenses underlying EBITDA is \$19.8M

## NEW MOTORCYCLES

New motorcycle sales increased 5% to 9,575 units (2017: 9,089 units) due to recent acquisitions, which was a good result, compared with a national market decline in new motorcycle sales of approximately 10%.

The national market sales decline occurred largely in the first half year to December 2017, where new market sales were down by 14%. In the second half of the year the market was down by 6% compared to the corresponding period last year, which is a promising indication the market is stabilising.

## USED MOTORCYCLES

Used motorcycles sales increased 13% to 8,179 units (2017: 7,221 units).

## RETAIL ACCESSORIES AND PARTS

In other divisions of the Company, we grew revenue in the Retail Accessories and Parts division by 54%, due mainly to the acquisition of Cassons retail stores.

## SERVICE DEPARTMENTS

Revenue in the Servicing and Repair division increased 12% for the year.

## FINANCE AND INSURANCE

As foreshadowed in the December 2017 interim results, Finance, Insurance and Warranty revenue decreased 11%, with reduced insurance commissions received after general insurance companies changed their premiums and commission rates as a consequence of the ASIC review into add-on insurance.

We commenced operating the white-label finance product as part of the joint venture with motorcycle industry finance company Allied Credit, which enables the company to provide secured loans to customers directly. The joint venture provides a new revenue stream for existing loan origination activities, providing added diversity and strength to the company's operations.

## EXPANDING OUR NETWORK

This year we continued to expand our dealer network, with a number of acquisitions driving additional revenue growth.

Our acquisition of Cassons Pty Ltd, a leading wholesaler and retailer of motorcycle accessories and parts, included the wholesale importing and distribution of accessories and parts to retailers, as well as the MotorCycle Accessories Supermarkets, which retails accessories and parts through eight stores in New South Wales and Victoria.

In addition to increasing revenue, the acquisition provided numerous advantages to MotorCycle Holdings, including increasing the scale of MTO's existing retail accessory business, expanding the distribution network and providing opportunities to improve margin by sourcing additional Cassons product for retailing through the MTO dealer network.





The integration of Cassons is well advanced with it making a strong contribution to revenue for the year. We are continuing to develop additional synergies, including the potential to sell used motorcycles in MCA superstores. The Auburn store is the first to start selling used motorcycles and it is performing in line with expectations.

Revenue growth was also assisted by the acquisition of two new dealerships during the year - TeamMoto Frankston, acquired in December 2017 and Central Coast Harley-Davidson, acquired in March 2018 as well as the opening of TeamMoto Yamaha Sunshine Coast in January 2018.

### IMPROVING OUR EXPERTISE

The year has also included a focus on recruiting additional management resources to bolster our commercial and technical expertise and maintain our focus on strong growth opportunities.

We have appointed Eddie Macdonald as Chief Financial Officer (CFO) and Joint Company Secretary. Eddie has a long history in Australian retail businesses in senior management roles, including CEO of Clark Rubber, CEO of Amart Furniture and CFO and COO at Colorado Group. Eddie brings extensive retail experience to MotorCycle Holdings. His management experience brings a highly commercial focus to the position, while previous roles as CFO give him great technical ability.

Eddie takes over from Bob Donovan (former CFO) and Lisa Dalton (former Company Secretary). Bob has moved to the role of GM Business Development & Integration, a new role in the company with accountability for assessing and integrating new acquisitions into the business.

### OUTLOOK

Notwithstanding the subdued motorcycle sales results from the first half of the year, we remain cautiously optimistic that sales volumes will recover over the year, based on the positive indications from second half sales. We have every confidence that the strength of the company's growth strategy and diversified revenue streams provide an excellent platform to take advantage of improved trading conditions.

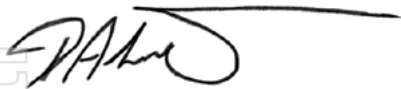
Sales growth is also expected with the ongoing implementation of used motorcycle sales in a number of MCA retail stores, as well as from the new Keilor MCA store.



# MANAGING DIRECTOR'S REPORT CONTINUED...

Other factors that we expect will contribute to improved future earnings include cost reduction initiatives and continued contributions from recent dealership and Cassons acquisitions.

The focus of the company over the next 12 months will be to consolidate our recent period of growth by finalising the integration of recent acquisitions, as well as improving processes, upgrading systems and improving operating efficiencies to support future growth.



**David Ahmet**  
Managing Director

**This year we continued to expand our dealer network, with a number of acquisitions driving additional revenue growth.**

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# DIRECTORS' REPORT

The directors present their report together with the financial report of MotorCycle Holdings Limited (the "Company") and its controlled entities (the "Group") for the year ended 30 June 2018 and the auditor's report thereon.

## 1. DIRECTORS

The directors of the Company at any time during or since the end of the financial year are:

### DAVID FOSTER



- Appointed 8 March 2016 (NED)
- Appointed 25 July 2016 (Interim Chairman)
- Appointed 23 August 2016 (Chairman)

### Chairman, Independent Non-Executive Director

David has over 25 years' experience in the financial services industry, with experience spanning across management, distribution, technology and marketing in retail banking.

David is currently a non-executive director of Genworth Financial Limited, Thorn Group Limited and G8 Education and was previously CEO of Suncorp Bank. David has a Masters of Business Administration, a Bachelor of Applied Science, is a Senior Fellow with Financial Services Institute of Australasia and a Graduate of the Australian Institute of Company Directors.

### Current Directorships of other Listed Entities

- G8 Education Limited (Appointed January 2016)
- Genworth Mortgage Insurance Australia Limited (Appointed May 2016)
- Thorn Group Limited (Appointed November 2014)

### Directorships of Listed Entities over last 3 years

- Kina Securities Limited

### DAVID AHMET



- Appointed 30 June 2011

### Managing Director and Chief Executive Officer

David is the Founder, Managing Director and Chief Executive Officer of MotorCycle Holdings. David has successfully led the expansion of MotorCycle Holdings since 1989 from 1 location to 30 locations operating 47 franchises. David has over 28 years' experience in motorcycle dealerships and is responsible for leading the management team and direction of the business, as well as maintaining relationships with the Company's suppliers and manufacturers.

Dave also sits on the Board of MotorCycle Finance Pty Ltd, as the representative of the Company.

### Current Directorships of other Listed Entities

- Nil

### Directorships of Listed Entities over last 3 years

- Nil



**WARREN BEE**

- Appointed 30 June 2011

**Independent, Non-Executive Director**

Warren has been a director of MotorCycle Holdings since June 2011 and from 2007 to 2011 chaired the Company's advisory board. Warren also currently serves on the board of LEP Colour Printers. Warren has also held chief executive officer and line management roles across a range of industries. Warren is a Fellow of the Institute of Chartered Accountants Australia and a member of the Australia Institute of Company Directors.

**Committee Membership**

- Chairman of the Nomination and Remuneration Committee (Appointed Chairman 23 August 2016)
- Member of the Audit and Risk Committee

**Current Directorships of other Listed Entities**

- Nil

**Directorships of Listed Entities over last 3 years**

- Nil

**RICK DENNIS**

- Appointed 23 August 2016 with effect from 1 September 2016

**Independent, Non-Executive Director**

Rick joined the Board of the Company on 1 September 2016 after a 34 year career with Ernst and Young in Australia and the Asia-Pacific. He was Queensland Managing Partner from 2001-07 and again for 2014. Rick established and led EY Australia's China Business Group in 2005 and was CFO and Deputy COO in the Asia-Pacific from 2010-13. Rick sat on the firm's inaugural Asia-Pacific executive board and a number of EY global boards and committees. Rick is currently non-executive director of listed entity Apiam Animal Health Limited and a member of the Queensland Advisory Board for Australian Super and EWM Group.

**Committee Membership**

- Chairman of the Audit and Risk Committee (Appointed Chairman 1 September 2016)
- Member of the Nomination and Remuneration Committee

**Current Directorships of other Listed Entities**

- Apiam Animal Health Limited

**Directorships of Listed Entities over last 3 years**

- Omni Market Tide Limited



# DIRECTORS' REPORT CONTINUED...

## PETER HENLEY



- Appointed 1 March 2017

## Independent, Non-Executive Director

Peter has a long and distinguished career in financial services and in particular consumer and commercial finance. Peter previously held senior management positions at AGC Limited, CEO of Nissan Finance Corp Ltd and CEO of GE Money in Australia and in South East Asia. Since retiring from executive roles in October 2006, Peter has been an Independent Non-Executive Director of Adtrans Group, MTA Insurance Ltd, Thorn Group Ltd and more recently AP Eagers Ltd where he has served on the Audit and Risk committees since 2006. Peter is a Fellow of the Australian Institute of Management and a member of the Australian Institute for Company Directors.

Peter also sits on the Board of MotorCycle Finance Pty Ltd, as the representative of the Company.

### Committee Membership

- Member of the Audit and Risk Committee (Appointed 1 March 2017)
- Member of the Nomination and Remuneration Committee (Appointed 1 March 2017)
- Finance JV Board

### Current Directorships of other Listed Entities

- Nil

### Directorships of Listed Entities over last 3 years

- AP Eagers Limited
- Thorn Group Limited
- MTA Insurance Limited

## ROBERT CASSEN



- Appointed 31 October 2017

## Executive Director

Rob has 34 years' experience in the motorcycle industry. He joined the Board as part of the Company's acquisition of the Cassons Group, one of Australia's largest motorcycle and bicycle clothing and accessory distribution companies. Rob has developed strong supplier relationships with major international and world leading brands and manufacturers and has created one of the market leading private label brands in Australia.

Rob currently manages the sales, marketing, admin and logistics teams at Cassons.

### Current Directorships of other Listed Entities

- Nil

### Directorships of Listed Entities over last 3 years

- Nil

## 2. COMPANY SECRETARY

Lisa Dalton (B. App Sc, M. App Sc. LLB (Hons), FAICD, FCIS) was appointed as Company Secretary on 8 March 2016 and held the position until 28 May 2018. Lisa is an experienced governance professional having been company secretary of a number of listed and unlisted companies over the past 18 years.

On 28 May 2018, Eddie Macdonald (B.Comm, CPA, MBA) and Nicole Spink (BBusMgt CPA) were appointed Joint Company Secretaries. Eddie has a long history in Australian retail businesses in senior management roles. He has recently been CEO of Clark Rubber. Previous roles have been CEO at Amart Furniture and CFO at Colorado Group.

Nicole originally started with the Group in 2006, and has been Assistant Company Secretary since February 2017. Nicole is the Group's Financial Controller, holds a Bachelor of Business Management and is a member of CPA Australia. Nicole is also nearing the completion of studies to become a Chartered Company Secretary.

## 3. DIRECTORS' MEETINGS

The number of directors' meetings (including meetings of committees of directors) and number of meetings attended by each of the directors of the Company during the financial year are:

| Director                | Board Meetings |      | Audit & Risk Committee (ARC) Meetings |      | Nomination and Remuneration Committee (NRC) Meetings |      |
|-------------------------|----------------|------|---------------------------------------|------|------------------------------------------------------|------|
|                         | Attended       | Held | Attended                              | Held | Attended                                             | Held |
| David Foster            | 13             | 13   | -                                     | -    | -                                                    | -    |
| David Ahmet             | 13             | 13   | -                                     | -    | -                                                    | -    |
| Warren Bee <sup>1</sup> | 12             | 13   | 5                                     | 5    | 2                                                    | 2    |
| Rick Dennis             | 13             | 13   | 5                                     | 5    | 2                                                    | 2    |
| Peter Henley            | 13             | 13   | 5                                     | 5    | 2                                                    | 2    |
| Robert Cassen           | 5              | 6    | -                                     | -    | -                                                    | -    |

<sup>1</sup> Warren Bee was granted a leave of absence by the Board during the year.

## 4. PRINCIPAL ACTIVITIES

The Company's registered office and principal place of business is 68 Moss Street, Slacks Creek, Queensland, 4127.

The principal activities of the Group during the year were the ownership and operation of motorcycle dealerships engaging in the sale of new motorcycles, used motorcycles, accessories and parts, finance, insurance as well as service and repair and following the acquisition of Cassons Pty Ltd, the ownership and operation of motorcycle accessories businesses engaging in the wholesaling and retailing of motorcycle accessories.



# DIRECTORS' REPORT CONTINUED...

## 5. OPERATING AND FINANCIAL REVIEW

MotorCycle Holdings Limited achieved steady growth in the year to 30 June 2018, primarily due to the acquisition of Cassons and expansion of its dealership network.

Earnings before interest, tax and depreciation (EBITDA) increased 22% to \$17.7 million (2017: \$14.6 million) while net profit after tax declined 2% to \$9.1 million (2017: \$9.3 million) having been impacted by acquisition costs.

These results were achieved on revenue increasing 29% to \$302.4 million (2017: \$235.3 million).

A final dividend of 6.5 cents per share (fully franked) will be paid to shareholders, bringing the total full year dividend to 12 cents per share (fully franked).

Overall motorcycle sales, including both new and used motorcycles, increased 9% to 17,754 units for the year ended 30 June 2018 (2017: 16,310 unit sales).

New motorcycle sales increased 5% to 9,575 units (2017: 9,089 units), compared with a national market decline in new motorcycle sales of approximately 10%. The Company secured approximately 9.5% of national new bike sales during the financial year, compared with 8% in the prior year.

Used motorcycles sales increased 13% to 8,179 units (2017: 7,221 units). Retail Accessories and Parts revenue increased 54% and Servicing and Repair revenue increased 12%.

Comparable store sales declined by 6.8% over the year.

Finance, Insurance and Warranty revenue decreased 11%, with reduced insurance commissions received after general insurance companies changed their premiums and commission rates as a consequence of the ASIC review into add-on insurance.

The acquisition of Cassons Pty Ltd, a leading wholesaler and retailer of motorcycle accessories and parts, increased the scale of MTO's existing retail accessory business, expanded the distribution network and provides opportunities to improve margin by sourcing additional Cassons' product for retailing through the MTO dealer network.

Two new dealerships were acquired and another was opened during the year. The dealerships were TeamMoto Frankston, acquired in December 2017, Central Coast Harley-Davidson, acquired in March 2018 and TeamMoto Yamaha Sunshine Coast, a greenfield development opened in January 2018.

The Company also commenced operating a joint venture with motorcycle industry finance company Allied Credit, which provides a new revenue stream for existing loan origination activities, providing added diversity and strength to the Company.

While trading conditions were subdued in the first half of the year, the Company's strategy of growth through acquisitions has diversified revenue streams and made the Company more resilient and able to withstand tough trading conditions.

A combination of factors contributed to a decline in sales of new motorcycles across the industry over the past 12 months; however, industry-wide sales during the six months to 30 June 2018 suggest that the cyclical downturn is moderating, and the market has stabilised.

During the next 12 months, the Company will undergo a period of consolidation, which will include work to finalise the integration of recent acquisitions, improve processes, upgrade systems and improve operating efficiencies to support future growth.

## 6. DIVIDENDS

Dividends paid or declared by the Company during the Reporting Period were:

### A. Declared and paid during the financial year

The following dividends were declared by the directors and paid during the financial year.

|                     | Cents per share | Total Amount \$  | Date of Payment |
|---------------------|-----------------|------------------|-----------------|
| Final 2017          | 7.5             | 2,846,251        | 4 October 2017  |
| Interim 2018        | 5.5             | 3,393,873        | 4 April 2018    |
| <b>Total Amount</b> | <b>13.0</b>     | <b>6,240,124</b> |                 |

### B. Declared after the end of the financial year

The following dividends were declared by the directors since the end of the financial year.

|                     | Cents per share | Total Amount \$ | Date of Payment |
|---------------------|-----------------|-----------------|-----------------|
| Final 2018 Ordinary | 6.5             | 4,010,940       | 3 October 2018  |

The financial effect of the final 2018 ordinary dividend has not been brought to account in the consolidated financial statements for the year ended 30 June 2018 and will be accounted for in the financial year that it is paid. There is no dividend re-investment plan in operation.

## 7. EVENTS SUBSEQUENT TO REPORTING DATE

The Board declared a final fully franked dividend of 6.5 cents per share on 29 August 2018. The financial effect of this dividend will be recognised in subsequent financial reports.

Other than the matters noted above, there has not arisen in the interval between the end of the financial year and the date of this report any item, transaction or event of a material and unusual nature likely, in the opinion of the directors of the Company, to affect significantly the operations of the Group, the results of those operations, or the state of affairs of the Group, in future financial years.

## 8. LIKELY DEVELOPMENTS

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

## 9. ENVIRONMENTAL REGULATION

The Group is subject to various environmental regulations under both Commonwealth and State legislation.

The Directors believe that the Group has adequate systems in place for the management of its environmental requirements and is not aware of any breach of those environmental requirements as they apply to the Group during the period covered by this report.

## 10. INDEMNIFICATION AND INSURANCE OF OFFICERS AND AUDITORS

The Company has indemnified the Directors and Officers for costs incurred in their capacity as a Director or Officer, for which they may be held personally liable, except where there is a lack of good faith. During the financial year, the Company paid insurance premiums in respect of a contract to insure the Directors and Officers of the Company against a liability to the extent permitted by the *Corporations Act 2001*. The insurance contract prohibits disclosure of the nature of liability and the amount of the premium.

During or since the end of the financial year the Company has not indemnified or made a relevant agreement to indemnify an auditor of the Company or of any related body corporate against a liability incurred as such an officer of auditor. In addition, the Company has not paid, or agreed to pay, a premium in respect of a contract insuring against a liability incurred by an auditor.



# DIRECTORS' REPORT CONTINUED...

## 11. PROCEEDINGS ON BEHALF OF THE COMPANY

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

## 12. NON-AUDIT SERVICES

During the year KPMG, the Group's auditor, has performed certain other services in addition to the audit and review of the financial statements. The remuneration of the auditor is disclosed in Note 29 of the Financial Report.

For those activities, the board has considered the non-audit services provided during the year by the auditor and in accordance with written advice provided by the Audit and Risk Committee, is satisfied that the provision of those non-audit services by the auditor is compatible with, and did not compromise, the auditor independence requirements of the *Corporations Act 2001* for the following reasons:

- all non-audit services have been reviewed by the Audit and Risk Committee to ensure they do not impact the integrity and objectivity of the auditor, and
- the non-audit services provided do not undermine the general principles relating to auditor independence as set out in APES 110 *Code of Ethics for Professional Accountants*, as they did not involve reviewing or auditing the auditor's own work, acting in a management or decision-making capacity for the Group, acting as an advocate for the Group or jointly sharing risk and reward.

## 13. AUDITOR'S INDEPENDENCE DECLARATION

A copy of the Auditor's Independence Declaration as required under section 307C of the *Corporations Act 2001* is attached on page 27 and forms part of this report.

## 14. ROUNDING OF AMOUNTS TO NEAREST THOUSAND DOLLARS

The Company is of a kind referred to in ASIC Corporation Instrument 2016/191, relating to the 'rounding off' of amounts in the Directors' Report and the consolidated financial statements which have been rounded off to the nearest thousand dollars, unless otherwise stated, in accordance with that Class Order.

## 15. DEEDS OF CROSS GUARANTEE

At the date of this report and during the Financial Year, the Company is within the class of companies affected by ASIC Corporations (Wholly owned Companies) Instrument 2016/785. The nature of the deed of cross guarantee is such that each company which is party to the deed guarantees to each creditor payment in full of any debt in accordance with the deed of cross guarantee.

## 16. REMUNERATION REPORT - AUDITED

The information provided in this Remuneration Report has been prepared in accordance with section 300A of the *Corporations Act 2001 (Cth)*.

### A. Key Management Personnel

The Remuneration Report outlines remuneration for those people considered to be Key Management Personnel (KMP) of the Group during the Reporting Period. KMP are persons having authority and responsibility for planning, directing and controlling the activities of MotorCycle Holdings Limited.

KMP consist of:

- non-executive directors; and
- executive directors and senior executives.

The following table summarises details of KMP of the Group for the financial year ended 30 June 2018, their roles and appointment/cessation dates.

