

19 August 2020

Manager Company Announcements
ASX Limited
Level 4
20 Bridge Street
SYDNEY NSW 2000

By E-lodgement

McMillan Shakespeare Limited 2020 Appendix 4E

This release contains an announcement to the Australian Stock Exchange Limited (ASX) regarding the lodgement of Appendix 4E in accordance with listing rule 4.3A of the ASX listing rules.

Yours faithfully
McMillan Shakespeare Limited



Mark Blackburn
Chief Financial Officer and Company Secretary

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McMillan
Shakespeare
Limited

Appendix 4E

Preliminary Final Report
Provided Under Listing
Rule 4.3A

Year Ended 30 June 2020

MMS

Appendix 4E

1. Details of the reporting period and the previous corresponding period

Current period: 1 July 2019 to 30 June 2020

Previous corresponding period: 1 July 2018 to 30 June 2019

2. Results for announcement to the market

Key information		Percentage change	Year ended 30 June 2020 \$'000	Year ended 30 June 2019 \$'000
2.1	Revenues from continuing operations	(10.1%)	493,962	549,675
2.2	Profit from ordinary activities after income tax attributable to members	(98.0%)	1,269	63,672
2.3	Net profit from ordinary activities after income tax attributable to members	(98.0%)	1,269	63,672
2.4	Dividends			
			Amount per security	Franked amount per security
	Final dividend		-	-
	Interim dividend		\$0.34	\$0.34
	Total dividend (interim plus final)		\$0.34	\$0.34

There is no dividend reinvestment plan in operation.

2.5 Dividend record date

No final dividend declared.

2.6 Information on note 2.2

Net profit after-tax for the year of \$1,269,000 includes the after-tax impact of non-business operational items that have resulted from or as a consequence of business combination and investment activities or out of cycle adjustments as detailed in note 14. Underlying Net Profit after Income Tax and Amortisation that excludes these items is \$69,028,000 which is a 22% decrease on the preceding year of \$88,697,000.

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3. Statement of Comprehensive Income

Refer Statement of Profit or Loss and Other Comprehensive Income.

4. Statement of Financial Position

Refer Statement of Financial Position.

5. Statement of Cash Flows

Refer Statement of Cash Flows.

6. Statement of Changes in Equity

Refer Statement of Changes in Equity.

7. Details of Dividend Payment

Refer Dividends note 12.

8. Dividend reinvestment plan

None.

9. Net tangible assets per security

	Year ended 30 June 2020 \$	Year ended 30 June 2019 \$
Ordinary shares	1.14	2.18

Net tangible assets include the Right-of-use assets for the future economic benefit from contractually committed use of property leases that is brought to account on the balance sheet.

10. Control gained over entities during the financial year

None.

11. Details of Joint Venture entities

The Group's 50% joint venture interest in Maxxia Limited, a company operating in the UK, reported a loss after tax for the period of \$1,512,000 (FY19: \$1,456,000) and has not been equity accounted as the loss carrying amount of the Group's investment in the JV is nil.

12. Significant information on financial performance and financial position for investors

Refer Results Presentation announced to the ASX.

13. Accounting standards used by foreign entities

No differences to Group policies or International Financial Reporting Standards (IFRS).

14. Commentary on the results for the financial year

Underlying Net Profit after Income Tax and Amortisation (UNPATA), being net profit after tax but before the after-tax impact of non-business operational items that have resulted from or as a consequence to business combination and investment activities and out of cycle adjustments as detailed below has been used to measure financial performance of the Group in the period. The Group believes this measure of performance best represents the underlying operating results of the Group as it operates the businesses in the period. For the year ended 30 June 2020, Group UNPATA of \$69.0 million was 22% lower than the previous year.

	FY20 \$'000	FY19 \$'000
NPAT (item 2.2)	1,269	63,672
Impairment of goodwill and intangible assets ¹	49,822	18,174
Amortisation of intangible assets acquired on business combination	2,918	3,568
Class action legal costs and settlement provision ²	5,079	-
Deferred revenue and acquisition costs valuation ³	9,751	-
Share buyback expenses ⁴	383	-
Due diligence and restructure costs ⁵	1,265	514
Fair valuation of deferred consideration and finance charge ⁶	(1,459)	(957)
One-off provision for a UK contract	-	3,726
Consolidated UNPATA	69,028	88,697

- 1 Non-cash impairment for the carrying value of intangible assets in the Aggregation business of the Group's Retail Financial Services (RFS) segment and the businesses in the UK.
- 2 Class action costs relate to the settlement provision and legal expenses for the class action against the warranty product business in RFS.
- 3 Deferred income and associated costs relate to the reassessment of the carrying value of the deferred income balance of the RFS Warranty balance sheet to adopt current assumptions that include product and operational changes.
- 4 Share buyback costs related to the off-market share buyback completed in October 2019.
- 5 Due diligence and restructure costs relate to the UK strategic review and restructuring activities.
- 6 Fair valuation of deferred consideration relates to the acquisition of an Asset Management segment's business in the UK that is unlikely to be paid.