**Key Management Personnel during the Reporting Period**

| Name                                   | Role                                          | Appointment Date (Cessation Date) |
|----------------------------------------|-----------------------------------------------|-----------------------------------|
| <i>Current Non-Executive Directors</i> |                                               |                                   |
| David Foster                           | Chairman, Independent, Non-Executive Director | 8 March 2016                      |
| Warren Bee                             | Independent, Non-Executive Director           | 30 June 2011                      |
| Rick Dennis                            | Independent, Non-Executive Director           | 23 August 2016                    |
| Peter Henley                           | Independent, Non-Executive Director           | 1 March 2017                      |

**Key Management Personnel during the Reporting Period**

| Name                                             | Role                                                                        | Appointment Date (Cessation Date)              |
|--------------------------------------------------|-----------------------------------------------------------------------------|------------------------------------------------|
| <i>Executive Directors and Senior Executives</i> |                                                                             |                                                |
| David Ahmet                                      | Managing Director                                                           | 30 June 2011                                   |
| Robert Cassen                                    | Executive Director                                                          | 31 October 2017                                |
| Bob Donovan                                      | Chief Financial Officer,<br>GM Business Development & Integration (GM BD&I) | 2 September 2002 (28 May 2018),<br>28 May 2018 |
| Chris Chenoweth                                  | General Manager                                                             | 15 September 2008                              |
| Eddie Macdonald                                  | Chief Financial Officer                                                     | 28 May 2018                                    |

**B. Remuneration Governance**

The following diagrammatic representation shows the framework the Board has in place to establish and review remuneration for KMP and employees of the Group:





# DIRECTORS' REPORT CONTINUED...

## C. Non-Executive Director Remunerations

### I. Policy

A copy of the remuneration policy for non-executive Directors is available on the Company's website. The Board's Non-Executive Director remuneration policy is to:

- Provide a clear fee arrangement that avoids potential conflicts of interest associated with performance incentives.
- Remunerate Directors at market rates for their commitment and responsibilities, and
- Obtain independent external remuneration advice when required.

Non-Executive directors receive remuneration for undertaking their role. They do not participate in the Company's incentive plans or receive any variable remuneration. Non-Executive Directors are not entitled to retirement payments apart from statutory superannuation contributions.

The aggregate Non-Executive Director remuneration cap approved by shareholders in 2016 is \$600,000 per annum (inclusive of superannuation contributions). The Board determines the distribution of Non-Executive Director fees within the approved remuneration cap.

### II. Remuneration of Non-Executive Directors

The following table sets out the Annual Board and Committee fees (inclusive of superannuation) as at the date of this Report:

| Non-Executive Directors   | Board Member   | Board Chairman | Audit & Risk Committee | Nomination & Remuneration Committee | Finance JV Board | Total Fees \$  |
|---------------------------|----------------|----------------|------------------------|-------------------------------------|------------------|----------------|
| David Foster              | 80,000         | 95,000         | -                      | -                                   | -                | 175,000        |
| Warren Bee                | 70,000         | -              | 5,000                  | 10,000                              | -                | 85,000         |
| Rick Dennis               | 70,000         | -              | 10,000                 | 5,000                               | -                | 85,000         |
| Peter Henley <sup>1</sup> | 70,000         | -              | 5,000                  | 5,000                               | 10,000           | 90,000         |
| <b>Total</b>              | <b>290,000</b> | <b>95,000</b>  | <b>20,000</b>          | <b>20,000</b>                       | <b>10,000</b>    | <b>435,000</b> |

<sup>1</sup> Peter Henley was appointed as the company's representative on the Finance JV Board on 21 March 2018

## D. Executive Directors and Senior Executive Remuneration

### I. Remuneration policy for Executive Directors and Senior Executives

The Board's policy for determining the nature and amount of remuneration for the Executive Directors and Senior Executives is:

- Provide for both fixed and performance based remuneration
- Provide a remuneration package based on an annual review of employment market conditions, the Group's performance and individual performance, and
- Obtain independent external remuneration advice when required.

### II. Components of remuneration

The remuneration framework for senior executives comprises two elements:

- Fixed remuneration; and
- At risk remuneration which consists of either an annual bonus under the Group's short-term incentive plan or commission arrangements documented in contracts of employment, or the Group's long-term incentive plan.

Remuneration and other terms of employment for the Managing Director, Chief Financial Officer, and General Managers are formalised in agreements which have a provision for bonuses and other benefits which may be granted from time to time by the Board of Directors. Contracts with Executives may be terminated by either party with three or six months' notice.

#### **a. Fixed Remuneration**

Fixed remuneration is a function of size and complexity of the role, individual responsibilities, experiences, skills and market pay levels. This consists of cash salary, salary sacrifice items and employer superannuation at the statutory contribution rate.

The Board determines an appropriate level of fixed remuneration for the Managing Director and senior executives with recommendations from the Nomination and Remuneration Committee.

Fixed remuneration is reviewed annually following performance reviews at the end of the financial year and takes into account role and accountabilities, relevant market benchmarks and attraction, retention and motivation of executives in the context of the talent market.

#### **b. Performance Linked Remuneration**

##### **Short Term Annual Cash Bonus**

The Managing Director, CFO, and GM Business Development & Integration were eligible to participate in the Group's short-term incentive plan during the Reporting Period.

Under the plan, participants have an opportunity to receive an annual cash bonus calculated as a percentage of their salary (base pay not including superannuation) and conditional on the achievement of short-term financial and non-financial performance measures at a corporate and individual level. The short-term financial measures represent 70% of the maximum bonus payable. The measure is based on the profitability of the Group achieving the annual budget as approved by the Board. If actual profitability for the year is less than 85% of the approved budget, no short-term incentive is paid. The bonus is adjusted pro-rata where profitability is between 85% - 100% of the approved budget. The non-financial measures represent the remaining 30% of the cash bonus payable. The Board considers the executives' contribution towards the achievement of strategic initiatives of the Group, which include acquisitions and their integration into the business, when determining whether such bonuses will be awarded.

Payments made under the short-term incentive plan are assessed by the Nomination and Remuneration Committee and approved by the Board. The Board retains an overall discretion on whether to pay all, a portion of, or no annual cash bonus.

Under the short-term incentive plan, participants have an opportunity to receive Cash Bonuses included in Remuneration. The short-term financial and non-financial performance measures established by the Board at the commencement of the financial year were not achieved and the Board did not award a short term incentive payment to participants in the short term incentive plan.

##### **Short Term Annual Cash Bonus for General Manager**

The General Manager was eligible to participate in a separate short term incentive scheme during the reporting period.

Under the plan, the General Manager has the opportunity to receive an annual cash bonus of a fixed amount conditional on the achievement of short-term financial performance measures at a corporate level. There is no Board discretion in this bonus.

The short-term financial measures established by the Board at the commencement of the financial year were not achieved and no short term incentive payment was paid.

##### **Commission Incentive**

The General Manager's short-term incentive is based on a commission based structure. The commission is set at a percentage of net profit before tax of relevant business units, the achievement of which generates returns for shareholders.

Mr Chris Chenoweth received commission as outlined below pursuant to the commission structure outlined above.



# DIRECTORS' REPORT CONTINUED...

| Employed at<br>30 June 2018 | Position           | Max Potential<br>Bonus % of Salary | Actual Amount of<br>Bonuses Included in<br>FY18 Remuneration \$ | % Max Bonus |
|-----------------------------|--------------------|------------------------------------|-----------------------------------------------------------------|-------------|
| David Ahmet                 | Managing Director  | 50%                                | \$nil                                                           | 0           |
| Robert Cassen               | Executive Director | N/A                                | \$nil                                                           | N/A         |
| Bob Donovan                 | GM BD&I            | 50%                                | \$nil                                                           | 0           |
| Chris Chenoweth             | General Manager    | commission                         | 114,232                                                         | N/A         |
| Eddie Macdonald             | CFO                | 30%                                | \$nil                                                           | 0           |

## Long Term Incentive Plan ("LTIP")

The LTIP was approved by shareholders at the Company's annual general meeting in 2017. The purpose of the LTIP is to:

- Align employee incentives with Shareholders' interests;
- Encourage broad based share ownership by employees; and
- Assist employee attraction and retention.

Through the LTIP senior executives are incentivised to improve the Company's financial performance and generate shareholder returns through the granting of performance rights. Performance rights constitute a right to receive ordinary shares in the capital of the Company upon the achievement of certain performance hurdles.

## Performance criteria

The performance rights are subject to certain performance hurdles being met over the relevant monitoring period. These performance hurdles include:

### (1) Relative total shareholder return ("TSR"):

50% of the Performance Rights are subject to relative TSR assessed over a 3 year performance period commencing 1 July 2017 and ending 30 June 2020, compared to a peer group of 13 ASX listed companies. Vesting will occur based on the company's positioning in the peer group. This is designed to focus executives on delivering sustainable long-term shareholder returns.

### Peer Companies

|                            |                                |
|----------------------------|--------------------------------|
| AP Eagers Limited          | Apollo Tourism & Leisure Ltd   |
| Bapcor Limited             | Automotive Solutions Group Ltd |
| Super Retail Group Limited | Fleetwood Corporation Limited  |
| Thorn Group Limited        | PWR Holdings Limited           |
| ARB Corporation Limited    | Schaffer Corporation Limited   |
| AMA Group Limited          | Sprintex Limited               |
| Autosports Group Limited   |                                |

| TSR ranking                 | Proportion to vest                                            |
|-----------------------------|---------------------------------------------------------------|
| Less than 50th percentile   | 0%                                                            |
| 50th to 75th percentile     | Between 50% and 100% (as determined on a straight line basis) |
| At or above 75th percentile | 100%                                                          |

**(2) Earnings per share ("EPS"):**

50% of the Performance Rights are subject to growth in the Company's EPS assessed over a 3 year performance period commencing 1 July 2017 and ending 30 June 2020, on a compound annual growth rate ("CAGR") basis. Vesting will occur based on the following performance:

| The Company's EPS CAGR over the Performance Period         | Proportion of the Tranche 2 Awards that satisfy the EPS Vesting Condition |
|------------------------------------------------------------|---------------------------------------------------------------------------|
| EPS CAGR is less than or equal to 10%                      | 0%                                                                        |
| EPS CAGR is greater than 10% and less than or equal to 12% | Between 50% and 100% (as determined on a straight line basis)             |
| EPS CAGR is equal to or greater than 12%                   | 100%                                                                      |

The Managing Director, GM Business Development and Integration and General Manager were eligible to participate in the Group's long-term incentive plan during the year, comprising grants of performance rights over the Company's ordinary shares. The LTIP scheme was approved by shareholders at the 2017 AGM and the notice of meeting lodged with ASX contains further details on the performance rights. Actual performance rights granted in the reporting period are set out in section I.

**E. Company performance and remuneration outcomes**

The various components of the way the Group remunerates key management personnel have been structured to support the Group's strategy and business objectives which in turn are designed to generate shareholder wealth.

When setting targets and determining the quantum of the remuneration increases and the proportion of fixed and performance linked remuneration components, the Board refers to remuneration benchmarking reports provided by independent sources and remuneration consultants from time to time.

The at-risk component of the remuneration structure intends to reward achievement against Company and individual performance measures over a one-year timeframe.

The Board retains an overarching discretion to award an annual bonus and issue performance rights under the LTIP. In exercising that discretion, they have regard to the remuneration policy, market conditions, Group performance and affordability.

The table below summarises the Group's performance for FY2018 compared to FY2017 and correlates it to the total KMP remuneration for the respective financial year.

| Metric                                   | 2018       | 2017       |
|------------------------------------------|------------|------------|
| Statutory EBITDA (\$'000) <sup>1</sup>   | 17,654     | 14,551     |
| Statutory net profit after tax (\$'000s) | 9,100      | 9,280      |
| Change in share price                    | (10.3%)    | 46.5%      |
| Earnings per share - Basic               | 16.6 cents | 22.8 cents |
| Total dividends paid (\$)                | 6,240,124  | 2,846,250  |
| KMP Remuneration (\$)                    | 1,984,459  | 2,098,125  |

<sup>1</sup>EBITDA is calculated as earnings before interest (excluding bailment interest), tax, depreciation and amortisation.

# DIRECTORS' REPORT CONTINUED...

## F. Key Management Personnel Remuneration

Details of the nature and amount of each major element of remuneration of each Director and Senior Executive of the Group for the Reporting Period are:

| Short Term Employee Benefits                                     |      |                       |               |                     |           |                   |                         |                       |                                      |           | Post-Employment Benefits | Long Term Benefits |  |  | Proportion of remuneration performance related % |
|------------------------------------------------------------------|------|-----------------------|---------------|---------------------|-----------|-------------------|-------------------------|-----------------------|--------------------------------------|-----------|--------------------------|--------------------|--|--|--------------------------------------------------|
| Name & Role                                                      | Year | Cash Salary & Fees \$ | Cash Bonus \$ | Non-Cash Benefit \$ | Total \$  | Super Benefits \$ | Termination Benefits \$ | Long Service Leave \$ | Share Based Benefits \$ <sup>6</sup> | Total \$  |                          |                    |  |  |                                                  |
| Current Non-Executive Directors                                  |      |                       |               |                     |           |                   |                         |                       |                                      |           |                          |                    |  |  |                                                  |
| David Foster, Chairman, Non-Executive Director                   | 2018 | 159,817               | -             | -                   | 159,817   | 15,183            | -                       | -                     | -                                    | 175,000   | -                        |                    |  |  |                                                  |
|                                                                  | 2017 | 153,846               | -             | -                   | 153,846   | 14,615            | -                       | -                     | -                                    | 168,461   | -                        |                    |  |  |                                                  |
| Warren Bee, Non-Executive Director                               | 2018 | 77,625                | -             | -                   | 77,625    | 7,375             | -                       | -                     | -                                    | 85,000    | -                        |                    |  |  |                                                  |
|                                                                  | 2017 | 76,923                | -             | -                   | 76,923    | 7,308             | -                       | -                     | -                                    | 84,231    | -                        |                    |  |  |                                                  |
| Rick Dennis, Non-Executive Director                              | 2018 | 77,625                | -             | -                   | 77,625    | 7,375             | -                       | -                     | -                                    | 85,000    | -                        |                    |  |  |                                                  |
|                                                                  | 2017 | 63,294                | -             | -                   | 63,294    | 6,012             | -                       | -                     | -                                    | 69,306    | -                        |                    |  |  |                                                  |
| Peter Henley <sup>1</sup> , Non-Executive Director               | 2018 | 57,312                | -             | -                   | 57,312    | 25,213            | -                       | -                     | -                                    | 82,525    | -                        |                    |  |  |                                                  |
|                                                                  | 2017 | 12,082                | -             | -                   | 12,082    | 14,282            | -                       | -                     | -                                    | 26,364    | -                        |                    |  |  |                                                  |
| Total Current Non Executive Directors                            | 2018 | 372,379               | -             | -                   | 372,379   | 55,145            | -                       | -                     | -                                    | 427,524   | -                        |                    |  |  |                                                  |
|                                                                  | 2017 | 306,145               | -             | -                   | 306,145   | 42,217            | -                       | -                     | -                                    | 348,362   | -                        |                    |  |  |                                                  |
| Former Non-Executive Directors                                   |      |                       |               |                     |           |                   |                         |                       |                                      |           |                          |                    |  |  |                                                  |
| Bob Thorn <sup>2</sup> , Former Chairman, Non-Executive Director | 2018 | -                     | -             | -                   | -         | -                 | -                       | -                     | -                                    | -         | -                        |                    |  |  |                                                  |
|                                                                  | 2017 | 17,745                | -             | -                   | 17,745    | 1,685             | -                       | -                     | -                                    | 19,430    | -                        |                    |  |  |                                                  |
| Scott Greck <sup>3</sup> , Non-Executive Director                | 2018 | -                     | -             | -                   | -         | -                 | -                       | -                     | -                                    | -         | -                        |                    |  |  |                                                  |
|                                                                  | 2017 | -                     | -             | -                   | -         | -                 | -                       | -                     | -                                    | -         | -                        |                    |  |  |                                                  |
| Total Non-Executive Directors Remuneration                       | 2018 | 372,379               | -             | -                   | 372,379   | 55,145            | -                       | -                     | -                                    | 427,524   | -                        |                    |  |  |                                                  |
|                                                                  | 2017 | 323,890               | -             | -                   | 323,890   | 43,902            | -                       | -                     | -                                    | 367,792   | -                        |                    |  |  |                                                  |
| Current Executive Directors and Senior Executives                |      |                       |               |                     |           |                   |                         |                       |                                      |           |                          |                    |  |  |                                                  |
| David Ahmet, Managing Director                                   | 2018 | 627,002               | -             | 1,797               | 628,799   | 43,846            | -                       | 10,450                | 64,357                               | 747,452   | 9%                       |                    |  |  |                                                  |
|                                                                  | 2017 | 597,826               | 300,000       | 1,797               | 899,623   | 66,427            | -                       | 11,654                | -                                    | 977,704   | 31%                      |                    |  |  |                                                  |
| Robert Cassen <sup>4</sup> , Executive Director                  | 2018 | 147,521               | -             | -                   | 147,521   | 10,260            | -                       | 2,459                 | -                                    | 160,240   | -                        |                    |  |  |                                                  |
|                                                                  | 2017 | -                     | -             | -                   | -         | -                 | -                       | -                     | -                                    | -         | -                        |                    |  |  |                                                  |
| Bob Donovan, GM Business Development & Integration               | 2018 | 237,442               | -             | -                   | 237,442   | 32,057            | -                       | 3,757                 | 10,188                               | 283,444   | 4%                       |                    |  |  |                                                  |
|                                                                  | 2017 | 211,505               | 100,000       | -                   | 311,505   | 23,611            | -                       | 3,325                 | -                                    | 338,441   | 30%                      |                    |  |  |                                                  |
| Chris Chenoweth, General Manager                                 | 2018 | 165,530               | 114,232       | 764                 | 280,526   | 29,845            | -                       | 4,394                 | 13,130                               | 327,895   | 39%                      |                    |  |  |                                                  |
|                                                                  | 2017 | 171,345               | 207,138       | 764                 | 379,247   | 29,726            | -                       | 5,215                 | -                                    | 414,188   | 50%                      |                    |  |  |                                                  |
| Eddie Macdonald <sup>5</sup> , Chief Financial Officer           | 2018 | 34,447                | -             | -                   | 34,447    | 2,884             | -                       | 574                   | -                                    | 37,905    | -                        |                    |  |  |                                                  |
|                                                                  | 2017 | -                     | -             | -                   | -         | -                 | -                       | -                     | -                                    | -         | -                        |                    |  |  |                                                  |
| Total – Executive Director and Senior Executives' Remuneration   | 2018 | 1,211,942             | 114,232       | 2,561               | 1,328,735 | 118,892           | -                       | 21,635                | 87,674                               | 1,556,935 | -                        |                    |  |  |                                                  |
|                                                                  | 2017 | 980,676               | 607,138       | 2,561               | 1,590,375 | 119,764           | -                       | 20,194                | -                                    | 1,730,333 | -                        |                    |  |  |                                                  |
| Total – KMP Remuneration                                         | 2018 | 1,584,321             | 114,232       | 2,561               | 1,701,114 | 174,037           | -                       | 21,635                | 87,674                               | 1,984,459 | -                        |                    |  |  |                                                  |
|                                                                  | 2017 | 1,304,566             | 607,138       | 2,561               | 1,914,265 | 163,666           | -                       | 20,194                | -                                    | 2,098,125 | -                        |                    |  |  |                                                  |

<sup>1</sup> Appointed 1 March 2017.

<sup>2</sup> Appointed 8 March 2016. Resigned 22 July 2016.

<sup>3</sup> Appointed 12 April 2011. Resigned 24 April 2017. Managing Partner of Archer Growth Funds. Elected to take no director fees during tenure.

<sup>4</sup> Appointed 31 October 2017.

<sup>5</sup> Appointed 21 May 2018.

<sup>6</sup> Rights to the deferred shares granted under the long-term incentive plan are expensed over the performance period in accordance with AASB 2, which includes the year to which the grant relates and the subsequent vesting period of the rights.



# DIRECTORS' REPORT CONTINUED...

## G. Other Information

### I. Contract Duration and Termination Requirements

The Company has contracts of employment with no fixed tenure requirements with the Managing Director and Senior Executives. The notice period for each is outlined in the table below. Termination with notice may be initiated by either party. The contracts contain customary clauses dealing with immediate termination for gross misconduct, confidentiality and post-employment restraint of trade provisions.

| Name                       | Position                              | Position |
|----------------------------|---------------------------------------|----------|
| <i>Executive Directors</i> |                                       |          |
| David Ahmet                | Managing Director                     | 6 months |
| Robert Cassen              | Executive Director                    | 6 months |
| <i>Senior Executives</i>   |                                       |          |
| Bob Donovan                | GM Business Development & Integration | 3 months |
| Chris Chenoweth            | General Manager                       | 3 months |
| Eddie Macdonald            | Chief Financial Officer               | 3 months |

### II. Other Transactions with Key Management Personnel

Subsidiaries of the Group have entered into property leases for business premises with the Executive Directors and associated entities.

The leases have been entered into on an arm's length basis and have conditions consistent with other leases held by the Group. A summary of the leases is set out in Note 30 of the financial statements.

### III. Shareholdings of Key Management Personnel

The movement during the year in the number of ordinary shares in the Company held, either directly, indirectly or beneficially, by each member of the Key Management Personnel, including their related parties, is as follows:

| Name                                             | Shareholdings of KMP           |                                    |                                       |                                                        |                  |                                    |
|--------------------------------------------------|--------------------------------|------------------------------------|---------------------------------------|--------------------------------------------------------|------------------|------------------------------------|
|                                                  | Opening Balance<br>1 July 2017 | Shares acquired<br>during the year | Shares disposed<br>of during the year | Received on<br>vesting of rights<br>to deferred shares | Other<br>changes | Closing<br>Balance 30<br>June 2018 |
| <i>Non-Executive Directors</i>                   |                                |                                    |                                       |                                                        |                  |                                    |
| David Foster                                     | 21,027                         | 23,922                             | -                                     | -                                                      | -                | 44,949                             |
| Warren Bee                                       | 25,000                         | 13,958                             | -                                     | -                                                      | -                | 38,958                             |
| Rick Dennis                                      | -                              | -                                  | -                                     | -                                                      | -                | -                                  |
| Peter Henley                                     | -                              | 14,034                             | -                                     | -                                                      | -                | 14,034                             |
| <i>Executive Directors and Senior Executives</i> |                                |                                    |                                       |                                                        |                  |                                    |
| David Ahmet                                      | 8,406,635                      | 2,727,272                          | -                                     | -                                                      | -                | 11,133,907                         |
| Robert Cassen                                    | -                              | 3,181,819                          | -                                     | -                                                      | -                | 3,181,819                          |
| Bob Donovan                                      | 559,053                        | 38,999                             | -                                     | -                                                      | -                | 598,052                            |
| Chris Chenoweth                                  | 595,000                        | 55,000                             | -                                     | -                                                      | -                | 650,000                            |
| Eddie Macdonald                                  | -                              | -                                  | -                                     | -                                                      | -                | -                                  |

## H. Remuneration Consultants

To ensure the Nomination and Remuneration Committee is fully informed on remuneration matters it engages with external remuneration advisors. The terms of engagements outline the advisors access to, and independence from, the Group and management. Any advice sought is used as a guide and does not serve as a substitute for the committee's consideration of remuneration matters. The following external advisors provided information and assistance during 2018:

- PricewaterhouseCoopers – Development of Long Term Incentive Plan Rules and Valuation of Performance Rights under Long Term Incentive Plan.

These advisors did not provide any remuneration recommendations and they were not “remuneration consultants” to the Group as defined in the Corporation Act 2001.

## I. Performance rights over equity instruments granted as remuneration

Details of performance rights over ordinary shares in the Company that were granted as remuneration to members of KMP during the Reporting Period and details on performance rights forfeited during the Reporting Period are shown in the table below. No performance rights vested during the Reporting Period. There were no alterations to the terms and conditions of performance rights granted as remuneration to KMP, since their grant date.

| Description of Rights                              | Number of Rights Granted in FY2018 | Fair Value per Right at Grant Date \$ |               | Grant Date    | Performance Period          | Number of Rights Forfeited in FY2018 | Value of Rights forfeited | % of Remuneration granted as Rights during the Reporting Period |
|----------------------------------------------------|------------------------------------|---------------------------------------|---------------|---------------|-----------------------------|--------------------------------------|---------------------------|-----------------------------------------------------------------|
|                                                    |                                    | TSR component                         | EPS component |               |                             |                                      |                           |                                                                 |
| David Ahmet, Managing Director                     |                                    |                                       |               |               |                             |                                      |                           |                                                                 |
| FY18 LTIP                                          | 86,905                             | \$1.60                                | \$3.01        | 24 April 2018 | 1 July 2017 to 30 June 2020 | 0                                    | n/a                       | 9%                                                              |
| Bob Donovan, GM Business Development & Integration |                                    |                                       |               |               |                             |                                      |                           |                                                                 |
| FY18 LTIP                                          | 13,758                             | \$1.60                                | \$3.01        | 24 April 2018 | 1 July 2017 to 30 June 2020 | 0                                    | n/a                       | 4%                                                              |
| Chris Chenoweth, General Manager                   |                                    |                                       |               |               |                             |                                      |                           |                                                                 |
| FY18 LTIP                                          | 17,729                             | \$1.60                                | \$3.01        | 24 April 2018 | 1 July 2017 to 30 June 2020 | 0                                    | n/a                       | 4%                                                              |

# DIRECTORS' REPORT CONTINUED...

The fair value of the performance rights granted under the LTIP has been measured as follows:

- Tranche 1 – Monte Carlo simulation
- Tranche 2 – Black Scholes Model

Service and non-market performance conditions attached to the arrangements were not taken into account in measuring fair value.

The inputs used in the measurement of the fair values at grant date of the equity-settled share-based payments plans were as follows:

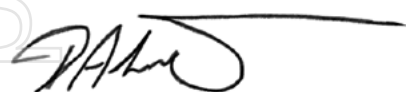
|                           | Tranche 1    | Tranche 2      |
|---------------------------|--------------|----------------|
| Fair value at grant date  | \$1.60       | \$3.01         |
| Share price at grant date | \$3.41       | \$3.41         |
| Expected volatility       | 30%          | 30%            |
| Annual dividend yield     | 5.58%        | 5.58%          |
| Risk-free interest rate   | 2.11%        | 2.11%          |
| Test date                 | 30 June 2020 | 30 August 2020 |

The expected volatility has been based on an evaluation of the historical volatility of the Company's and comparable companies' share price, particularly over the historical period commensurate with the expected term.

## J. Voting and comments made at the company's 2017 Annual General Meeting

The Company received more than 75% of "yes" votes on its remuneration report for the 2017 financial year. The Company did not receive any specific feedback at the 2017 AGM on its remuneration report.

This Directors' report is made with a resolution of the directors:



**David Ahmet**  
Managing Director

*Dated at Brisbane, this 29th day of August 2018*



**David Foster**  
Chairman

*Dated at Brisbane, this 29th day of August 2018*





## Lead Auditor's Independence Declaration under Section 307C of the Corporations Act 2001

To the Directors of MotorCycle Holdings Limited

I declare that, to the best of my knowledge and belief, in relation to the audit of MotorCycle Holdings Limited for the financial year ended 30 June 2018 there have been:

- i. no contraventions of the auditor independence requirements as set out in the *Corporations Act 2001* in relation to the audit; and
- ii. no contraventions of any applicable code of professional conduct in relation to the audit.

KPMG

Simon Crane  
*Partner*

Brisbane  
29 August 2018

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## CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

**For the Year Ended 30 June 2018**

|                                                                                      | Note | 30 Jun 2018<br>\$'000 | 30 Jun 2017<br>\$'000 |
|--------------------------------------------------------------------------------------|------|-----------------------|-----------------------|
| Sales revenue                                                                        | 5    | 285,079               | 216,596               |
| Other income                                                                         | 6    | 17,364                | 18,698                |
| Changes in inventories of finished goods and work in progress                        |      | 14,851                | 8,189                 |
| Raw materials and consumables used                                                   |      | 199,814               | 164,841               |
| Employee benefits expense                                                            | 6    | 46,394                | 34,702                |
| Finance costs                                                                        | 7    | 2,216                 | 774                   |
| Depreciation and amortisation expense                                                |      | 2,734                 | 846                   |
| Other expenses                                                                       | 6    | 23,062                | 12,652                |
| <b>Profit before tax</b>                                                             |      | <b>13,372</b>         | <b>13,290</b>         |
| Income tax expense                                                                   | 8    | 4,272                 | 4,010                 |
| <b>Profit for the period</b>                                                         |      | <b>9,100</b>          | <b>9,280</b>          |
| Other comprehensive income                                                           |      | -                     | -                     |
| <b>Total comprehensive income for the year attributable to owners of the company</b> |      | <b>9,100</b>          | <b>9,280</b>          |
|                                                                                      |      | <b>Cents</b>          | <b>Cents</b>          |
| <b>Earnings per share</b>                                                            | 9    |                       |                       |
| Basic earnings per share                                                             |      | 16.6                  | 22.8                  |
| Diluted earnings per share                                                           |      | 16.6                  | 22.8                  |

The above Consolidated Statement of Profit or Loss and Other Comprehensive Income should be read in conjunction with the accompanying notes.



# FINANCIAL STATEMENTS (CONTINUED)

## CONSOLIDATED STATEMENT OF FINANCIAL POSITION

**As at 30 June 2018**

|                                        | Note | 30 Jun 2018<br>\$'000 | 30 Jun 2017<br>\$'000 |
|----------------------------------------|------|-----------------------|-----------------------|
| <b>Current assets</b>                  |      |                       |                       |
| Cash and cash equivalents              | 10   | 2,469                 | 4,516                 |
| Trade and other receivables            | 11   | 6,783                 | 2,867                 |
| Inventories                            | 12   | 87,421                | 45,225                |
| Other assets                           |      | 39                    | -                     |
| <b>Total current assets</b>            |      | <b>96,712</b>         | <b>52,608</b>         |
| <b>Non-current assets</b>              |      |                       |                       |
| Property, plant and equipment          | 13   | 11,211                | 7,528                 |
| Deferred tax assets                    | 8    | -                     | 1,768                 |
| Goodwill and other intangible assets   | 14   | 124,496               | 29,357                |
| Interest in equity accounted investees | 15   | 1,156                 | -                     |
| Other assets                           |      | 100                   | 109                   |
| <b>Total non-current assets</b>        |      | <b>136,963</b>        | <b>38,762</b>         |
| <b>Total assets</b>                    |      | <b>233,675</b>        | <b>91,370</b>         |
| <b>Current liabilities</b>             |      |                       |                       |
| Trade and other payables               | 16   | 11,889                | 8,981                 |
| Short term borrowings                  | 17   | 26,044                | 23,097                |
| Current tax liabilities                |      | 367                   | 1,215                 |
| Provisions                             | 18   | 6,568                 | 4,425                 |
| <b>Total current liabilities</b>       |      | <b>44,868</b>         | <b>37,718</b>         |
| <b>Non-current liabilities</b>         |      |                       |                       |
| Borrowings                             | 19   | 50,290                | 11,000                |
| Deferred tax liabilities               | 8    | 2,495                 | -                     |
| Provisions                             | 18   | 999                   | 517                   |
| <b>Total non-current liabilities</b>   |      | <b>53,784</b>         | <b>11,517</b>         |
| <b>Total liabilities</b>               |      | <b>98,652</b>         | <b>49,235</b>         |
| <b>Net assets</b>                      |      | <b>135,023</b>        | <b>42,135</b>         |
| <b>Equity</b>                          |      |                       |                       |
| Contributed equity                     | 20   | 120,081               | 30,141                |
| Share-based payment reserve            |      | 88                    | -                     |
| Retained earnings                      |      | 14,854                | 11,994                |
| <b>Total equity</b>                    |      | <b>135,023</b>        | <b>42,135</b>         |

The above Consolidated Statement of Financial Position should be read in conjunction with the accompanying notes.

# CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the Year Ended 30 June 2018

|                                                                   | Issued<br>Capital<br>\$'000 | Retained<br>Earnings<br>\$'000 | Share-Based<br>Payment<br>Reserve<br>\$'000 | Total<br>Equity<br>\$'000 |
|-------------------------------------------------------------------|-----------------------------|--------------------------------|---------------------------------------------|---------------------------|
| <b>Balance at 1 July 2016</b>                                     | <b>29,635</b>               | <b>5,560</b>                   | <b>-</b>                                    | <b>35,195</b>             |
| <b>Comprehensive income for the period</b>                        |                             |                                |                                             |                           |
| Profit for the period                                             | -                           | 9,280                          | -                                           | 9,280                     |
| Other comprehensive income                                        | -                           | -                              | -                                           | -                         |
| <b>Total comprehensive income for the period</b>                  | <b>-</b>                    | <b>9,280</b>                   | <b>-</b>                                    | <b>9,280</b>              |
| <b>Transactions with owners in their capacity as owners</b>       |                             |                                |                                             |                           |
| Dividends paid                                                    | -                           | (2,846)                        | -                                           | (2,846)                   |
| Issue of shares                                                   | -                           | -                              | -                                           | -                         |
| Issue of shares related to business combinations                  | -                           | -                              | -                                           | -                         |
| Transaction costs (net of tax)                                    | 506                         | -                              | -                                           | 506                       |
| <b>Total transactions with owners in their capacity as owners</b> | <b>506</b>                  | <b>(2,846)</b>                 | <b>-</b>                                    | <b>(2,340)</b>            |
| <b>Balance at 30 June 2017</b>                                    | <b>30,141</b>               | <b>11,994</b>                  | <b>-</b>                                    | <b>42,135</b>             |
| <b>Comprehensive income for the period</b>                        |                             |                                |                                             |                           |
| Profit for the period                                             | -                           | 9,100                          | -                                           | 9,100                     |
| Other comprehensive income                                        | -                           | -                              | -                                           | -                         |
| <b>Total comprehensive income for the period</b>                  | <b>-</b>                    | <b>9,100</b>                   | <b>-</b>                                    | <b>9,100</b>              |
| <b>Transactions with owners in their capacity as owners</b>       |                             |                                |                                             |                           |
| Dividends paid                                                    | -                           | (6,240)                        | -                                           | (6,240)                   |
| Equity settled share-based payment                                | -                           | -                              | 88                                          | 88                        |
| Issue of shares                                                   | 66,963                      | -                              | -                                           | 66,963                    |
| Issue of shares related to business combinations                  | 24,500                      | -                              | -                                           | 24,500                    |
| Transaction costs (net of tax)                                    | (1,523)                     | -                              | -                                           | (1,523)                   |
| <b>Total transactions with owners in their capacity as owners</b> | <b>89,940</b>               | <b>(6,240)</b>                 | <b>88</b>                                   | <b>83,788</b>             |
| <b>Balance at 30 June 2018</b>                                    | <b>120,081</b>              | <b>14,854</b>                  | <b>88</b>                                   | <b>135,023</b>            |

The above Consolidated Statement of Changes in Equity should be read in conjunction with the accompanying notes.

# FINANCIAL STATEMENTS (CONTINUED)

## CONSOLIDATED STATEMENT OF CASH FLOWS

For the Year Ended 30 June 2018

|                                                              | Note | 30 Jun 2018<br>\$'000 | 30 Jun 2017<br>\$'000 |
|--------------------------------------------------------------|------|-----------------------|-----------------------|
| <b>Cash flows from operating activities</b>                  |      |                       |                       |
| Receipts from customers (inclusive of GST)                   |      | 336,071               | 257,484               |
| Payments to suppliers and employees (inclusive of GST)       |      | (325,376)             | (244,821)             |
| Interest and other costs of finance paid                     |      | (2,847)               | (774)                 |
| Income taxes paid                                            |      | (6,322)               | (3,445)               |
| Interest received                                            |      | 56                    | 16                    |
| <b>Net cash (used)/provided by operating activities</b>      | 31   | <b>1,582</b>          | <b>8,460</b>          |
| <b>Cash flows from investing activities</b>                  |      |                       |                       |
| Payment for acquisition of businesses (net of cash acquired) |      | (100,594)             | (4,592)               |
| Payments for investments in equity accounted investees       | 15   | (1,150)               | -                     |
| Payments for property, plant and equipment                   |      | (2,039)               | (775)                 |
| Proceeds from sale of property, plant and equipment          |      | 48                    | 43                    |
| <b>Net cash (used)/provided by investing activities</b>      |      | <b>(103,735)</b>      | <b>(5,324)</b>        |
| <b>Cash flows from financing activities</b>                  |      |                       |                       |
| Proceeds from issues of shares and other equity securities   | 20   | 66,963                | -                     |
| Costs of issue of ordinary shares                            |      | (2,205)               | -                     |
| Proceeds from borrowings                                     |      | 41,588                | -                     |
| Dividend paid                                                | 20   | (6,240)               | (2,846)               |
| <b>Net cash (used)/provided by financing activities</b>      |      | <b>100,106</b>        | <b>(2,846)</b>        |
| <b>Net increase/(decrease) in cash and cash equivalents</b>  |      | <b>(2,047)</b>        | <b>290</b>            |
| Cash and cash equivalents at the beginning of the period     |      | 4,516                 | 4,226                 |
| <b>Cash and cash equivalents at the end of the period</b>    | 10   | <b>2,469</b>          | <b>4,516</b>          |

The above Consolidated Statement of Cash Flows should be read in conjunction with the accompanying notes.



# NOTES TO AND FORMING PART OF THE CONSOLIDATED FINANCIAL STATEMENTS

## 1. REPORTING ENTITY

MotorCycle Holdings Limited (the "Company") is a publicly listed company domiciled in Australia. Its registered office is at 68 Moss Street, Slacks Creek, Queensland, 4127. The consolidated financial statements as at and for the year ended 30 June 2018 comprise the Company and its subsidiaries (together referred to as the "Group") and were authorised for issue by the Board of Directors on 29 August 2018.

The Group is primarily involved in the ownership and operation of motorcycle dealerships and retail outlets engaging in the sale of new motorcycles, used motorcycles, accessories and parts, finance, insurance and warranty products as well as service and repair. The Group also owns and operates a rider training school and a motorcycle repair business which performs smash repair work for insurers. During the period the Group completed its acquisition of Cassons Pty Ltd (see note 26) and now also operates a motorcycle accessories wholesaling business (see note 4).

## 2. SIGNIFICANT ACCOUNTING POLICIES

### A. General Information

#### Statement of Compliance

These financial statements are general purpose financial statements which have been prepared in accordance with the *Corporations Act 2001*, Australian Accounting Standards and Interpretations, and comply with other requirements of the law. The financial statements comply with International Financial Reporting Standards and interpretations issued by the International Accounting Standards Board.

#### Basis of Preparation

For the purposes of preparing the consolidated financial statements, the Company is a for-profit entity. The consolidated financial statements have been prepared on the basis of historical cost unless the application of fair value measurement is required by relevant accounting standards. All amounts are presented in Australian dollars and is the Company's functional and presentation currency.

The company is of a kind referred to in ASIC Corporations (Rounding in Financial/Directors' Reports) Instrument 2016/191 dated 24 March 2016, and as such all financial information presented has been rounded to the nearest thousand dollars unless otherwise stated.

### Accounting Policies

The following is a summary of the material accounting policies adopted in the preparation of the financial report. The accounting policies have been consistently applied, unless otherwise stated.

### B. Basis of Consolidation

The consolidated financial statements incorporate the financial statements of the Company and entities controlled by the Company. Control is achieved when the Group is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity.

Consolidation of a subsidiary begins when the Company obtains control over the subsidiary and ceases when the Company loses control of the subsidiary. Specifically, income and expenses of a subsidiary acquired or disposed of during the year are included in the consolidated statement of profit or loss and other comprehensive income from the date the company gains control until the date when the Company ceases to control the subsidiary.

All intragroup assets and liabilities, equity, income, expenses and cash flows relating to transactions between members of the Group are eliminated in full on consolidation.

#### Interest in Equity-Accounted Investees

The groups interest in equity-accounted investees comprises interests in a joint venture. A joint venture is an arrangement in which the Group has joint control, whereby the Group has rights to the net assets of the arrangement, rather than rights to its assets and obligations for its liabilities.

Interests in the joint venture are accounted for using the equity method. They are initially recognised at cost, which includes transaction costs. Subsequent to initial recognition the consolidated financial statements include the Group's share of profit or loss and OCI of equity-accounted investees, until the date which significant influence or joint control ceases.

#### Business Combinations

The acquisition method of accounting is used for all business combinations regardless of whether equity instruments or other assets are acquired. Consideration transferred 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 recognised in profit or loss as incurred. Where equity instruments are issued in an acquisition, the value of the instruments is their

## FINANCIAL STATEMENTS (CONTINUED)

### NOTES TO AND FORMING PART OF THE CONSOLIDATED FINANCIAL STATEMENTS

published market price as at the date of exchange. Transaction costs arising on the issue of equity instruments are recognised directly in equity.

Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date. The excess of the cost of acquisition over the fair value of the Group's share of the identifiable net assets acquired is recorded as goodwill (refer to Note 14).