	FY20 \$'000	FY19 \$'000	FY20 \$'000	FY19 \$'000
	Revenue		UNPATA ¹	
Group Remuneration Services	214,822	221,851	60,946	66,069
Asset Management	229,288	245,793	6,038	17,229
Retail Financial Services	49,539	80,689	3,005	6,359
Segment operations	493,649	548,333	69,989	89,657
Unallocated	313	1,342	(961)	(960)
Consolidated Revenue / UNPATA	493,962	549,675	69,028	88,697

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

Basic earnings per share as shown in the financial statements was 1.6 cents per share (2019: 77.0 cents per share) and on a diluted basis 1.6 cents per share (2019: 76.4 cents per share). Basic UNPATA per share is 87.4 cents per share (2019: 107.3 cents per share).

For additional information and commentary, refer to the FY20 Results Presentation announced to the ASX on 19 August 2020.

15. Audit

This report is unaudited.

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Statement of Profit or Loss and Other Comprehensive Income

For the year ended 30 June 2020

	Note	Consolidated Group	
		2020 \$'000	2019 \$'000
Revenue from contracts with customers		493,116	547,894
Interest income		846	1,781
Revenue from continuing operations		493,962	549,675
Expenses			
Employee benefit expense		(128,879)	(138,774)
Leasing and vehicle management expenses		(103,312)	(100,355)
Brokerage commissions and incentives		(30,892)	(36,478)
Depreciation and amortisation expenses	4(d)	(83,290)	(81,108)
Net claims incurred		(13,591)	(13,097)
Other operating expenses	4(c)	(47,020)	(51,755)
Finance costs		(8,786)	(10,514)
Operational expenses excluding impairment and capital related items		(415,770)	(432,081)
Impairment charges	4(a)	(54,735)	(19,066)
Contingent consideration fair valuation	4(d)	1,459	1,168
Net impairment and capital related expense items		(53,276)	(17,898)
Total expenses		(469,046)	(449,979)
Profit before income tax		24,916	99,696
Income tax expense	4(e)	(22,585)	(35,879)
Net profit for the year		2,331	63,817
Profit is attributable to:			
Owners of the Company		1,269	63,672
Non-controlling interest		1,062	145
		2,331	63,817
Other comprehensive income			
<i>Items that may be re-classified subsequently to profit or loss:</i>			
Changes in fair value of cash flow hedges		(524)	(1,194)
Exchange differences on translating foreign operations		3	1,036
Income tax on other comprehensive income		111	279
Other comprehensive (loss) / income for the year		(410)	121
Total comprehensive income for the year		1,921	63,938
Total comprehensive income for the year is attributable to:			
Owners of the Company		859	63,793
Non-controlling interest		1,062	145
Total comprehensive income for the year		1,921	63,938
Basic earnings per share (cents)	13	1.6	77.0
Diluted earnings per share (cents)	13	1.6	76.4

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

Statement of Financial Position

As at 30 June 2020

	Note	Consolidated Group	
		2020 \$'000	2019 \$'000
Current assets			
Cash and cash equivalents	10	91,408	137,762
Trade and other receivables	6	69,384	61,028
Finance lease receivables		43,936	57,412
Assets under operating lease		62,272	74,030
Inventory		7,715	12,310
Prepayments		3,299	6,076
Deferred acquisition costs		5,206	2,859
Total current assets		283,220	351,477
Non-current assets			
Assets under operating lease		153,670	206,675
Property, plant and equipment		5,269	7,427
Right-of-use asset		15,953	-
Finance lease receivables		69,150	80,654
Intangible assets	5	140,413	191,328
Deferred acquisition costs		6,641	2,929
Deferred tax assets		10,122	13,008
Total non-current assets		401,218	502,021
TOTAL ASSETS		684,438	853,498
Current liabilities			
Trade and other payables		96,462	94,588
Contract liabilities		8,098	6,051
Provisions		11,800	11,088
Unearned premium liability		18,083	9,075
Current tax liability		5,274	2,490
Other liabilities		2,341	8,847
Borrowings	9	11,706	8,779
Lease liabilities	2(a)	6,523	-
Derivative financial instruments		1,678	1,157
Total current liabilities		161,965	142,075
Non-current liabilities			
Borrowings	9	251,914	319,520
Lease liabilities	2(a)	17,913	-
Unearned premium liability		20,483	8,116
Provisions		1,608	1,365
Deferred tax liabilities		1,669	9,677
Contingent consideration		-	1,374
Total non-current liabilities		293,587	340,052
TOTAL LIABILITIES		455,552	482,127
NET ASSETS		228,886	371,371
Equity			
Issued capital	7(b)	76,419	135,868
Reserves		(12,078)	(4,760)
Retained earnings		164,545	240,263
TOTAL EQUITY		228,886	371,371