Where settlement of any part of cash consideration is deferred, the amounts payable in the future are discounted to their present values as at the date of acquisition. The discount rate used is the incremental borrowing rate, being the rate at which a similar borrowing could be obtained from an independent financier under comparable terms and conditions.

If the initial accounting for a business acquisition is incomplete by the end of the reporting period in which the combination occurs, the consolidated entity reports provisional amounts for the items for which accounting is incomplete. The provisional amounts are adjusted during the measurement period (no longer than 12 months from the initial acquisition) on a retrospective basis by restating the comparative information presented in the financial statements.

#### C. Revenue

Revenue is recognised at the fair value of the consideration received or receivable. Revenue is reduced for estimated customer returns, rebates and other such allowances.

##### Sales of Goods

Revenue from the sales of motorcycles, accessories and parts is recognised when the buyer has accepted the risks and rewards of ownership, generally by taking delivery of the goods.

##### Service Revenue

Service work on customers' motorcycles is carried out under instructions from the customer. Service revenue is recognised once the requested work has been completed. Revenue arising from the sale of parts fitted to customers' motorcycles during service is recognised upon completion of the service.

##### Interest Revenue

Interest revenue is recognised on a time proportional basis, taking into account the effective interest rates applicable to the financial assets.

##### Commission Revenue

Commissions are recognised in the period in which the related sale of goods or rendering of service is recognised.

#### D. Finance Costs

Interest expense on bailment finance and other borrowings is recognised using the effective interest method.

#### E. Taxes

##### Income Tax

The income tax expense or revenue for the period is the tax payable on the current period's taxable income based on the notional income tax rate, adjusted by changes in deferred tax assets and liabilities attributable to temporary differences between the tax bases of assets and liabilities and their carrying amounts in the financial statements, and to unused tax losses.

Deferred tax assets and liabilities are recognised for temporary differences at the tax rates expected to apply when the assets are recovered or liabilities are settled, based on those tax rates which are enacted or substantively enacted for each jurisdiction. The relevant tax rates are applied to the cumulative amounts of deductible and taxable temporary differences to measure the deferred tax asset or liability. An exception is made for certain temporary differences arising from the initial recognition of an asset or a liability. No deferred tax asset or liability is recognised in relation to these temporary differences if they arose in a transaction, other than a business combination, that at the time of the transaction did not affect either accounting profit or taxable profit or loss.

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

Current and deferred tax balances attributable to amounts recognised directly in equity are also recognised directly in equity.

##### Goods and Services Tax

Revenues, expenses and assets are recognised net of the amount of GST except:

- Where the GST incurred on a purchase of goods and services is not recoverable from the taxation authority, in which case the GST is recognised as part of the cost of acquisition of the asset or is part of the expense item as applicable; and

- Receivables and payables are stated with the amount of GST included.

The net amount of GST recoverable from, or payable to, the taxation authority is included as part of receivables or payables in the statement of financial position.

Cash flows are included in the Statement of Cash Flows on a gross basis and the GST component of cash flows arising from investing and financing activities, which is recoverable from or payable to the taxation authority, are classified as operating cash flows.

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

## F. Leases

Leases in which a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating leases. Payments made under operating leases (net of any incentives received from the lessor) are charged to profit or loss on a straight-line basis over the period of the lease.

## G. Impairment of Long Lived Assets (Excluding Goodwill)

Assets that have an indefinite useful life are not subject to amortisation and are tested annually for impairment. Assets that are subject to amortisation are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and its value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating units "CGU") and these cash flows are discounted using the estimated weighted average cost of capital of the asset/CGU. An impairment loss is recognised in profit or loss immediately, unless the relevant asset is carried at fair value, in which case the impairment loss is treated as a revaluation decrease. Where an impairment loss subsequently reverses, the carrying amount of the asset (cash-generating unit) is increased to the revised estimate of its recoverable amount, but only to the extent that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment losses been recognised for the asset (cash-generating unit) in prior years.

A reversal of an impairment loss is recognised in profit or loss immediately, unless the relevant asset is carried at fair value, in which case, the reversal of the impairment loss is treated as a revaluation increase.

## H. Cash and Cash Equivalents

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

## I. Receivables

Trade receivables are measured on initial recognition at fair value and are subsequently measured at amortised cost using the effective interest rate method. Appropriate allowances for doubtful debts are recognised in profit or loss when there is objective evidence that the receivable may not be recoverable.

## J. Inventories

Stock on hand has been valued as follows:

- New and demonstrator motorcycles are stated at the lower of cost and net realisable value. Costs are assigned on the basis of specific identification.
- Used motorcycles are stated at the lower of cost and net realisable value on a unit by unit basis. Net realisable value has been determined by reference to the likely net realisable value given the age of the motorcycle at year end. Costs are assigned on the basis of specific identification.
- Spare parts and accessories are stated at the lower of cost and net realisable value. Costs are assigned to individual items on the basis of weighted average cost.
- Work in progress is stated at cost. Cost includes labour incurred to date and consumables utilised during the service. Costs are assigned to individual customers on the basis of specific identification.

## K. Fair Value Estimation

The fair value of financial assets and financial liabilities must be estimated for recognition and measurement or for disclosure purposes. The fair value of financial instruments traded in active



## FINANCIAL STATEMENTS (CONTINUED)

### NOTES TO AND FORMING PART OF THE CONSOLIDATED FINANCIAL STATEMENTS

markets (such as publicly traded derivatives and available-for-sale securities) is based on quoted market prices at the balance date. The quoted market price used for financial assets held by the Group is the current bid price.

The fair value of financial instruments that are not traded in an active market is determined using valuation techniques. The Group uses a variety of methods and makes assumptions that are based on market conditions existing at each balance date. Quoted market prices or dealer quotes for similar instruments are used for long-term debt instruments held. Other techniques, such as estimated discounted cash flows, are used to determine fair value for the remaining financial instruments. The fair value of interest rate swaps is determined based on market expectations of future interest rates.

The nominal value less estimated credit adjustments of trade receivables and payables are assumed to approximate their fair values. 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.

#### L. Property, Plant and Equipment

##### Plant and Equipment

Plant and equipment is measured initially at cost. Costs include all directly attributable expenditure incurred including costs to get the asset ready for its use as intended by management. Costs included an estimate of any expenditure expected to be incurred at the end of the asset's useful life, including restoration, rehabilitation and decommissioning costs (make good costs). The following useful lives are used in the calculation of depreciation:

|                          |              |
|--------------------------|--------------|
| • Leasehold improvements | 9 - 29 years |
| • Plant and equipment    | 3 - 15 years |
| • Furniture and fittings | 3 - 15 years |
| • Motor vehicles         | 4 - 8 years  |

The carrying amount of plant and equipment is reviewed annually by directors for indicators of impairment. If any such indicators exist, an impairment test is carried out, and any impairment losses on the assets recognised.

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item

will flow to the group and the cost of the item can be measured reliably. All other repairs and maintenance are charged to the statement of profit or loss and other comprehensive income during the financial period in which they are incurred.

##### Depreciation

The depreciable amount of all fixed assets is depreciated on either a straight line or diminishing value basis over their useful lives (commencing from the time the asset is ready for use). Leasehold improvements are depreciated over the shorter of either the unexpired period of the lease or the estimated useful lives of the improvements.

The depreciable amount is the carrying value of the asset less estimated residual amounts. The residual amount is based on what a similar asset of the expected condition of the asset at the end of its useful life could be sold for.

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at each balance sheet date.

Gains and losses on disposals are determined by comparing proceeds with the carrying amount. These gains and losses are included in the income statement.

#### M. Goodwill and Other Intangible Assets

Goodwill represents the excess of the cost of an acquisition over the fair value of the Group's share of the net identifiable assets of the acquired subsidiary, associate or business at the date of acquisition. Goodwill on acquisition of subsidiaries and businesses is included in intangible assets. Goodwill on acquisition of associates is included in investment in associates. Goodwill acquired in business combinations is not amortised. Instead, goodwill is tested for impairment annually, or more frequently if events or changes in circumstances indicate that it might be impaired and is carried at cost less accumulated impairment losses. An impairment loss for goodwill is recognised immediately in profit or loss and is not reversed in a subsequent period. Gains and losses on the disposal of an entity include the carrying amount of goodwill relating to the entity sold.

Goodwill is allocated to cash-generating units for the purpose of impairment testing (refer Note 14).

##### Other Intangible Assets

Other intangible assets comprises:

#### Customer Contracts and Relationships and Other Intangible Assets

These have been acquired by the Group through business combinations (refer note 26) and have finite useful lives. These were initially measured at fair value less accumulated amortisation and any accumulated impairment losses. Customer contracts and relationships are amortised using the straight-line method over 10 years.

#### Trademarks

These have been acquired by the Group through business combinations (refer note 26) and have indefinite useful lives. These were initially measured at fair value less accumulated impairment losses. As the trademarks are renewable in nature, economically, the future lives of the brand names are deemed indefinite. The Group intends to continue using the acquired brand names for the foreseeable future. These trademarks will be assessed annually for impairment.

#### N. Trade and Other Payables

These amounts represent liabilities for goods and services provided to the Group prior to the end of the financial year which are unpaid. The amounts are unsecured and recognised initially at the fair value of what is expected to be paid, and subsequently at amortised cost, using the effective interest rate method.

#### O. Borrowings

Borrowings are initially recognised at fair value net of transaction costs incurred. Borrowings are subsequently measured at amortised cost. Any difference between the proceeds (net of transaction costs) and the redemption amount is recognised in profit or loss over the period of the borrowings using the effective interest rate method.

Borrowings are classified as current liabilities unless the Group has an unconditional right to defer settlement of the liability for at least 12 months after the balance date.

#### P. New Motorcycle Stock and Related Bailment

Motorcycles secured under bailment plans are provided to the Group under bailment agreements between the floor plan loan providers and entities within the Group. The Group obtains title to the motorcycles immediately prior to sale. Motorcycles financed under bailment plans held by the Group are recognised as trading stock with the corresponding liability shown as owing to the finance provider.

#### Q. Provisions

Provisions are recognised when the Group has a present obligation (legal or constructive) as a result of a past event, it is probable that the Group will be required to settle the obligation, and a reliable estimate can be made of the amount of the obligation. The amount recognised as a provision is the best estimate taking into account the risks and uncertainties surrounding the obligation.

#### Provision for Warranties

Provision is made in respect of the Group's estimated liability on all products and services under warranty at balance sheet date. The provision is measured as the present value of future cash flows estimated to be required to settle the warranty obligation. The future cash flows have been estimated by reference to the Group's history of warranty claims.

#### R. Employee Benefits

A liability is recognised for benefits accruing to employees in respect of wages and salaries, annual leave and long service leave, when it is probable that settlement will be required and they are capable of being measured reliably.

Liabilities recognised in respect of short-term employee benefits, are measured at their nominal values using the remuneration rate expected to apply at the time of settlement.

Liabilities recognised in respect of long-term employee benefits are measured as the present value of the estimated future cash outflows to be made by the Group in respect of services provided by employees up to reporting date.

Contributions are made by the Group to defined contribution employee superannuation funds and are charged as expenses when incurred.

The grant-date fair value of equity-settled share based payment arrangements granted to employees is generally recognised as an expense with a corresponding increase in equity over the vesting period of the awards. The amount recognised as an expense is adjusted to reflect the number of awards for which the related service and non-market performance conditions are expected to be met such that the amount ultimately recognised is based on the number of awards that meet the relevant conditions at the vesting date.

# FINANCIAL STATEMENTS (CONTINUED)

## NOTES TO AND FORMING PART OF THE CONSOLIDATED FINANCIAL STATEMENTS

### S. Dividends

Provision is made for the amount of any dividend declared on or before the end of the year but not distributed at balance date.

### T. Earnings per Share

#### Basic Earnings per Share

Basic earnings per share is calculated as net profit attributable to members of the parent, adjusted to exclude any costs of servicing equity (other than dividends), divided by the weighted average number of ordinary shares, adjusted for any bonus element.

#### Diluted Earnings per Share

Diluted earnings per share is calculated as net profit attributable to members of the parent, adjusted for:

- Costs of servicing equity (other than dividends)
- The after-tax effect of dividends and interest associated with dilutive potential ordinary shares that have been recognised as expenses
- Other non-discretionary changes in revenues or expenses during the period that would result from the dilution of potential ordinary shares, divided by the weighted average number of ordinary shares and dilutive potential ordinary shares, adjusted for any bonus element.

### U. Equity and Reserves

#### Ordinary Shares

Incremental costs directly attributable to the issue of the ordinary shares are recognised as a deduction from equity. Income tax relating to transaction costs of an entity transaction is accounted for in accordance with AASB 112.

#### Share Based Payment Reserve

This reserve relates to the recognition of equity from equity-settled share based payment arrangements over the vesting period of the awards.

### V. Amendments to AASBs and the New Interpretations that are Mandatorily Effective for the Current Year

In the current year, the Group has applied all the amendments to AASBs issued by the Australian Accounting Standards Board ("AASB") that are mandatorily effective for an accounting period that begins on or after 1 July 2017, and therefore relevant for the current year end.

The application of these amendments does not have any material impact on the disclosures or the amounts recognised in the Group's consolidated financial statements.

### W. Standards and Interpretations in Issue Not Yet Adopted

The following standards, issued but not mandatory for the reporting period ended 30 June 2018, have not been adopted by the Company in preparing these consolidated interim financial statements:

#### Estimated Impact of the Adoption of AASB 9 and AASB 15

The Group is required to adopt AASB 9 Financial Instruments and AASB 15 Revenue from Contracts with Customers from 1 July 2018. The Group is currently assessing the estimated impact that the initial application of AASB 9 and AASB 15 will have on its consolidated financial statements.

#### AASB 9 Financial Instruments

AASB 9 Financial Instruments sets out requirements for recognising and measuring financial assets, financial liabilities and some contract to buy or sell non-financial items. This standard replaces IAS 39 Financial Instruments: Recognition and Measurement.

#### Trade and other receivables

AASB 9 replaces the 'incurred loss' model in AASB 139 with a forward-looking 'expected credit loss' (ECL) model. The Group has elected to adopt the practical expedient under AASB 9 and will measure ECLs for trade receivables using a provision matrix, based on the aging of trade receivables and applying historical credit loss experience and adjusted for forward-looking factors. The trade receivables balance was segmented into two types of customers, being Retail and Wholesale, given the differing trade terms and historical credit loss experience between these customer segments.

The impact of the implementation of AASB 9 does not result in a material increase in the provision for doubtful debts.

#### Disclosures

AASB 9 will require extensive new disclosures about ECLs. The Group's assessment included an analysis to identify data gaps against current processes and Group is in the process of implementing the system and controls changes that it believes will be necessary to capture the required data.



### Transition

Changes in accounting policies resulting from the adoption of AASB 9 will be applied retrospectively. However, the Group will take advantage of the exemption allowing it not to restate comparative information for prior periods with respect to classification and measurement (including impairment) changes. Differences in the carrying amounts of financial assets and financial liabilities resulting from the adoption of AASB 9 will be recognised in retained earnings as at 1 July 2018.

### AASB 15 Revenue from Contracts with Customers

AASB 15 establishes a comprehensive framework for determining whether, how much, and when revenue is recognised. It replaces existing revenue recognition guidance in AASB 118 Revenue. The Group has not completed its assessment of the potential impact on its consolidated financial statements resulting from the application of AASB 15, however has identified the following key change in revenue recognition.

### Extended Warranty Contracts

Contracts with customers for extended warranties on motorcycles will now be recognised over time between 1-5 years from date of sale, over the life of the extended warranty period. Recognition of revenue will begin at the commencement of the warranty period on a pro-rata basis over the life of the warranty until its expiry. Under the current accounting policy, revenue is recognised at the time of sale, less directly attributable cost and a provision for expected future claims.

### AASB 16 Leases

AASB 16 removes the lease classification test for lessees as either operating leases or finance leases as is required by AASB 17 and instead, introduces a single lessee accounting model, involving capitalisation of leased assets and on balance sheet recognition of total liabilities. The Group's operating leases with terms of more than 12 months relate to leases of property including dealership premises, retail outlets, and warehouse facilities. The Group has not completed its assessment of the potential impact on its consolidated financial statements resulting from the application of AASB 16.

## 3. USE OF JUDGEMENTS AND ESTIMATES

Estimates, assumptions and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that may have a financial impact on the Group and that are believed to be reasonable under the circumstances.

The Group makes estimates, assumptions and judgements concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results. The estimates, assumptions and judgements that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities are discussed below:

### Impairment Testing of Goodwill and Intangible Assets

Goodwill with a carrying value of \$103.3m (2017: \$29.4m) is tested annually for impairment, based on estimates made by directors. Further information on the intangibles impairment test can be found in Note 14. For the purpose of impairment testing conducted for the current year ended 30 June 2018 the recoverable amount has been based on Value in use.

### Carrying Amount of Inventories

New motorcycles are stated at the lower of cost or net realisable value. Demonstrator motorcycles are stated at the lower of cost and net realisable value. Costs are assigned on the basis of specific identification.

Used motorcycles are stated at the lower of cost or net realisable value on a unit by unit basis. Net realisable value has been determined by reference to the likely net realisable value given the age of the motorcycles at year end. This is effected through the application of a specific provision percentage against the cost of motorcycles based on age. Costs are assigned on the basis of specific identification.

Parts and accessories are stated at the lower of cost and net realisable value. Costs are assigned to individual items on the basis of weighted average cost. Net Realisable value has been determined by reference to the likely net realisable value given the age of the item at year end. This is effected through the application of a specific provision percentage against the cost of items based on age.

### Business Combinations

The recognition of assets acquired and liabilities assumed from business combinations requires significant judgement including the determination of their fair values. Further details can be found in note 26.

## FINANCIAL STATEMENTS (CONTINUED)

### NOTES TO AND FORMING PART OF THE CONSOLIDATED FINANCIAL STATEMENTS

#### 4. OPERATING SEGMENT INFORMATION

Operating segments are identified based on internal reports that are regularly reviewed by the entity's chief operating decision maker in order to allocate resources to the segment and assess its performance. As a result of the acquisition of Cassons Pty Ltd during the period (see note 26), the Group has changed its internal organisation and composition of its reportable segments.

The Group now operates in two operating and reporting segments being Motorcycle Retailing and Motorcycle Accessories Wholesaling; identified on the basis of how the consolidated entity is regularly reviewed by the chief decision maker for the purpose of resource allocation and assessment of segment performance.

##### Motorcycle Retailing

The Group offers a diversified range of motorcycle products and services to the general public in Australia, including the sale of new and used motorcycles, parts, servicing, accessories and extended warranty contracts. The segment also facilitates insurance and financing for motorcycle purchases through third-party sources.

##### Motorcycle Accessories Wholesaling

The Group imports and distributes a diversified range of motorcycle parts and accessories to wholesale customers in Australia, including the Group's own retail outlets.

Segment profit represents the profit earned by each segment without allocation of corporate head office costs and income tax. External bailment financing and associated interest expense is allocated to Motorcycle Retailing.

For the purpose of monitoring segment performance and allocating resources between segments, the chief operating decision maker monitors the tangible, intangible and financial assets attributable to each segment. All assets and liabilities are allocated to reportable segments.

Inter-segment transactions, which are eliminated on consolidation, are reported on a gross-basis, and are conducted on an arms' length basis.

The Group is not reliant on any external individual customer for 10% or more of the Group's revenue. The Group operates in one geographical segment being Australia. Revenue from overseas customers is not material to the Group.

|                                                   | Motorcycle<br>Retailing | Motorcycle<br>Accessories<br>Wholesaling | Eliminations          | Consolidated          | Motorcycle<br>Retailing |
|---------------------------------------------------|-------------------------|------------------------------------------|-----------------------|-----------------------|-------------------------|
|                                                   | 30 Jun 2018<br>\$'000   | 30 Jun 2018<br>\$'000                    | 30 Jun 2018<br>\$'000 | 30 Jun 2018<br>\$'000 | 30 Jun 2017<br>\$'000   |
| Sales to external customers and other income      | 282,340                 | 20,097                                   | -                     | 302,437               | 235,348                 |
| Inter-segment sales                               | -                       | 12,856                                   | (12,856)              | -                     | -                       |
| <b>Total revenue and other income</b>             | <b>282,340</b>          | <b>32,953</b>                            | <b>(12,856)</b>       | <b>302,437</b>        | <b>235,348</b>          |
| <b>Segment result</b>                             |                         |                                          |                       |                       |                         |
| Operating profit before interest                  | 12,726                  | 8,421                                    | -                     | 21,147                | 14,263                  |
| External interest expense allocation              | (1,081)                 | (1,135)                                  | -                     | (2,216)               | (774)                   |
| <b>Operating contribution</b>                     | <b>11,645</b>           | <b>7,286</b>                             | <b>-</b>              | <b>18,931</b>         | <b>13,489</b>           |
| Share of net profit of equity accounted investees | 6                       | -                                        | -                     | 6                     | -                       |
| Business acquisition costs                        | (331)                   | (1,799)                                  | -                     | (2,130)               | (200)                   |
| <b>Segment profit</b>                             | <b>11,320</b>           | <b>5,487</b>                             | <b>-</b>              | <b>16,807</b>         | <b>13,289</b>           |
| Unallocated corporate expenses                    | -                       | -                                        | -                     | (3,435)               | -                       |
| <b>Profit before tax</b>                          | <b>11,320</b>           | <b>5,487</b>                             | <b>-</b>              | <b>13,372</b>         | <b>13,289</b>           |
| Income tax expense                                | -                       | -                                        | -                     | (4,272)               | (4,010)                 |
| <b>Net profit after tax</b>                       | <b>11,320</b>           | <b>5,487</b>                             | <b>-</b>              | <b>9,100</b>          | <b>9,279</b>            |
| Depreciation and amortisation                     | 1,211                   | 1,524                                    | -                     | 2,735                 | 846                     |
| Write down of inventories to net realisable value | 1,406                   | 86                                       | -                     | 1,492                 | 1,182                   |
| <b>Assets</b>                                     |                         |                                          |                       |                       |                         |
| Segment assets                                    | 126,650                 | 107,025                                  | -                     | 233,675               | 91,370                  |
| <b>Liabilities</b>                                |                         |                                          |                       |                       |                         |
| Segment liabilities                               | 56,689                  | 41,963                                   | -                     | 98,652                | 49,235                  |
| <b>Net Assets</b>                                 | <b>69,961</b>           | <b>65,062</b>                            | <b>-</b>              | <b>135,023</b>        | <b>42,135</b>           |
| Goodwill                                          | 49,679                  | 53,611                                   | -                     | 103,290               | 29,357                  |
| Acquisition of non-current assets                 | 982                     | 17,869                                   | -                     | 18,851                | 1,426                   |

# FINANCIAL STATEMENTS (CONTINUED)

## NOTES TO AND FORMING PART OF THE CONSOLIDATED FINANCIAL STATEMENTS

### 5. SALES REVENUE

|                       | 30 Jun 2018<br>\$'000 | 30 Jun 2017<br>\$'000 |
|-----------------------|-----------------------|-----------------------|
| New motorcycles       | 115,805               | 107,384               |
| Used motorcycles      | 74,643                | 63,439                |
| Parts and accessories | 82,511                | 34,818                |
| Service               | 11,556                | 10,222                |
| Other                 | 564                   | 733                   |
|                       | <b>285,079</b>        | <b>216,596</b>        |

### 6. OTHER INCOME AND EXPENSES

|                                             | 30 Jun 2018<br>\$'000 | 30 Jun 2017<br>\$'000 |
|---------------------------------------------|-----------------------|-----------------------|
| <b>Other income</b>                         |                       |                       |
| Finance and insurance Income                | 14,389                | 16,137                |
| Interest income                             | 56                    | 16                    |
| Income from equity accounted investees      | 6                     | -                     |
| Other income                                | 2,913                 | 2,545                 |
|                                             | <b>17,364</b>         | <b>18,698</b>         |
| <b>Other expenses</b>                       |                       |                       |
| Rental expense relating to operating leases | 8,563                 | 4,540                 |
| Professional fees                           | 2,735                 | 665                   |
| Motor vehicle expenses                      | 1,412                 | 980                   |
| Advertising                                 | 1,634                 | 1,026                 |
| Electricity and water                       | 941                   | 746                   |
| Bank fees                                   | 741                   | 556                   |
| Insurance                                   | 849                   | 396                   |
| Other expenses                              | 6,187                 | 3,743                 |
|                                             | <b>23,062</b>         | <b>12,652</b>         |
| <b>Employee benefits expense</b>            |                       |                       |
| Salaries and wages                          | 36,029                | 26,988                |
| Superannuation contributions                | 4,202                 | 3,228                 |
| Equity settled share-based payments         | 88                    | -                     |
| Other employee benefits expense             | 6,075                 | 4,486                 |
|                                             | <b>46,394</b>         | <b>34,702</b>         |

During the year ended 30 June 2018 expenses of \$2,130,000 were incurred for acquisitions (year ended 30 June 2017: \$200,000). These are included in 'professional fees' above.



**7. FINANCE COSTS**

|  | 30 Jun 2018<br>\$'000 | 30 Jun 2017<br>\$'000 |
|--|-----------------------|-----------------------|
|--|-----------------------|-----------------------|

|                  |              |            |
|------------------|--------------|------------|
| Vehicle bailment | 668          | 357        |
| Interest expense | 1,548        | 417        |
|                  | <b>2,216</b> | <b>774</b> |

**8. INCOME TAXES**

|  | 30 Jun 2018<br>\$'000 | 30 Jun 2017<br>\$'000 |
|--|-----------------------|-----------------------|
|--|-----------------------|-----------------------|

|                                           |              |              |
|-------------------------------------------|--------------|--------------|
| <b>Income Tax Expense</b>                 |              |              |
| Current income tax expense                | 5,116        | 3,845        |
| Adjustment for current tax of prior years | -            | -            |
| Deferred income tax expense/(benefit)     | (844)        | 165          |
|                                           | <b>4,272</b> | <b>4,010</b> |

**Numerical reconciliation of income tax expense to prima facie tax payable**

|                                  |        |        |
|----------------------------------|--------|--------|
| Profit before income tax expense | 13,371 | 13,290 |
|----------------------------------|--------|--------|

|                                                   |       |       |
|---------------------------------------------------|-------|-------|
| Tax at the Australian tax rate of 30% (2017: 30%) | 4,011 | 3,987 |
|---------------------------------------------------|-------|-------|

**Tax effect of amounts which are not deductible (taxable) in calculating taxable income:**

|                         |     |    |
|-------------------------|-----|----|
| Non deductible expenses | 261 | 23 |
|-------------------------|-----|----|

|                           |              |              |
|---------------------------|--------------|--------------|
| <b>Income tax expense</b> | <b>4,272</b> | <b>4,010</b> |
|---------------------------|--------------|--------------|

**Deferred tax**

|                     |       |       |
|---------------------|-------|-------|
| Deferred tax assets | 3,973 | 2,509 |
|---------------------|-------|-------|

|                          |         |       |
|--------------------------|---------|-------|
| Deferred tax liabilities | (6,468) | (741) |
|--------------------------|---------|-------|

|  |                |              |
|--|----------------|--------------|
|  | <b>(2,495)</b> | <b>1,768</b> |
|--|----------------|--------------|

The balance comprises temporary differences attributable to:

**Amounts recognised in profit or loss**

|                               |     |     |
|-------------------------------|-----|-----|
| Property, plant and equipment | 276 | 201 |
|-------------------------------|-----|-----|

|                     |       |       |
|---------------------|-------|-------|
| Inventory valuation | (681) | (740) |
|---------------------|-------|-------|

|                                        |   |     |
|----------------------------------------|---|-----|
| IPO costs capitalised for tax purposes | - | 106 |
|----------------------------------------|---|-----|

**Provisions**

|                  |    |    |
|------------------|----|----|
| - Doubtful debts | 29 | 29 |
|------------------|----|----|

|                     |       |       |
|---------------------|-------|-------|
| - Employee benefits | 1,545 | 1,196 |
|---------------------|-------|-------|

|              |     |     |
|--------------|-----|-----|
| - Warranties | 273 | 211 |
|--------------|-----|-----|

|                            |     |   |
|----------------------------|-----|---|
| Business combination costs | 467 | - |
|----------------------------|-----|---|

|       |     |     |
|-------|-----|-----|
| Other | 301 | 226 |
|-------|-----|-----|

|  |              |              |
|--|--------------|--------------|
|  | <b>2,210</b> | <b>1,229</b> |
|--|--------------|--------------|

# FINANCIAL STATEMENTS (CONTINUED)

## NOTES TO AND FORMING PART OF THE CONSOLIDATED FINANCIAL STATEMENTS

### 8. INCOME TAXES (continued)

30 Jun 2018  
\$'000

30 Jun 2017  
\$'000

|                                                                                                                                              |                |              |
|----------------------------------------------------------------------------------------------------------------------------------------------|----------------|--------------|
| <b>Amounts recognised directly in equity</b>                                                                                                 |                |              |
| Other                                                                                                                                        | 736            | 509          |
|                                                                                                                                              | <b>736</b>     | <b>509</b>   |
| <b>Amounts recognised directly in goodwill</b>                                                                                               |                |              |
| Acquired inventory rebates                                                                                                                   | 579            | -            |
| Acquired provision for doubtful debts                                                                                                        | 30             | -            |
| Acquired employee entitlements / liabilities                                                                                                 | 281            | 30           |
| Acquired intangible assets                                                                                                                   | (6,331)        | -            |
|                                                                                                                                              | <b>(5,441)</b> | <b>30</b>    |
| <b>Net deferred tax assets/(liabilities)</b>                                                                                                 | <b>(2,495)</b> | <b>1,768</b> |
| The deferred tax expense included in income tax expense in respect of the above temporary differences resulted from the following movements: |                |              |
| Opening balance at 1 July                                                                                                                    | 1,768          | 1,394        |
| Charged/(credited) to profit and loss                                                                                                        | 981            | (165)        |
| Deferred tax recognised directly in equity                                                                                                   | 227            | 509          |
| Deferred tax recognised directly in goodwill                                                                                                 | (5,471)        | 30           |
| Closing balance at 30 June                                                                                                                   | <b>(2,495)</b> | <b>1,768</b> |

The tax rate used in the above reconciliations is the corporate tax rate of 30% payable by Australian corporate entities on taxable profits under Australian tax law. There has been no change in the corporate tax rate when compared with the previous reporting period.

### 9. EARNINGS PER SHARE

30 Jun 2018  
Cents

30 Jun 2017  
Cents

|                                                                                                                              |               |               |
|------------------------------------------------------------------------------------------------------------------------------|---------------|---------------|
| <b>Basic earnings per share</b>                                                                                              |               |               |
| Earnings attributable to the ordinary equity holders of the Company                                                          | 16.6          | 22.8          |
| <b>Diluted earnings per share</b>                                                                                            |               |               |
| Earnings attributable to the ordinary equity holders of the Company                                                          | 16.6          | 22.8          |
| <b>Reconciliation of earnings used in calculating earnings per share</b>                                                     | <b>\$'000</b> | <b>\$'000</b> |
| <b>Basic earnings per share</b>                                                                                              |               |               |
| Profit attributable to the ordinary equity holders of the company used in calculating basic earnings per share               | 9,100         | 9,280         |
| <b>Diluted earnings per share</b>                                                                                            |               |               |
| Profit attributable to the ordinary equity holders of the company used in calculating basic earnings per share               | 9,100         | 9,280         |
| Weighted average number of ordinary shares outstanding during the year                                                       | 54,788        | 40,646        |
| Adjustments for calculation of diluted earnings per share - performance rights and options                                   | 22            | -             |
| Weighted average number of ordinary shares outstanding during the year used in the calculation of diluted earnings per share | <b>54,810</b> | <b>40,646</b> |

**10. CASH AND CASH EQUIVALENTS**

|  | 30 Jun 2018<br>\$'000 | 30 Jun 2017<br>\$'000 |
|--|-----------------------|-----------------------|
|--|-----------------------|-----------------------|

|                          |              |              |
|--------------------------|--------------|--------------|
| Cash at bank and on hand | 2,379        | 4,408        |
| Short term deposits      | 90           | 108          |
|                          | <b>2,469</b> | <b>4,516</b> |

**11. TRADE AND OTHER RECEIVABLES**

|  | 30 Jun 2018<br>\$'000 | 30 Jun 2017<br>\$'000 |
|--|-----------------------|-----------------------|
|--|-----------------------|-----------------------|

|                                    |              |              |
|------------------------------------|--------------|--------------|
| Trade and other receivables        | 6,980        | 2,964        |
| Provision for doubtful receivables | (197)        | (97)         |
|                                    | <b>6,783</b> | <b>2,867</b> |

**12. INVENTORIES**

|  | 30 Jun 2018<br>\$'000 | 30 Jun 2017<br>\$'000 |
|--|-----------------------|-----------------------|
|--|-----------------------|-----------------------|

|                                                    |               |               |
|----------------------------------------------------|---------------|---------------|
| New and demonstrator motorcycles (at cost)         | 28,843        | 24,889        |
| Less: write-down to net realisable value           | (267)         | (142)         |
| New and demonstrator inventory                     | <b>28,576</b> | <b>24,747</b> |
| Used motorcycles (at cost)                         | 13,693        | 10,599        |
| Less: write-down to net realisable value           | (201)         | (169)         |
| Used inventory                                     | <b>13,492</b> | <b>10,430</b> |
| Parts, accessories and other consumables (at cost) | 22,275        | 12,789        |
| Acquired as part of business combination           | 27,879        | 725           |
| Less: write-down to net realisable value           | (4,801)       | (3,466)       |
| Parts, accessories and other consumable inventory  | <b>45,353</b> | <b>10,048</b> |
| <b>Total inventories</b>                           | <b>87,421</b> | <b>45,225</b> |

**13. PROPERTY, PLANT AND EQUIPMENT**

|  | 30 Jun 2018<br>\$'000 | 30 Jun 2017<br>\$'000 |
|--|-----------------------|-----------------------|
|--|-----------------------|-----------------------|

|                               |              |              |
|-------------------------------|--------------|--------------|
| <b>Leasehold improvements</b> |              |              |
| Gross value                   | 8,782        | 7,107        |
| Accumulated depreciation      | (2,250)      | (1,828)      |
|                               | <b>6,532</b> | <b>5,279</b> |
| <b>Motor vehicles</b>         |              |              |
| Gross value                   | 2,051        | 1,178        |
| Accumulated depreciation      | (1,293)      | (761)        |
|                               | <b>758</b>   | <b>417</b>   |

# FINANCIAL STATEMENTS (CONTINUED)

## NOTES TO AND FORMING PART OF THE CONSOLIDATED FINANCIAL STATEMENTS

### 13. PROPERTY, PLANT AND EQUIPMENT (continued)

30 Jun 2018  
\$'000

30 Jun 2017  
\$'000

|                                            |               |              |
|--------------------------------------------|---------------|--------------|
| <b>Plant and equipment</b>                 |               |              |
| Gross value                                | 5,818         | 3,756        |
| Accumulated depreciation                   | (3,991)       | (2,671)      |
|                                            | 1,827         | 1,085        |
| <b>Furniture, fixtures and fittings</b>    |               |              |
| Gross value                                | 3,431         | 1,012        |
| Accumulated depreciation                   | (1,652)       | (526)        |
|                                            | 1,779         | 486          |
| <b>Other fixed assets</b>                  |               |              |
| Gross value                                | 1,296         | 1,122        |
| Accumulated depreciation                   | (981)         | (861)        |
|                                            | 315           | 261          |
| <b>Total property, plant and equipment</b> | <b>11,211</b> | <b>7,528</b> |

Reconciliation of the carrying amounts of each class of property, plant and equipment at the beginning and end of the year is set out below:

|                                        | Leasehold<br>improvements<br>\$'000 | Motor<br>Vehicles<br>\$'000 | Plant and<br>Equipment<br>\$'000 | Furniture,<br>Fixtures &<br>Fittings<br>\$'000 | Other<br>Fixed<br>Assets<br>\$'000 | Total<br>\$'000 |
|----------------------------------------|-------------------------------------|-----------------------------|----------------------------------|------------------------------------------------|------------------------------------|-----------------|
| <b>30 Jun 2018</b>                     |                                     |                             |                                  |                                                |                                    |                 |
| Carrying amount at the start of period | 5,279                               | 417                         | 1,084                            | 487                                            | 261                                | 7,528           |
| Additions                              | 1,011                               | 183                         | 344                              | 328                                            | 172                                | 2,038           |
| Acquired from business combinations    | 664                                 | 380                         | 814                              | 1,171                                          | 2                                  | 3,031           |
| Disposals/transfers                    | -                                   | (48)                        | -                                | -                                              | -                                  | (48)            |
| Depreciation expense                   | (422)                               | (174)                       | (415)                            | (207)                                          | (120)                              | (1,338)         |
| Carrying amount at end of period       | 6,532                               | 758                         | 1,827                            | 1,779                                          | 315                                | 11,211          |

|                                            | Leasehold<br>improvements<br>\$'000 | Motor<br>Vehicles<br>\$'000 | Plant and<br>Equipment<br>\$'000 | Furniture,<br>Fixtures &<br>Fittings<br>\$'000 | Other<br>Fixed<br>Assets<br>\$'000 | Total<br>\$'000 |
|--------------------------------------------|-------------------------------------|-----------------------------|----------------------------------|------------------------------------------------|------------------------------------|-----------------|
| <b>30 Jun 2017</b>                         |                                     |                             |                                  |                                                |                                    |                 |
| Carrying amount at the start of the period | 4,974                               | 374                         | 941                              | 454                                            | 261                                | 7,004           |
| Additions                                  | 648                                 | 188                         | 398                              | 90                                             | 102                                | 1,426           |
| Acquired from business combinations        | -                                   | -                           | -                                | -                                              | -                                  | -               |
| Disposals/transfers                        | -                                   | (48)                        | (6)                              | (1)                                            | (1)                                | (56)            |
| Depreciation expense                       | (343)                               | (97)                        | (248)                            | (57)                                           | (101)                              | (846)           |
| Carrying amount at end of period           | 5,279                               | 417                         | 1,085                            | 486                                            | 261                                | 7,528           |



## 14. INTANGIBLE ASSETS AND GOODWILL

A reconciliation of the carrying amount of goodwill and other intangible assets is set out below:

|                                        | Goodwill<br>\$'000 | Trademarks<br>\$'000 | Customer contracts<br>and relationships<br>\$'000 | Other<br>intangibles<br>\$'000 | Total<br>\$'000 |
|----------------------------------------|--------------------|----------------------|---------------------------------------------------|--------------------------------|-----------------|
| <b>30 Jun 2018</b>                     |                    |                      |                                                   |                                |                 |
| <b>Cost</b>                            |                    |                      |                                                   |                                |                 |
| Balance at beginning of period         | 29,357             | -                    | -                                                 | -                              | 29,357          |
| Acquired through business combinations | 73,933             | 5,600                | 15,000                                            | 2,000                          | 96,533          |
| New trademarks                         | -                  | 3                    | -                                                 | -                              | 3               |
| Balance at end of period               | 103,290            | 5,603                | 15,000                                            | 2,000                          | 125,893         |
| <b>Accumulated amortisation</b>        |                    |                      |                                                   |                                |                 |
| Balance at beginning of period         | -                  | -                    | -                                                 | -                              | -               |
| Amortisation expense                   | -                  | -                    | (1,130)                                           | (267)                          | (1,397)         |
| Balance at end of period               | -                  | -                    | (1,130)                                           | (267)                          | (1,397)         |
| <b>Carrying amounts</b>                |                    |                      |                                                   |                                |                 |
| Balance at beginning of period         | 29,357             | -                    | -                                                 | -                              | 29,357          |
| Balance at end of period               | 103,290            | 5,603                | 13,870                                            | 1,733                          | 124,496         |
| <b>30 Jun 2017</b>                     |                    |                      |                                                   |                                |                 |
| <b>Cost</b>                            |                    |                      |                                                   |                                |                 |
| Balance at beginning of period         | 25,904             | -                    | -                                                 | -                              | 25,904          |
| Acquired through business combinations | 3,453              | -                    | -                                                 | -                              | 3,453           |
| Balance at end of period               | 29,357             | -                    | -                                                 | -                              | 29,357          |
| <b>Accumulated amortisation</b>        |                    |                      |                                                   |                                |                 |
| Balance at beginning of period         | -                  | -                    | -                                                 | -                              | -               |
| Amortisation expense                   | -                  | -                    | -                                                 | -                              | -               |
| Balance at end of period               | -                  | -                    | -                                                 | -                              | -               |
| <b>Carrying amounts</b>                |                    |                      |                                                   |                                |                 |
| Balance at beginning of period         | 25,904             | -                    | -                                                 | -                              | 25,904          |
| Balance at end of period               | 29,357             | -                    | -                                                 | -                              | 29,357          |

## FINANCIAL STATEMENTS (CONTINUED)

### NOTES TO AND FORMING PART OF THE CONSOLIDATED FINANCIAL STATEMENTS

#### Impairment Tests for Goodwill

For the purpose of impairment testing, goodwill is allocated to the consolidated entity's two cash generating units (CGUs), being Motorcycle Retailing and Motorcycle Accessories Wholesaling, which is consistent with the Group's reportable segments.