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

Statement of Changes in Equity

For the Year Ended 30 June 2020

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

Statement of Changes in Equity

For the Year Ended 30 June 2019

Consolidated Group

2019	Note	Issued capital \$'000	Retained Earnings \$'000	Option Reserve \$'000	Cash flow Hedge Reserve \$'000	Foreign Currency Translation Reserve \$'000	Outside Equity Interest \$'000	Total \$'000
Equity as at beginning of year as originally reported		135,868	229,941	11,591	37	(5,596)	(464)	371,377
Change in accounting policies		-	(2,146)	-	-	-	-	(2,146)
Re-stated equity as at the beginning of period		135,868	227,795	11,591	37	(5,596)	(464)	369,231
Profit attributable to members of the parent entity		-	63,672	-	-	-	145	63,817
Other comprehensive income after tax		-	-	-	(915)	1,036	-	121
Total comprehensive income for the period		-	63,672	-	(915)	1,036	145	63,938
<i>Transactions with owners in their capacity as owners:</i>								
Share-based expense		-	-	(750)	-	-	-	(750)
Dividends paid	12	-	(61,173)	-	-	-	-	(61,173)
Equity contribution		-	-	-	-	-	125	125
Transfer of equity		-	9,969	(9,969)	-	-	-	-
Equity as at 30 June 2019		135,868	240,263	872	(878)	(4,560)	(194)	371,371

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Statement of Cash Flows

For the Year Ended 30 June 2020

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

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Notes to the Financial Statements

1. Basis of preparation

This preliminary final report has been prepared in accordance with ASX Listing Rule 4.3A and the disclosure requirements of ASX Appendix 4E. The preliminary final report has been prepared in accordance with Australian Accounting Standards, including Australian Accounting Interpretations, other authoritative pronouncements of the Australian Accounting Standards Board and the *Corporations Act 2001*. The preliminary final report covers the consolidated group of McMillan Shakespeare Limited and its controlled entities (the Company or Consolidated Group). McMillan Shakespeare Limited is a listed public company, incorporated and domiciled in Australia. The preliminary final report of McMillan Shakespeare Limited and its controlled entities complies with all International Financial Reporting Standards (IFRS) in their entirety. The preliminary final report has been prepared on an accruals basis and is based on historical costs modified by the revaluation of selected non-current assets, and financial assets and financial liabilities for which the fair value basis of accounting has been applied.

2. Significant accounting policies

The same accounting policies and methods of computation have been followed in this financial report as were applied in the Group's last annual financial report for the year ended 30 June 2019 with the following updates.

(a) New accounting policies and financial statements from adoption of AASB 16: Leases from 1 July 2019.

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

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

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

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

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

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

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

3. Segment reporting

(a) Segments

Group Remuneration Services – This segment provides administrative services in respect of salary packaging and facilitates the settlement of motor vehicle novated leases for customers but does not provide financing. The segment also provides ancillary services associated with motor vehicle novated lease products. The provision of administrative services include plan management and support coordination services to participants in the National Disability Insurance Scheme (NDIS).