Goodwill of \$49,679,000 is allocated to the Motorcycle Retailing CGU and Goodwill of \$53,611,000 is allocated to the Motorcycle Accessories Wholesaling CGU.

The recoverable amount of the CGU to which goodwill is allocated is determined based on the greater of its value in use and its fair value less cost of disposal.

For the purpose of impairment testing conducted for the current year ended 30 June 2018 the recoverable amount has been based on value in use. The value in use assessment is conducted using a discounted cash flow (DCF) methodology requiring the directors to estimate the future cash flows expected to arise from the cash generating units and then applying a discount rate to calculate the present value. The DCF model adopted by the directors was based on the 2019 financial budget approved by the Board. The key assumptions used in the estimate of the recoverable amount include:

|                             | Retail CGU  |             | Wholesale CGU |             |
|-----------------------------|-------------|-------------|---------------|-------------|
|                             | 30 Jun 2018 | 30 Jun 2017 | 30 Jun 2018   | 30 Jun 2017 |
| Post-tax discount rate      | 10.0%       | 8.5%        | 11.0%         | -           |
| Perpetual growth rate       | 2.5%        | 2.5%        | 2.5%          | -           |
| Budgeted EBITDA growth rate | 5.0%        | 5.0%        | 2.5%          | -           |

The discount rate was a post-tax measure estimated based on the historical industry weighted average cost of capital, with a possible debt leveraging of 23 (2017: 30%) at a market interest rate of 4.2% (2017: 5.5%).

Cash flow projections include specific estimates for five years and a terminal growth rate thereafter. The terminal growth rate was determined based on management's estimate of the long-term compound annual EBITDA growth rate, consistent with the assumptions that a market participant would make.

Budgeted EBITDA was estimated taking into account past experience. Revenue growth was projected taking into account the average growth levels experienced over the past five years and the estimated sales volume for the next five years, at gross margins consistent with the current financial year.

The Directors' assessment in 2018 determined that goodwill was not impaired. The estimated recoverable amount of the CGU based on its value in use, exceeded its carrying amount by:

- Wholesale CGU - \$13.1 million
- Retail CGU - \$24.3 million

The Group has determined that a reasonably possible change in the following assumption could cause the carrying amount to exceed the recoverable amount. The following table shows the amount by which this assumption would need to change for the estimated recoverable amount to be equal to the carrying amount:

|                        | Retail | Wholesale |
|------------------------|--------|-----------|
| Post-tax discount rate | 11.5%  | 12.1%     |

**15. EQUITY-ACCOUNTED INVESTEEES****30 Jun 2018  
\$'000**

|                           |              |
|---------------------------|--------------|
| Interest in joint venture | 1,156        |
|                           | <b>1,156</b> |

MotorCycle Finance Pty Ltd (MCF) is a joint venture in which the Group has joint control and a 50% ownership interest. MCF was established and incorporated in the current financial year therefore no comparative amounts are disclosed.

The joint venture was established to provide secured loans to customers directly for the purchase of motorcycles.

MCF is structured as a separate vehicle and the Group has a residual interest in the net assets of MCF. Accordingly, the Group has classified its interest in MCF as a joint venture. In accordance with the agreement under which MCF is established, the Group and the other investor in the joint venture have agreed to make additional contributions to their interest to make up any losses, if required. This commitment has not been recognised in these financial statements.

The following table summarises the financial information of MCF as included in its own financial statements, adjusted for fair value adjustments at acquisition and differences in accounting policies. The table also reconciles the summarised financial information to the carrying amount of the Group's interest in MCF.

**30 Jun 2018  
\$'000**

|                                                          |              |
|----------------------------------------------------------|--------------|
| <b>Percentage ownership interest</b>                     | <b>50%</b>   |
| <b>Assets</b>                                            |              |
| Current assets                                           | 6,723        |
| Non-current assets                                       | 2            |
|                                                          | <b>6,725</b> |
| <b>Liabilities</b>                                       |              |
| Current liabilities                                      | 268          |
| Non-current liabilities                                  | 4,162        |
|                                                          | <b>4,430</b> |
| <b>Net assets</b>                                        | <b>2,295</b> |
| Group's share of net assets                              | 1,148        |
| Reserves                                                 | 8            |
| <b>Carrying amount of interest in joint venture</b>      | <b>1,156</b> |
| Revenue                                                  | 109          |
| Overheads                                                | (93)         |
| Income tax benefit/(expense)                             | (5)          |
| Profit and total comprehensive income (100%)             | 11           |
| <b>Group's share of total comprehensive income (50%)</b> | <b>6</b>     |

## FINANCIAL STATEMENTS (CONTINUED)

### NOTES TO AND FORMING PART OF THE CONSOLIDATED FINANCIAL STATEMENTS

#### 16. TRADE AND OTHER PAYABLES

|                             | 30 Jun 2018<br>\$'000 | 30 Jun 2017<br>\$'000 |
|-----------------------------|-----------------------|-----------------------|
| Trade payables <sup>1</sup> | 7,406                 | 5,519                 |
| Other Payables              | 4,483                 | 3,462                 |
|                             | 11,889                | 8,981                 |

<sup>1</sup> The average credit period on purchases of goods is 30 days. No interest is charged on trade payables from the date of invoice. The Group has financial risk management policies in place to ensure that all payables are paid within the credit timeframe.

#### 17. SHORT TERM BORROWINGS

|                  | 30 Jun 2018<br>\$'000 | 30 Jun 2017<br>\$'000 |
|------------------|-----------------------|-----------------------|
| Bailment finance | 24,377                | 23,097                |
| Bank loan        | 1,667                 | -                     |
|                  | 26,044                | 23,097                |

Bailment finance is provided on a motorcycle by motorcycle basis by various finance providers, the interest rate ranges from 5-12% p.a. applicable at 30 June 2018 (2017: 5-12%). Bailment finance is considered a current liability and repayable after the motorcycle is sold to a third party.

This liability is represented by and secured by a charge over the vehicles subject to the bailment agreements and various levels of security and indemnities.

#### 18. PROVISIONS

|                        | 30 Jun 2018<br>\$'000 | 30 Jun 2017<br>\$'000 |
|------------------------|-----------------------|-----------------------|
| Employee benefits      | 5,353                 | 3,573                 |
| Warranties             | 910                   | 705                   |
| Other provisions       | 305                   | 147                   |
| Current provisions     | 6,568                 | 4,425                 |
| Employee benefits      | 545                   | 517                   |
| Other provisions       | 454                   | -                     |
| Non-current provisions | 999                   | 517                   |

#### Movement in warranty provision

Movements in the warranty provision during the financial year is set out below:

|                                          | 30 Jun 2018<br>\$'000 | 30 Jun 2017<br>\$'000 |
|------------------------------------------|-----------------------|-----------------------|
| <b>Warranties</b>                        |                       |                       |
| Carrying amount at the start of the year | 705                   | 563                   |
| Additional provisions recognised         | 390                   | 341                   |
| Payments charged against provisions      | (185)                 | (199)                 |
| Carrying amount at end of year           | 910                   | 705                   |

An estimate is made based on past experience, and confirmation of future costs by the administrator of the warranty program, of the expected expenditure on new and used motorcycles in terms of warranties on these motorcycles.



## 19. LOANS AND BORROWINGS

During the period the Group obtained borrowings of \$36 million to partially fund the acquisition of Cassons Pty Ltd.

Long term borrowings are:

|                                   | 30 Jun 2018<br>\$'000 | 30 Jun 2017<br>\$'000 |
|-----------------------------------|-----------------------|-----------------------|
| Bank loan <sup>1</sup>            | 50,290                | 11,000                |
| <b>Total long term borrowings</b> | <b>50,290</b>         | <b>11,000</b>         |

<sup>1</sup> Interest bearing loan is secured on a fixed and floating charge over the present and future interest of all assets and undertakings of the Group's controlled entities. The loan has a maturity date of 31 October 2020. The weighted average interest rate as at 30 June 2018 was 3.94%.

### Financing arrangements

The Group has access to the following lines of credit at balance date:

|                                                           | 30 Jun 2018<br>\$'000 | 30 Jun 2017<br>\$'000 |
|-----------------------------------------------------------|-----------------------|-----------------------|
| <b>Total facilities</b>                                   |                       |                       |
| Amortising cash advance acquisition facility <sup>1</sup> | 45,000                | -                     |
| Revolving cash advance facility <sup>2</sup>              | 16,060                | 16,060                |
| Revolving multi option facility <sup>3</sup>              | 11,000                | 5,845                 |
| Revolving cash advance loan facility <sup>4</sup>         | 4,000                 | 4,000                 |
| Bailment finance <sup>5</sup>                             | 43,319                | 35,394                |
|                                                           | <b>119,379</b>        | <b>61,299</b>         |
| <b>Used at balance date</b>                               |                       |                       |
| Amortising cash advance acquisition facility <sup>1</sup> | 39,583                | -                     |
| Revolving cash advance facility <sup>2</sup>              | 11,000                | 11,000                |
| Revolving multi option facility <sup>3</sup>              | 3,447                 | 2,340                 |
| Revolving cash advance loan facility <sup>4</sup>         | 2,000                 | -                     |
| Bailment finance <sup>5</sup>                             | 24,377                | 23,097                |
|                                                           | <b>80,407</b>         | <b>36,437</b>         |
| <b>Unused at balance date</b>                             |                       |                       |
| Amortising cash advance acquisition facility <sup>1</sup> | 5,417                 | -                     |
| Revolving cash advance facility <sup>2</sup>              | 5,060                 | 5,060                 |
| Revolving multi option facility <sup>3</sup>              | 7,553                 | 3,505                 |
| Revolving cash advance loan facility <sup>4</sup>         | 2,000                 | 4,000                 |
| Bailment finance <sup>5</sup>                             | 18,942                | 12,297                |
|                                                           | <b>38,972</b>         | <b>24,862</b>         |

<sup>1</sup> Facility to assist with the acquisition of Cassons Pty Ltd (see note 26) and after completion to assist with funding any permitted acquisition of motorcycle dealerships. Amortisation of \$5.0M over three years.

<sup>2</sup> Facility at balance date was provided on an interest only basis subject to compliance with specific covenants for a fixed term. Facility is available for the purpose of funding capital expenditure and permitted acquisitions.

<sup>3</sup> Facility is available for the purpose of funding general corporate and working capital purposes. The facility may also be utilised to obtain letters of credit and bank guarantees. At balance date, the portion of the facility used relates solely to bank guarantees obtained.

<sup>4</sup> Facility is available for the purpose of refinancing Floor Plan Financing Arrangements.

<sup>5</sup> Bailment facilities are used to finance the acquisition of new motorcycle trading stock. These facilities include a combination of fixed term and open ended arrangements and are subject to review periods ranging from quarterly to annual. These facilities generally include short term termination notice periods and are disclosed as current liabilities in the Statement of Financial Position.

# FINANCIAL STATEMENTS (CONTINUED)

## NOTES TO AND FORMING PART OF THE CONSOLIDATED FINANCIAL STATEMENTS

### 20. CAPITAL AND RESERVES

#### Rights Issue and Issue of Ordinary Shares

In October 2017 the Company conducted a fully underwritten renounceable entitlement offer to raise \$67 million of ordinary shares at an issue price of \$3.85 per share.

The Company issued and allotted 17,393,072 ordinary shares on 27 October 2017, and trading commenced 30 October 2017. The Company also issued 6,363,638 ordinary shares on 31 October 2017 as part of the purchase consideration for the acquisition of Cassons Pty Ltd (see note 26).

Ordinary shares confer on their holders the right to participate in dividends declared by the Board and to vote at general meetings of the Company.

| Movements in ordinary shares |                                                  | Number of shares  | Issue Price \$ | \$'000         |
|------------------------------|--------------------------------------------------|-------------------|----------------|----------------|
| Date                         | Details                                          |                   |                |                |
| 01 July 2016                 | Opening balance                                  | 37,950,000        | -              | 29,635         |
| 30 June 2017                 | Cost of share issue                              | -                 | -              | 506            |
| <b>30 June 2017</b>          | <b>Closing balance</b>                           | <b>37,950,000</b> |                | <b>30,141</b>  |
| 01 July 2017                 | Opening balance                                  | 37,950,000        | -              | 30,141         |
| 27 October 2017              | Issue of shares                                  | 17,393,072        | 3.85           | 66,963         |
| 31 October 2017              | Issue of shares related to business combinations | 6,363,638         | 3.85           | 24,500         |
| 30 June 2018                 | Cost of share issue (net of tax)                 | -                 | -              | (1,523)        |
| <b>30 June 2018</b>          | <b>Closing balance</b>                           | <b>61,706,710</b> |                | <b>120,081</b> |

#### Dividends

The following dividends were declared and paid by the Company:

|                                                     | 30 June 2018<br>Cents per share | 30 June 2018<br>\$'000 | 30 June 2017<br>Cents per share | 30 June 2017<br>\$'000 |
|-----------------------------------------------------|---------------------------------|------------------------|---------------------------------|------------------------|
| <b>Dividends on ordinary shares</b>                 |                                 |                        |                                 |                        |
| 2017 final dividend (2017: 2016 final dividend)     | 7.5                             | 2,846                  | -                               | -                      |
| 2018 interim dividend (2017: 2017 interim dividend) | 5.5                             | 3,394                  | 7.5                             | 2,846                  |
| <b>Total Dividends on ordinary shares</b>           | <b>13.0</b>                     | <b>6,240</b>           | <b>7.5</b>                      | <b>2,846</b>           |

Since the end of the financial year, the directors have declared a fully-franked final dividend of 6.5 cents per ordinary share, payable on 3 October 2018. The aggregate amount of dividend will be \$4,011,000. This amount has not been recognised in the consolidated statement of financial position.

After fully franking the final dividend, the amount of franking credits available, at the 30% tax rate as at 30 June 2018 to frank dividends for subsequent financial years, is \$53,184,000 (2017: \$7,040,00). This figure is based on the franking accounts of the Company as at 30 June 2018, adjusted for franking credits that will arise from the payment of income tax payable and franking debits that will arise from the payment of dividends proposed.

The franking credits available to the Company have increased significantly due to the inclusion of inherited franking credits from acquired entities.

## 21. SHARE-BASED PAYMENT ARRANGEMENTS

During the financial year, the Group established a long-term incentive plan ("LTIP") for key management personnel following shareholder approval at the 2017 annual general meeting. The LTIP allows for the granting of performance rights which constitute a right to receive ordinary shares in the capital of the Company upon the achievement of certain performance hurdles. Currently, the LTIP is limited to certain key management personnel. The fair value of these performance rights were calculated on grant date and recognised over the period to vesting. The vesting of the performance rights is based on the achievement of specified compound annual growth in the Group's earnings per share and relative total shareholder results.

The key terms and conditions related to the LTIP are as follows:

|                | Grant Date    | Number of<br>Performance Rights | Vesting Conditions <sup>1</sup> | Performance Period          |
|----------------|---------------|---------------------------------|---------------------------------|-----------------------------|
| <b>Tranche</b> |               |                                 |                                 |                             |
| Tranche 1      | 24 April 2018 | 59,197                          | Relative TSR                    | 1 July 2017 to 30 June 2020 |
| Tranche 2      | 24 April 2018 | 59,197                          | EPS CAGR                        | 1 July 2017 to 30 June 2020 |
|                |               | <b>118,394</b>                  |                                 |                             |

<sup>1</sup> Further details of the vesting conditions are disclosed in section 16 of the Remuneration Report.

### Measurement of Fair Values

The fair value of the performance rights granted under the LTIP has been measured as follows:

- Tranche 1 - Monte Carlo simulation
- Tranche 2 - Black Scholes Model

Service and non-market performance conditions attached to the arrangements were not taken into account in measuring fair value.

The inputs used in the measurement of the fair values at grant date of the equity-settled share-based payments plans were as follows:

|                           | Tranche 1    | Tranche 2      |
|---------------------------|--------------|----------------|
| Fair value at grant date  | \$1.60       | \$3.01         |
| Share price at grant date | \$3.41       | \$3.41         |
| Expected volatility       | 30%          | 30%            |
| Annual dividend yield     | 5.58%        | 5.58%          |
| Risk-free interest rate   | 2.11%        | 2.11%          |
| Test date                 | 30 June 2020 | 30 August 2020 |

The expected volatility has been based on an evaluation of the historical volatility of the Company's and comparable companies' share price, particularly over the historical period commensurate with the expected term.

# FINANCIAL STATEMENTS (CONTINUED)

## NOTES TO AND FORMING PART OF THE CONSOLIDATED FINANCIAL STATEMENTS

### Reconciliation of outstanding performance rights

The number of performance rights under the LTIP were as follows:

|                           | Number of Performance Rights |                        |
|---------------------------|------------------------------|------------------------|
|                           | 30 June 2018<br>\$'000       | 30 June 2017<br>\$'000 |
| Opening balance           | -                            | -                      |
| Granted during the year   | 118,394                      | -                      |
| Forfeited during the year | -                            | -                      |
| Exercised during the year | -                            | -                      |
| <b>Closing balance</b>    | <b>118,394</b>               | <b>-</b>               |

### Recognised share-based payments expense

The value of performance rights expensed during the year was \$88,000 (2017: \$nil). The entire amount is attributable to key management personnel remuneration.

## 22. FINANCIAL INSTRUMENTS - FAIR VALUE AND RISK

### Overview

The Group has exposure to the following key risks from its use of financial instruments:

- Credit risk
- Liquidity risk
- Market risk

This note presents information about the Group's exposure to each of the above risks, the objectives, policies and processes for measuring and managing risk, and the management of capital. Further quantitative disclosures are included throughout these consolidated financial statements.

The Board of Directors has overall responsibility for the establishment and oversight of the Group's risk management framework.

The Board has established an Audit and Risk Committee, which is responsible for monitoring, assessing and reporting on the consolidated entity's risk management system. The committee provides regular reports to the Board of Directors on its activities.

The Group's risk management policies are established to identify and analyse the risks faced by the consolidated entity, to set appropriate risk limits and controls, and to monitor risks and adherence to limits. Risk management policies and systems are reviewed regularly to reflect changes in market conditions and the consolidated entity's activities.

The Audit & Risk Committee oversees how management monitors compliance with the risk management policies and procedures and reviews the adequacy of the risk management framework in relation to the risks.

The Group's principal financial instruments comprise bank loans, bailment finance, cash and short-term deposits. The main purpose of these financial instruments is to raise finance for and fund the Group's operations. The Group has various other financial instruments such as trade debtors and trade creditors which arise directly from its operations. It is, and has been throughout the period under review, the Group's policy that no speculative trading in financial instruments shall be undertaken.

The main risk arising from the Group's financial instruments are market risk, credit risk and liquidity risk. The Board reviews and agrees policies for managing each of these risks and they are summarised below.



## Credit Risk

Credit risk refers to the risk that a counterparty will default on its contractual obligations resulting in a financial loss to the Group. The Group has adopted a policy of only dealing with creditworthy counterparties as a means of mitigating the risk of financial loss from defaults. Further, it is the Group's policy that all customers who wish to trade on credit terms are subject to credit verification procedures.

Trade receivables consist of a large number of customers, spread across geographical areas. Ongoing credit evaluation is performed on the financial condition of debtors and other receivable balances are monitored on an ongoing basis, with the result that the Group's exposure to bad debts is not significant.

The Group establishes an allowance for doubtful debts that represents its estimate of incurred losses in respect of trade and other receivables and investments.

With respect to credit risk arising from financial assets of the Group comprised of cash, cash equivalents and receivables, the Group's maximum exposure to credit risk, excluding the value of any collateral or other security, at balance date is in the carrying amount as disclosed in the statement of financial position and notes to the financial statements.

The Group's credit risk on liquid funds is limited as the counter parties are major Australian banks with favourable credit ratings assigned by international credit rating agencies.

## Exposure to Credit Risk

The carrying amount of financial assets (as per Note 11) represents the maximum credit exposure. The maximum exposure to credit risk as the reporting date was:

|                                    | Retail Segment        |                       | Wholesale Segment     |                       |
|------------------------------------|-----------------------|-----------------------|-----------------------|-----------------------|
|                                    | 30 Jun 2018<br>\$'000 | 30 Jun 2017<br>\$'000 | 30 Jun 2018<br>\$'000 | 30 Jun 2017<br>\$'000 |
| Trade and other receivables        | 3,477                 | 2,964                 | 3,504                 | -                     |
| Provision for doubtful receivables | (97)                  | (97)                  | (100)                 | -                     |
|                                    | 3,380                 | 2,867                 | 3,404                 | -                     |

## Impairment losses

The maximum credit period on trade sales is 60 days. No interest is charged on the trade receivables from the date of invoice or when past due. The Group has provided fully for all receivables identified by management as being specifically doubtful. The Group's provision policy is based on an assessment of changes in credit quality and historical experience.

Included in the Group's trade receivables balance are debtors with a carrying amount of \$2,459,000 (2017: \$465,000), which are past due at the reporting date, of this balance the Group has provided \$197,000 (2017: \$97,000) for these balances. The Group does not hold any collateral over these balances.

## Liquidity Risk

Liquidity risk is the risk that the consolidated entity will not be able to meet its financial obligations as they fall due. The consolidated entity's approach to managing liquidity is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions.

The Group's overall objective is to maintain a balance between continuity of funding and flexibility through the use of bank overdrafts and bank loans.

The Group also manages liquidity risk by maintaining adequate reserves, banking facilities and reserve borrowing facilities by continuously monitoring forecast and actual cash flows and matching the maturity profiles of financial assets and liabilities. Information on available facilities can be found in Note 19.

## FINANCIAL STATEMENTS (CONTINUED)

### NOTES TO AND FORMING PART OF THE CONSOLIDATED FINANCIAL STATEMENTS

#### Market Risk

Market risk is the risk that changes in market prices, such as interest rates, will affect the Group's income or the value of its holdings of financial instruments. The objective of market risk management is to manage and monitor market risk exposures within acceptable parameters, whilst optimising the return on risk.

#### Interest Rate Risk

The Group is exposed to interest rate risk as a consequence of its financing facilities as set out in Notes 17 and 19. The Group's policy is to manage its interest cost using variable rate debt.

As at 30 June 2018 0% (2017: 0%) of the Group's borrowings were at a fixed rate of interest, with all funds borrowed at floating rates. There is no history of fixing interest rates and MotorCycle Holdings has no intention of fixing interest rates in the immediate future.

#### Interest Rate Sensitivity

The sensitivity analyses below have been determined based on the exposure to interest rates at reporting date and the stipulated change taking place at the beginning of the financial year and held constant throughout the reporting period. A 50 basis point increase or decrease is used when reporting interest rate risk internally to key management and represents management's assessment of the possible change in interest rates.

At reporting date, if interest rates had been 50 basis points higher or lower and all other variable were held constant, the Group's net profit after tax would increase/decrease by \$263,000 (2017: \$71,000) per annum. This is mainly due to the Group's exposures to interest rates on its variable rate borrowings.

#### Foreign Currency Risk

The Group is exposed to currency risk to the extent that there is a mismatch between the currency in which sales and purchases are denominated. The currency in which these transactions are denominated is primarily the US dollar.

At any point in time, the Group uses forward exchange contracts to hedge its purchases in respect of forecast sales and purchases over the following six months, all with a maturity date of less than one year from reporting date.

#### Capital Management

The Board's policy is to maintain a strong capital base so as to maintain investor, creditor and market confidence and to sustain future development of the business.

The Board seeks to maintain a balance between the higher returns that might be possible with higher levels of borrowings and the advantages and security afforded by a sound capital position.

There were no changes in the Group's approach to capital management during the period.

#### Fair Value Measurements

The carrying amounts of trade receivables and payables are assumed to approximate their fair values due to their short-term nature. The fair value of financial liabilities for disclosure purposes is estimated by discounting their 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 value amount, as the impact of discounting is not significant.

### Maturity Profile

The following table provides a maturity profile for the Group's financial liabilities at balance date. The amounts disclosed in the table are gross contractual undiscounted cash flows (principal and interest) required to settle the respective liabilities. The interest rate is based on the rate applicable as at the end of the financial period.

| As at 30 June 2018           | Less than<br>one year<br>\$'000 | 1-2 Years<br>\$'000 | 2-5 Years<br>\$'000 | Total<br>\$'000 | Interest<br>Rate |
|------------------------------|---------------------------------|---------------------|---------------------|-----------------|------------------|
| <b>Financial liabilities</b> |                                 |                     |                     |                 |                  |
| Bailment (current)           | 24,377                          | -                   | -                   | 24,377          | 5-12%            |
| Borrowings                   | 3,714                           | 3,468               | 48,233              | 54,957          | 3.94%            |
| Forward exchange contracts   | 1,830                           | -                   | -                   | 1,830           |                  |
| Trade and other payables     | 11,889                          | -                   | -                   | 11,889          |                  |
|                              | <b>41,810</b>                   | <b>3,648</b>        | <b>48,233</b>       | <b>93,053</b>   |                  |
| <b>As at 30 June 2017</b>    |                                 |                     |                     |                 |                  |
| <b>Financial liabilities</b> |                                 |                     |                     |                 |                  |
| Bailment (current)           | 23,097                          | -                   | -                   | 23,097          | 5-12%            |
| Borrowings                   | 382                             | 382                 | 11,032              | 11,796          | 3.47%            |
| Trade and other payables     | 8,981                           | -                   | -                   | 8,981           |                  |
|                              | <b>32,460</b>                   | <b>382</b>          | <b>11,032</b>       | <b>43,874</b>   |                  |

## 23. LIST OF SUBSIDIARIES

| Name of Entity                            | Place of<br>Incorporation | Equity Held<br>30 Jun 2018<br>% | Equity Held<br>30 Jun 2017<br>% |
|-------------------------------------------|---------------------------|---------------------------------|---------------------------------|
| Motorcycle Holdings Operations Pty Ltd    | Australia                 | 100                             | 100                             |
| Motorcycle Holdings IDS Pty Ltd           | Australia                 | 100                             | 100                             |
| Motorcycle Holdings Unit Co Pty Ltd       | Australia                 | 100                             | 100                             |
| Motorcycle Holdings Group Unit Co Pty Ltd | Australia                 | 100                             | 100                             |
| Team Moto Pty Limited                     | Australia                 | 100                             | 100                             |
| Netpark Pty Ltd                           | Australia                 | 100                             | 100                             |
| Shoreway Pty Ltd                          | Australia                 | 100                             | 100                             |
| Pushgate Pty Ltd                          | Australia                 | 100                             | 100                             |
| Stanbay Pty Ltd                           | Australia                 | 100                             | 100                             |
| Myway Services Pty Ltd                    | Australia                 | 100                             | 100                             |
| Motorcycle Riding School Pty Ltd          | Australia                 | 100                             | 100                             |
| North Ride Pty Ltd                        | Australia                 | 100                             | 100                             |
| Motorcycle Holdings TCO Pty Ltd           | Australia                 | 100                             | 100                             |

## FINANCIAL STATEMENTS (CONTINUED)

### NOTES TO AND FORMING PART OF THE CONSOLIDATED FINANCIAL STATEMENTS

#### 23. LIST OF SUBSIDIARIES (continued)

| Name of Entity                              | Place of Incorporation | Equity Held<br>30 Jun 2018<br>% | Equity Held<br>30 Jun 2017<br>% |
|---------------------------------------------|------------------------|---------------------------------|---------------------------------|
| TeamMoto Unit Trust                         | Australia              | 100                             | 100                             |
| Motorcycle Holdings Group Unit Trust        | Australia              | 100                             | 100                             |
| Innovative Dealership Solutions Pty Ltd     | Australia              | 100                             | 100                             |
| Innovative Dealership Solutions Unit Trust  | Australia              | 100                             | 100                             |
| MW Motorcycles Pty Ltd                      | Australia              | 100                             | 100                             |
| Trinder Avenue Motors Pty Ltd               | Australia              | 100                             | 100                             |
| Cassons Pty Ltd                             | Australia              | 100                             | -                               |
| Motor Cycle Accessories Supermarket Pty Ltd | Australia              | 100                             | -                               |

All subsidiaries are either directly controlled by MotorCycle Holdings Limited or are wholly owned within the group, have ordinary class of shares and are incorporated in Australia.

#### 24. PARENT ENTITY

Information relating to MotorCycle Holdings Limited ('the parent entity') at 30 June 2018 is presented below and is in line with the Group's accounting policies.

| Financial position           | 30 Jun 2018<br>\$'000 | 30 Jun 2017<br>\$'000 |
|------------------------------|-----------------------|-----------------------|
| <b>Assets</b>                |                       |                       |
| Current assets               | -                     | -                     |
| Non-current assets           | 121,401               | 28,378                |
|                              | 121,401               | 28,378                |
| <b>Liabilities</b>           |                       |                       |
| Current liabilities          | 4,272                 | 1,215                 |
| Non-current liabilities      | -                     | -                     |
|                              | 4,272                 | 1,215                 |
| <b>Equity</b>                |                       |                       |
| Issued capital               | 120,083               | 30,143                |
| Retained earnings            | (3,042)               | (2,981)               |
| Reserves                     | 88                    | -                     |
|                              | 117,129               | 27,162                |
| <b>Financial performance</b> |                       |                       |
| Profit for the year          | 6,179                 | 2,846                 |
| Total comprehensive income   | 6,179                 | 2,846                 |

## 25. DEED OF CROSS GUARANTEE

MotorCycle Holdings Limited, the parent entity, has entered into a Deed of Cross Guarantee with each of its eligible wholly-owned subsidiaries, under which each entity guarantees the debts of other members of the Group. By entering into this Deed of Cross Guarantee it allows the Group to use ASIC Corporations (Wholly-owned Companies) Instrument 2016/785 which provides relief from the *Corporations Act 2001* financial reporting requirements for wholly-owned subsidiaries.

The table in note 23 details the Group's corporate structure and those entities that are wholly-owned and form part of the Group's Deed of Cross Guarantee. There are no material differences in the financial statements for the amounts disclosed for the consolidated entity, and the aggregated amounts for all entities within the Deed of Cross Guarantee.

## 26. BUSINESS COMBINATIONS

### Acquisition of Cassons Pty Ltd

On 31 October 2017 the Group acquired 100% of Cassons Pty Ltd ("Cassons"), a leading, successful wholesaler and retailer of motorcycle accessories and parts.

The acquisition of Cassons increases the scale of the Group's existing retail accessory business, expands our distribution network and provides opportunities to improve margin by sourcing additional Cassons product for retailing through the existing dealer network. The combination of the two businesses presents significant growth opportunities, by introducing used motorcycles and other services into the growing Cassons retail network.

In the eight months to 30 June 2018, Cassons contributed revenue of \$60,518,000 and net profit after tax of \$6,971,000.

### Consideration Transferred

The following table summarises the acquisition-date fair value of each major class of consideration transferred.

|                                                        | 30 Jun 2018<br>\$'000 |
|--------------------------------------------------------|-----------------------|
| Cash                                                   | 96,887                |
| Equity instruments (6,363,638 ordinary shares)         | 24,500                |
| Working capital adjustment amount payable/(receivable) | (1,646)               |
| <b>Total consideration transferred</b>                 | <b>119,741</b>        |

### Equity instruments issued

The fair value of the ordinary shares issued was based on the entitlement offer price offered to the Company's ordinary shareholders on 4 October 2017 of \$3.85 per share.

### Acquisition-related costs

The Group incurred acquisition-related costs of \$2,130,000 relating to external legal fees and diligence related costs. These amounts have been included in other expenses in the consolidated statement of profit or loss and other comprehensive income.



## FINANCIAL STATEMENTS (CONTINUED)

### NOTES TO AND FORMING PART OF THE CONSOLIDATED FINANCIAL STATEMENTS

#### Identifiable assets acquired and liabilities assumed

The following table summarises the recognised amounts of assets acquired and liabilities assumed at the date of acquisition.

|                                         | Total \$'000  |
|-----------------------------------------|---------------|
| Cash and cash equivalents               | 569           |
| Trade and other receivables             | 5,480         |
| Inventories                             | 27,346        |
| Property, plant and equipment           | 2,049         |
| Tax assets                              | 823           |
| Intangible assets (net of tax)          | 15,820        |
| Other assets                            | 256           |
| <b>Total assets acquired</b>            | <b>52,343</b> |
| Trade and other payables                | 2,320         |
| Current tax liability                   | 559           |
| Employee and other provisions           | 1,204         |
| <b>Total liabilities assumed</b>        | <b>4,083</b>  |
| <b>Net identifiable assets acquired</b> | <b>48,260</b> |

#### Goodwill

Goodwill arising from the acquisition have been recognised as follows.

|                                       | Total \$'000  |
|---------------------------------------|---------------|
| Total consideration transferred       | 119,741       |
| Fair value of net identifiable assets | (48,260)      |
| <b>Goodwill</b>                       | <b>71,481</b> |

The goodwill recognised is attributable to the workforce, profitability of the acquired business and the expected operational synergies with the Group's existing motorcycle dealerships. None of the goodwill recognised is expected to be deductible for tax purposes.

There is no contingent consideration nor are there any contingent liabilities associated with these acquisitions.

#### Dealership Acquisitions

The Group also completed the following business combinations as part of its growth strategy:

| Date             | Name                          | Type                                    | Location            |
|------------------|-------------------------------|-----------------------------------------|---------------------|
| 6 December 2017  | Frankston Yamaha              | Certain business assets and liabilities | Frankston, Victoria |
| 19 December 2017 | Freestyle Honda               | Certain business assets and liabilities | Frankston, Victoria |
| 22 March 2018    | Central Coast Harley-Davidson | Certain business assets and liabilities | West Gosford, NSW   |

The business combinations contributed revenue of \$8,266,000 and net loss after tax of \$97,000 for the year ended 30 June 2018 from their dates of acquisition.

Below is a summary of the total purchase consideration, net identifiable assets acquired and goodwill recognised from these business combinations:

|                                            | Total \$'000 |
|--------------------------------------------|--------------|
| Inventory - motorcycles (net of bailment)  | 455          |
| Inventory - parts and accessories          | 533          |
| Property, plant and equipment              | 982          |
| Other assets                               | 44           |
| <b>Total assets acquired</b>               | <b>2,014</b> |
| Trade and other payables                   | 76           |
| Employee entitlements                      | 113          |
| <b>Total liabilities assumed</b>           | <b>189</b>   |
| <b>Net identifiable assets acquired</b>    | <b>1,825</b> |
| Goodwill recognised                        | 2,452        |
| <b>Net assets acquired</b>                 | <b>4,277</b> |
| <b>Total purchase consideration - cash</b> | <b>4,277</b> |

The goodwill recognised is attributable to the workforce, profitability of the acquired business and the expected operational synergies with the Group's existing motorcycle dealerships. None of the goodwill recognised is expected to be deductible for tax purposes.

There is no contingent consideration nor are there any contingent liabilities associated with these acquisitions.

### Contribution to Revenue and Net Profit After Tax

The Group would have reported \$346,722,000 in consolidated revenue and \$12,729,000 in consolidated net profit after tax for the year ended 30 June 2018 had all business combinations occurred at the beginning of the reporting period.

## 27. CONTINGENCIES

### Parent Entity

Unsecured guarantees, indemnities and undertakings have been given by the parent entity in the normal course of business in respect of financial and trade arrangements entered into by its subsidiaries. It is not anticipated that the parent entity will become liable for any amount in respect thereof. At 30 June 2018 no subsidiary was in default in respect of any arrangement guaranteed by the parent entity.

## 28. OPERATING LEASE COMMITMENTS

Commitments for minimum lease payments in relation to non-cancellable operating leases for premises are payable as follows:

|                                              | 30 Jun 2018<br>\$'000 | 30 Jun 2017<br>\$'000 |
|----------------------------------------------|-----------------------|-----------------------|
| Within one year                              | 9,117                 | 4,371                 |
| Later than 1 year but not later than 5 years | 22,105                | 11,515                |
| Later than 5 years                           | 2,509                 | 1,186                 |
|                                              | <b>33,731</b>         | <b>17,072</b>         |

The Group leases property under non-cancellable operating leases with expiry dates between 2018-2027. Leases generally provide for a right of renewal at which time the lease is renegotiated. Lease rental payments comprise a base amount plus an annual increase based on movements in the consumer price index or a fixed percentage increase.

# FINANCIAL STATEMENTS (CONTINUED)

## NOTES TO AND FORMING PART OF THE CONSOLIDATED FINANCIAL STATEMENTS

### 29. AUDITOR'S REMUNERATION

|                                         | 30 Jun 2018 | 30 Jun 2017 |
|-----------------------------------------|-------------|-------------|
| KPMG Australia                          | \$          | \$          |
| Audit or review of the financial report | 337,000     | 160,000     |
| Other services                          | 106,045     | 58,150      |
|                                         | 443,045     | 218,150     |

### 30. RELATED PARTIES

The remuneration report included in the Directors' Report sets out the remuneration policies of the consolidated entity and the relationship between these policies and the consolidated entity's performance.

#### Compensation of key management personnel

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

|                              | 30 Jun 2018 | 30 Jun 2017 |
|------------------------------|-------------|-------------|
|                              | \$          | \$          |
| Short term employee benefits | 1,701,114   | 1,914,265   |
| Share-based payments         | 87,675      | 0           |
| Post employment benefits     | 174,035     | 163,666     |
| Other long term benefits     | 21,635      | 20,194      |
|                              | 1,984,459   | 2,098,125   |

There are no loans to key management personnel.

#### Other transactions of directors and director related entities

The aggregate amount of transactions with key management personnel are as follows:

- (i) The Group has entered into leases in respect to 11 properties that are controlled by David Ahmet, Managing Director and Chief Executive Officer, or that are part-owned by entities controlled by David Ahmet.

The terms of these leases were negotiated on commercial arms' length basis in 2011 and contain customary terms and conditions including an initial lease term of 5 years, with options to renew for a further 15 years (comprising 3 options for 5-year periods). The lease term expired on the 30 June 2016 and options have been exercised for the first of the three 5-year options to extend the lease period to 30 June 2021. The leases are subject to a formal market review at each option renewal.

Total rental expense (excluding outgoings) payable to related parties for the year ended 30 June 2018 was \$1,881,000 (year ended 30 June 2017: \$1,647,927).

- (ii) The Group has entered into leases in respect to three properties that are owned by entities controlled by Robert Cassen, Executive Director, or that are part-owned by entities controlled by Robert Cassen.

The terms of these leases were originally negotiated on commercial arms' length basis in July 2011, December 2012 and July 2013 and each contain customary terms and conditions including initial lease terms of 10 years, with options to renew each lease for a further 10 years. The leases are subject to a formal market review at each option renewal.

Total rental expense (excluding outgoings) payable to related parties since the acquisition of Cassons was \$1,656,000.

**31. RECONCILIATION OF CASH FLOWS FROM OPERATING ACTIVITIES****30 Jun 2018  
\$'000****30 Jun 2017  
\$'000**

|                                                    |              |              |
|----------------------------------------------------|--------------|--------------|
| <b>Net profit after tax</b>                        | <b>9,100</b> | <b>9,280</b> |
| <b>Add/(less) non-cash movements</b>               |              |              |
| Depreciation and amortisation                      | 2,734        | 846          |
| Profit distribution from equity-accounted investee | (6)          | -            |
| <b>(Increase)/decrease in assets</b>               |              |              |
| Receivables                                        | 9,975        | (1,384)      |
| Inventories                                        | (15,248)     | (8,189)      |
| Purchase of trademarks                             | (3)          | -            |
| Deferred tax assets                                | -            | 642          |
| <b>Increase/(decrease) in liabilities</b>          |              |              |
| Payables                                           | (5,361)      | 2,019        |
| Bailment finance liability                         | 1,281        | 3,854        |
| Provisions                                         | 1,161        | 961          |
| Taxes payable                                      | (2,051)      | 431          |
| <b>Net cash inflow from operating activities</b>   | <b>1,582</b> | <b>8,460</b> |

**32. SUBSEQUENT EVENTS**

There have not been any other matters or circumstances occurring subsequent to the end of the period that have significantly affected, or may significantly affect, the operations of the group or the state of affairs of the group in future periods.