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

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

(b) Segment results

	Group Remuneration Services \$'000	Asset Management \$'000	Retail Financial Services \$'000	Unallocated \$'000	Consolidated \$'000
2020					
Revenue from contracts with customers	214,822	228,755	49,539	-	493,116
Interest revenue	-	533	-	313	846
Segment revenue	214,822	229,288	49,539	313	493,962
Timing of revenue recognition:					
At a point in time	121,589	130,815	41,238	-	293,642
Over time	93,233	97,940	8,301	-	199,474
Segment revenue from contracts with customers	214,822	228,755	49,539	-	493,116
Underlying net profit after tax and amortisation (UNPATA)	60,946	6,038	3,005	(961)	69,028
Reconciliation to statutory net profit after tax attributable to members of the parent entity					
Impairment of goodwill and other intangible assets	-	(16,174)	(33,965)	-	(50,139)
Amortisation of intangible assets acquired on business combination	-	(1,753)	(2,141)	-	(3,894)
Other, including class action legal costs and settlement provision (refer note 14(b))	-	-	(7,255)	-	(7,255)
Deferred revenue and deferred acquisition costs valuation	-	-	(13,930)	-	(13,930)
Share buyback expenses	-	-	-	(548)	(548)
Other, including due diligence and restructuring expenses	-	(123)	-	(1,165)	(1,288)
Fair valuation of deferred consideration and finance charge	-	1,459	-	-	1,459
Total adjustments pre-tax	-	(16,591)	(57,291)	(1,713)	(75,595)
Income tax	-	673	6,998	165	7,836
UNPATA adjustments	-	(15,918)	(50,293)	(1,548)	(67,759)
Statutory net profit after-tax attributable to members of the parent entity	60,946	(9,880)	(47,288)	(2,509)	1,269

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

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(c) Government grants

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

The subsidies (pre-tax) were accounted for by the segments as follows.

	Group Remuneration Services \$'000	Asset Management \$'000	Retail Financial Services \$'000	Unallocated \$'000	Consolidated \$'000
2020					
JobKeeper Payment	8,537	800	692	-	10,029
Coronavirus Job Retention Scheme	-	1,237	-	-	1,237
	8,537	2,037	692	-	11,266

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

(d) Deferred revenue and acquisition costs valuation

	Consolidated Group 2020 \$'000
Deferred revenue	20,704
Deferred acquisition costs	(6,774)
	13,930

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

4. Profit and loss information**(a) Impairment charges**

	Consolidated Group	
	2020 \$'000	2019 \$'000
Impairment of goodwill	48,475	17,985
Impairment of other intangible assets	1,664	269
Impairment of subordinated loan	4,596	812
	54,735	19,066

The Group's impairment of goodwill and other intangible assets relate to the RFS Aggregation segment and the business in the UK. The UK operations have projected lower future cash flows affected by a weaker economic environment including the effects of the COVID-19 pandemic (COVID-19) affecting the products and markets that the businesses trade in. RFS Aggregation experienced increasing competitive pressures during the year affecting finance originations and yields in addition to the impact of COVID-19. Refer note 5(a) for the assumptions used in the assessment.

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

(b) Receivable loss allowance

	Consolidated Group	
	2020 \$'000	2019 \$'000
Finance lease receivable loss allowance	(178)	274
Finance receivables specific loss allowance	(487)	4,600
Trade receivables loss allowance	1,248	79
	583	4,953

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

Finance receivables specific loss allowance release of \$487,000 is the discharge of a provision for lease assets recovered from distressed clients.

(c) Other operating expenses

	Consolidated Group	
	2020 \$'000	2019 \$'000
Consulting ¹	11,678	5,180
Marketing	7,735	6,106
Property and corporate	4,065	10,939
Technology and communication	13,197	13,044
Other	10,345	16,486
	47,020	51,755

¹ Consulting expenses include legal consulting expenses of \$6.5m which was mostly related to the class action proceedings and \$2m for the provision of the class action settlement (refer note 14(b))

(d) Other expense items

	Consolidated Group	
	2020 \$'000	2019 \$'000
Depreciation and amortisation expenses		
Depreciation of assets under operating lease	58,980	66,246
Amortisation of software development	11,700	6,519
Depreciation of plant and equipment	3,191	3,511
Amortisation of intangibles	3,893	4,832
Depreciation of Right-of-use asset	5,526	-
	83,290	81,108

(e) Income tax expense

	Consolidated Group	
	2020 \$'000	2019 \$'000
Profit before income tax	24,916	99,696
Prima facie tax payable on profit before income tax at 30% (2019: 30%)	7,475	29,908
Add tax effect of:		
– non-deductible impairment expense	12,946	5,396
– non-deductible subordinated loan	836	-
– non-deductible costs	774	668
– contingent consideration fair valuation	(277)	(222)
– share-based payments	(154)	-
– overseas tax rate differential of subsidiaries	2,354	(251)
– acquisition expenses	-	232
– other	-	203
– over provision of tax in prior year	(1,369)	(55)
Income tax expense	22,585	35,879