## FINANCIAL STATEMENTS (CONTINUED)

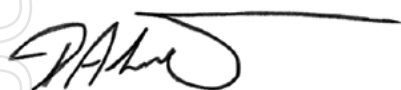
### NOTES TO AND FORMING PART OF THE CONSOLIDATED FINANCIAL STATEMENTS

#### DIRECTORS' DECLARATION

The Directors make the following Directors' Declaration for the year ended 30 June 2018:

1. In the opinion of the Directors of MotorCycle Holdings Limited (the Company):
  - (a) the consolidated financial statements and notes that are set out on pages 28 to 63 and the Remuneration report in section 16 in the Directors' report, are in accordance with the *Corporations Act 2001*, including:
    - (i) giving a true and fair view of the Group's financial position as at 30 June 2018 and of its performance for the financial year ended on that date; and
    - (ii) complying with *Australian Accounting Standards and the Corporations Regulations 2001*;
  - (b) there are reasonable grounds to believe that the Company will be able to pay its debts as and when they become due and payable.
2. There are reasonable grounds to believe that the Company and the group entities identified in Note 23 will be able to meet any obligations or liabilities to which they are or may become subject to by virtue of the Deed of Cross Guarantee between the Company and those group entities pursuant to *ASIC Corporations (Wholly-owned Companies) Instrument 2016/785*.
3. The directors have been given the declarations required by Section 295A of the *Corporations Act 2001* from the Chief Executive Officer and Chief Financial Officer for the financial year ended 30 June 2018.
4. The directors draw attention to Note 2 to the consolidated financial statements, which includes a statement of compliance with International Financial Reporting Standards.

Signed in accordance with a resolution of the directors:



**David Ahmet**  
Managing Director

*Dated at Brisbane this 29th day of August 2018*



**David Foster**  
Chairman

*Dated at Brisbane this 29th day of August 2018*





## INDEPENDENT AUDITOR'S REPORT

# Independent Auditor's Report

To the shareholders of MotorCycle Holdings Limited

### Report on the audit of the Financial Report

#### Opinion

We have audited the **Financial Report** of MotorCycle Holdings Limited (the Company).

In our opinion, the accompanying Financial Report of the Company is in accordance with the *Corporations Act 2001*, including:

- giving a true and fair view of the **Group's** financial position as at 30 June 2018 and of its financial performance for the year ended on that date; and
- complying with *Australian Accounting Standards* and the *Corporations Regulations 2001*.

The **Financial Report** comprises:

- Consolidated Statement of Financial Position as at 30 June 2018;
- 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;
- notes including a summary of significant accounting policies; and
- Directors' Declaration.

The **Group** consists of the Company and the entities it controlled at the year-end or from time to time during the financial year.

#### Basis for opinion

We conducted our audit in accordance with *Australian Auditing Standards*. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Our responsibilities under those standards are further described in the *Auditor's responsibilities for the audit of the Financial Report* section of our report.

We are independent of the Group in accordance with the *Corporations Act 2001* and the ethical requirements of the *Accounting Professional and Ethical Standards Board's APES 110 Code of Ethics for Professional Accountants* (the Code) that are relevant to our audit of the Financial Report in Australia. We have fulfilled our other ethical responsibilities in accordance with the Code.

#### Key Audit Matters

The **Key Audit Matters** we identified are:

- Recoverability of goodwill
- Valuation of inventory
- Acquisition of Cassons business

**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.



## FINANCIAL STATEMENTS (CONTINUED)

### INDEPENDENT AUDITOR'S REPORT

#### Recoverability of goodwill (\$103,290,000)

Refer to **Note 14** to the Financial Report

#### The key audit matter

The carrying value of goodwill is a Key Audit Matter due to:

- the size of the balance (comprising 44% of total assets); and
- the high level of judgement involved by us in assessing the inputs into the value-in-use (VIU) model supporting the Group's annual assessment for impairment.

We focused on the significant assumptions the Group applied in its VIU model, including

- the determination of CGUs;
- budgeted revenue and costs;
- forecast growth rates;
- discount rates; and
- terminal growth rate.

The Group also made significant acquisitions during the year, including \$73.9m of goodwill as part of those acquisitions. This required the reassessment of the Group's determination of CGUs based on the independence of each asset's cash inflows and the impact of the acquisitions on management's monitoring of the business.

We involved our valuation specialists and senior audit team members in assessing this Key Audit Matter.

#### How the matter was addressed in our audit

Working with our valuation specialists, our procedures included:

- evaluating the Group's determination of their CGUs based on our understanding of the operations of the Group's business and the impact of the acquisitions during the year. We analysed the Group's internal reporting to assess how results are monitored and reported and the implications to CGU identification in accordance with accounting standards;
- checking the forecast cash flows used in the Group's VIU models to the FY19 budget;
- evaluating the approach and application of the VIU model, including the valuation methodology and treatment of assumptions for capital expenditure, working capital, terminal value and net present value calculation;
- assessing the integrity of the VIU model used, including the accuracy of the underlying calculation formulas;
- assessing the historical accuracy of previous Group forecasts to inform our evaluation of current forecasts incorporated in the VIU model;
- assessing the Group's discount rates against publicly available data for a group of comparable entities and independently developing a discount rate range based on the Group's business and its industry;
- considering the sensitivity of the models by varying key assumptions (forecast growth rates, discount rates and terminal growth rate), within a reasonably possible range, to identify those CGUs of a higher risk of impairment and to focus our audit procedures;
- assessing the allocation of corporate overheads and assets to CGUs by comparing the allocation methodology to our understanding of the business and industry;
- assessing the recoverable amount of the Group's total goodwill against the market capitalisation of the Group at 30 June 2018, to inform the focus of our testing on the judgements used by management in the VIU model; and
- evaluating the accuracy and adequacy of the related disclosures in the financial report in accordance with applicable accounting standards.



### Valuation of inventory (\$87,421,000)

Refer to **Note 12** to the Financial Report

#### The key audit matter

The valuation of new and used motorcycle inventory and parts and accessories inventory is a Key Audit Matter due to:

- the size of the balance (comprising 37% of total assets); and
- the high level of judgement required by us in evaluating management's assessment of recoverability based on age, brand, condition and historical sales data.

These judgements included the assumptions underlying the provision for inventory obsolescence calculations and determination of net realisable value across each class of inventory with reference to the above mentioned attributes, amongst others.

In assessing this key audit matter, we involved senior members of the audit team who collectively understand the Group's business, industry and the economic environment in which it operates.

#### How the matter was addressed in our audit

Our procedures included:

- assessing the appropriateness of inventory valuation accounting policies applied by the Group against the requirements of accounting standards;
- developing an understanding of the Group's processes and judgements adopted in calculating the provisions for obsolescence for each class of inventory;
- validating the age and cost, on a sample basis, of the classes of inventory at 30 June 2018 as key inputs into the Group's calculation of provisions for obsolescence;
- assessing the adequacy of the Group's judgements in estimating net realisable value through the following:
  - comparing the carrying value of new and used motorcycles and parts and accessories, on a sample basis, to current sales values; and
  - assessing the level of provisioning for new and used motorcycles and parts and accessories, on a sample basis, with reference to historical sales data and write-offs.

### Acquisition of Cassons business (\$119,741,000)

Refer to **Note 26** to the Financial Report

#### The key audit matter

The acquisition of Cassons Pty Ltd and Motorcycle Accessories Supermarket Pty Ltd for a consideration of \$119,741,000 is considered a Key Audit Matter due to the size of the acquisition and the audit complexity arising from the Group's estimation process in the Purchase Price Allocation (PPA).

The process involved in accounting for the acquisition is complex, requiring the Group to apply judgment to determine the fair value of acquired assets and liabilities. The Group engaged an independent valuation expert to perform a PPA and advise on the identification and measurement of acquired assets and liabilities, in particular determining the allocation

#### How the matter was addressed in our audit

Our procedures included, amongst others:

- Assessing the acquisition against the criteria of a business combination in the accounting standards, and establishing the date of acquisition by reading the key transaction documents to understand key terms and conditions;
- working with our valuation specialists to assess and challenge key assumptions used in the PPA to identify and value separate assets. This involved:
  - assessing the objectivity, competence, experience and scope of the independent valuation expert;

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## FINANCIAL STATEMENTS (CONTINUED)

### INDEPENDENT AUDITOR'S REPORT



of purchase consideration to goodwill and separately identifiable intangible assets. We focused on the following key assumptions in the Group's valuation models used to determine the fair value of intangible assets, including trademarks and customer contracts:

- forecast revenues including renewal rate and operating costs;
- growth rate; and
- discount rate.

We involved our valuation specialists and senior audit team members in assessing this Key Audit Matter.

- using our knowledge of the acquired business, and their industry, to assess their cash flow forecasts used to determine the value of intangible assets;
- assessing key assumptions used to determine the value of intangible assets, including those relating to growth rates and discount rates. This included comparing the key assumptions against publicly available data of a group of comparable entities and external data such as economic growth projections and inflation expectations;
- assessing the fair value of other assets and liabilities recorded in the PPA by performing procedures including independently confirming inventory balances as at the acquisition date; and
- assessing the Group's disclosures in respect of business acquisitions with reference to the accounting standard requirements.

#### Other Information

Other Information is financial and non-financial information in MotorCycle Holdings Limited's annual reporting which is provided in addition to the Financial Report and the Auditor's Report. The Directors are responsible for the Other Information.

The Other Information we obtained prior to the date of this Auditor's Report was the Chairman's Report, Managing Director's Report, Directors' Report including Remuneration Report, Additional Information as at 29 August 2018 and Corporate Directory.

Our opinion on the Financial Report does not cover the Other Information and, accordingly, we do not express an audit opinion or any form of assurance conclusion thereon, with the exception of the Remuneration Report and our related assurance opinion.

In connection with our audit of the Financial Report, our responsibility is to read the Other Information. In doing so, we 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.

We are required to report if we conclude that there is a material misstatement of this Other Information, and based on the work we have performed on the Other Information that we obtained prior to the date of this Auditor's Report we have nothing to report.

#### Responsibilities of the Directors for the Financial Report

The Directors are responsible for:

- preparing the Financial Report that gives a true and fair view in accordance with *Australian Accounting Standards* and the *Corporations Act 2001*;
- implementing necessary internal control to enable the preparation of a Financial Report that gives a true and fair view and is free from material misstatement, whether due to fraud or error; and
- assessing the Group and Company's ability to continue as a going concern and whether the use of the going concern basis of accounting is appropriate. This includes disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless they either intend to liquidate the Group and Company or to cease operations, or have no realistic alternative but to do so.



## Auditor's responsibilities for the audit of the Financial Report

Our objective is:

- 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 Australian Auditing Standards will always detect a material misstatement when it exists.

Misstatements can arise from fraud or error. They 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.pdf](https://www.auasb.gov.au/auditors_responsibilities/ar1.pdf). This description forms part of our Auditor's Report.

## Report on the Remuneration Report

### Opinion

In our opinion, the Remuneration Report of MotorCycle Holdings Limited for the year ended 30 June 2018, complies with *Section 300A* of the *Corporations Act 2001*.

### Directors' 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 responsibilities

We have audited the Remuneration Report included in Section 16 of the Directors' Report for the year ended 30 June 2018.

Our responsibility is to express an opinion on the Remuneration Report, based on our audit conducted in accordance with *Australian Auditing Standards*.

KPMG

Simon Crane  
Partner

Brisbane  
29 August 2018

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## FINANCIAL STATEMENTS (CONTINUED)

### ADDITIONAL INFORMATION

#### ADDITIONAL INFORMATION AS AT 29 AUGUST 2018

##### Substantial Shareholders

1. MotorCycle Holdings Limited (shares held by employees and their Associates) holding 17,215,537 shares or 27.9% of the total issued capital.
2. David Hedley Ahmet holding 11,133,907 shares at 18.04% of the total issued capital.
3. Bennelong Australian Equity Partners Pty. Ltd. (Bennelong Funds Management Group) holding 7,570,091 shares at 12.27% of the total issued capital.
4. Commonwealth Bank Group holding 3,994,379 shares at 7.22% of the total issued capital.
5. Naos Asset Management Ltd holding 3,199,477 shares or 5.18% of the total issued capital.

##### Voting Rights

Each shareholder present at a meeting has one vote on a show of hands, and if a poll is called each shareholder present votes in proportion to the number of and amount paid up on their shares.

##### Ordinary Shares

Distribution of equity security holders by size of holding:

| Range            | Total Holders | Units             | % Units       |
|------------------|---------------|-------------------|---------------|
| 1 - 1,000        | 267           | 125,144           | 0.20          |
| 1,001 - 5,000    | 939           | 2,660,746         | 4.31          |
| 5,001 - 10,000   | 411           | 3,023,004         | 4.90          |
| 10,001 - 100,000 | 282           | 6,593,508         | 10.69         |
| 100,001 Over     | 27            | 49,304,308        | 79.90         |
| <b>Rounding</b>  |               |                   | <b>0.00</b>   |
| <b>Total</b>     | <b>1,926</b>  | <b>61,706,710</b> | <b>100.00</b> |

##### Unmarketable Parcels

|                                                | Minimum Parcel Size | Holders | Units |
|------------------------------------------------|---------------------|---------|-------|
| Minimum \$ 500.00 parcel at \$ 3.1500 per unit | 159                 | 64      | 2,326 |

##### Escrowed Shares

6,363,638 ordinary shares are subject to voluntary escrow from 31 October 2017 to 31 October 2019.

##### Securities Exchange

The Company is listed on the Australian Securities Exchange. The home exchange is Sydney.

##### Other Information

MotorCycle Holdings Limited is incorporated and domiciled in Australia, is a publicly listed company limited by shares.

##### On-Market Buy-Back

There is no current on-market buy-back.

## Twenty Largest Shareholders

Top Holders (Ungrouped) As Of 24/08/2018.

| Rank                                                                | Name                                                                         | Units             | % Units      |
|---------------------------------------------------------------------|------------------------------------------------------------------------------|-------------------|--------------|
| 1                                                                   | KENLAKE PTY LIMITED                                                          | 10,479,394        | 16.98        |
| 2                                                                   | CITICORP NOMINEES PTY LIMITED                                                | 10,161,351        | 16.47        |
| 3                                                                   | NATIONAL NOMINEES LIMITED                                                    | 6,744,333         | 10.93        |
| 4                                                                   | HSBC CUSTODY NOMINEES (AUSTRALIA) LIMITED                                    | 5,482,564         | 8.88         |
| 5                                                                   | J P MORGAN NOMINEES AUSTRALIA LIMITED                                        | 3,439,777         | 5.57         |
| 6                                                                   | FREDA CASSEN                                                                 | 3,181,819         | 5.16         |
| 7                                                                   | R CASSEN PTY LTD <R CASSEN FAMILY A/C>                                       | 3,181,819         | 5.16         |
| 8                                                                   | MR BRUCE ROLAND COLLINS                                                      | 839,610           | 1.36         |
| 9                                                                   | DAVID HEDLEY AHMET                                                           | 581,596           | 0.94         |
| 10                                                                  | MRS KAREN ANN COOKSLEY                                                       | 575,001           | 0.93         |
| 11                                                                  | MR ROBERT BRUCE TINLIN                                                       | 557,785           | 0.90         |
| 12                                                                  | MR CHRISTOPHER ANDREW CHENOWETH                                              | 546,935           | 0.89         |
| 13                                                                  | MR ROBERT JOHN DONOVAN + MS CORINA LEE TROY <DONOVAN FAMILY S/F A/C>         | 510,552           | 0.83         |
| 14                                                                  | MR MARTIN JOHN POCOCK + MRS MICHELLE JUNE POCOCK <POCOCK FAMILY A/C>         | 385,291           | 0.62         |
| 15                                                                  | BNP PARIBAS NOMS PTY LTD <DRP>                                               | 332,432           | 0.54         |
| 16                                                                  | DR DAVID JOHN RITCHIE + DR GILLIAN JOAN RITCHIE <D J RITCHIE SUPER FUND A/C> | 309,934           | 0.50         |
| 17                                                                  | MUSGROVE INVESTMENTS PTY LTD <SHANE MUSGROVE S/F A/C>                        | 309,926           | 0.50         |
| 18                                                                  | AUST EXECUTOR TRUSTEES LTD <CYAN C3G FUND>                                   | 259,191           | 0.42         |
| 19                                                                  | GEAT INCORPORATED <GEAT-PRESERVATION FUND A/C>                               | 230,740           | 0.37         |
| 20                                                                  | FARALLON CAPITAL PTY LTD <NUNN INVESTMENT A/C>                               | 220,000           | 0.36         |
| <b>Totals: Top 20 holders of ORDINARY FULLY PAID SHARES (Total)</b> |                                                                              | <b>48,330,050</b> | <b>78.32</b> |
| <b>Total Remaining Holders Balance</b>                              |                                                                              | <b>13,376,660</b> | <b>21.68</b> |

## FINANCIAL STATEMENTS (CONTINUED)

### ADDITIONAL INFORMATION

#### Leases with Related Parties

Certain MotorCycle Holdings Group entities have entered into leases in respect of properties that are part-owned by David Ahmet (Managing Director) or that are part-owned by entities owned and controlled by David Ahmet. The Company was granted the following waiver from listing rule 10.1 to the extent necessary to permit the Company not to seek shareholder approval for the first renewal period of 5 years, commencing on 1 July 2016 (the "First Renewal Period"), of property leasing agreements entered into between the Company on behalf of Triumph Virginia, Moorooka Service Centre, Triumph Springwood, Honda Springwood, Advanced Spray Painting and Decals, Team Moto Virginia, Team Moto Moorooka, Yamaha Gold Coast, Team Moto North Coast and Team Moto Blacktown and properties that are part-owned by Company director and substantial shareholder David Ahmet or that are part-owned by Kenlake Pty Ltd, an entity owned and controlled by David Ahmet (the "Ahmet Leases") on the following conditions.

- (i) Summaries of the material terms of the Ahmet Leases are made in each annual report of the Company during the life of the Ahmet Leases.
- (ii) Any material variation to the terms of the Ahmet Leases is subject to shareholder approval.
- (iii) Renewal of the Ahmet Leases, including the exercise of any subsequent option to renew the Ahmet Leases for a further term of 5 years after the completion of the First Renewal Period, will be subject to shareholder approval, should listing rule 10.1 apply at that time.

The terms of these leases were negotiated on commercial arms' length basis in 2011 and contain customary terms and conditions including an initial lease term of 5 years, with options to renew for a further 15 years (comprising 3 options for 5 year periods). Options to renew were exercised on 1 July 2016.

As a result of the acquisition of Cassons Pty Ltd, the Group has entered into leases in respect to three properties that are owned by entities owned and controlled by Robert Cassen (Executive Director), or that are part-owned by entities owned and controlled by Robert Cassen at Cassons Warehouse, Motor Cycle Accessories Supermarket Penrith and Motor Cycle Accessories Supermarket Caringbah.

The terms of these leases were originally negotiated on commercial arms' length basis in July 2011, December 2012 and July 2013 and each contain customary terms and conditions including initial lease terms of 10 years, with options to renew each lease for a further 10 years.

## CORPORATE DIRECTORY

|                                   |                                                                                                                                                                                                                 |
|-----------------------------------|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| <b>Registered Office</b>          | MotorCycle Holdings Limited<br>68 Moss Street<br>Slacks Creek QLD 4127<br>Tel: +61 7 3380 5250<br>Email: nicole@mcholdings.com.au                                                                               |
| <b>ASX Ticker Code</b>            | MTO                                                                                                                                                                                                             |
| <b>Directors</b>                  | David Foster<br>David Ahmet<br>Warren Bee<br>Rick Dennis<br>Peter Henley<br>Rob Cassen                                                                                                                          |
| <b>Chief Financial Officer</b>    | Eddie MacDonald                                                                                                                                                                                                 |
| <b>Company Secretaries</b>        | Eddie MacDonald CPA MBA<br>Nicole Spink CPA                                                                                                                                                                     |
| <b>Auditor</b>                    | KPMG<br>Level 16<br>Riparian Plaza<br>71 Eagle Street<br>Brisbane QLD 4000                                                                                                                                      |
| <b>Location of Share Registry</b> | Computershare Investor Services Pty Ltd<br>Level 1<br>200 Mary Street<br>Brisbane QLD 4000<br>Tel (within Australia): 1300 850 505<br>Tel (outside Australia): +61 3 9415 4000<br>Website: computershare.com.au |
| <b>Website</b>                    | <a href="http://www.mcholdings.com.au">www.mcholdings.com.au</a>                                                                                                                                                |

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