5. Intangible Assets

	Consolidated Group						
	Goodwill \$'000	Brands \$'000	Dealer relationships \$'000	Customer contracts & relationships \$'000	Software development costs \$'000	Contract rights \$'000	Total \$'000
2020							
Net book amount							
Balance beginning of year	137,427	10,150	11,088	2,276	30,387	-	191,328
Additions	-	-	-	-	13,494	-	13,494
Impairment	(48,475)	-	(1,664)	-	-	-	(50,139)
Amortisation	-	(877)	(2,270)	(746)	(11,700)	-	(15,593)
Other	-	-	-	-	713	-	713
Changes in foreign currency	373	-	194	43	-	-	610
Closing balance	89,325	9,273	7,348	1,573	32,894	-	140,413

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

(a) Impairment test of goodwill

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

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

	Consolidated Group	
	2020 \$'000	2019 \$'000
Maxxia Pty Limited (Maxxia)	24,190	24,190
Remuneration Services (Qld) Pty Limited (RemServ)	9,102	9,102
CLM Fleet Management plc (CLM)	7,799	12,955
Anglo Scottish Finance Limited (ASF)	13,138	16,753
Retail Financial Services segment aggregation business (RFS Aggregation)	31,894	65,859
Capex Asset Finance Limited (CAPEX)	3,202	5,081
Other	-	3,487
	89,325	137,427

(b) Key assumptions used for value-in-use calculations**Cash flow projections**

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

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

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

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

GRS CGUs

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

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

The cash flow projections for GRS in FY2021 are substantially higher than the carrying value of goodwill in this CGU and consequently, any reasonable changes to the key assumptions would not cause an impairment and hence, no sensitivity assessments have been presented. One of the key assumptions in the GRS segment is that there is no significant change to Australian tax legislation that could affect the salary packaging and novated lease businesses. RemServ generates a substantial portion of its salary packaging and novated leasing business from the provision of services to employees of the Queensland Government pursuant to contractual arrangements to April 2021 and November 2021 respectively.

Asset Management CGUs

Impairment assessment model for Asset Management CGUs

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

CAPEX and ASF

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

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

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

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

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

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

CLM

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

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

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

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

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

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RFS Aggregation CGU

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

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

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

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

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

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

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6. Trade and Other Receivables

	Consolidated Group	
	2020 \$'000	2019 \$'000
Trade receivables	32,306	41,516
Other receivables	37,078	13,486
Income tax receivable	-	6,026
	69,384	61,028

(a) Trade receivables

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

Impairment of trade receivables

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

	Consolidated Group	
	2020 \$'000	2019 \$'000
Expected loss rate	2.82%	1.87%
Gross carrying amount	34,347	42,309
Loss allowance	967	793

	2020			2019		
	Total \$'000	Loss Allowance \$'000	Amount not impaired \$'000	Total \$'000	Loss Allowance \$'000	Amount not impaired \$'000
Ageing and expected credit loss of trade receivables						
Not past due	28,763	(821)	27,231	36,720	-	36,720
Past due 30 days	2,442	(55)	2,387	3,176	-	3,176
Past due 31-60 days	1,374	(221)	1,153	1,062	-	1,062
Past due 61-90 days	674	(341)	333	457	(131)	326
Past due > 90 days	1,805	(603)	1,202	894	(662)	232
	34,347	(2,041)	32,306	42,309	(793)	41,516

(b) Other receivables

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

(c) Income tax receivable

The income tax receivable in 2019 relating to income tax assessments for FY12, FY13 and FY14 were settled with the taxation authorities and the refund is included in income taxes paid in the Statement of Cash Flows.

7. Issued Capital**(a) Share capital**

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

(b) Movements in issued capital

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

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

(c) Capital reduction

The net assets of the parent were affected by the loss in value of its investments in and receivable balances from its subsidiaries amounting to \$60,477,000 resulting in a deficit in retained earnings of \$54,561,000 at 30 June 2020. In order to avoid the limitation on the Company's capacity to pay a dividend, the deficit in retained earnings has been applied as a reduction against share capital for the value that is no longer represented in assets in accordance with S.258F of the Corporations Act. The loss in value of assets is summarised as follows.

	Consolidated Group	
	2020 \$'000	2019 \$'000
Investment in subsidiaries	74,348	-
Loan receivables from subsidiaries	3,628	-
Loss in value of assets	77,976	-

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

(d) Share buy-back

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

(e) Treasury shares

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

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

(f) Options and rights

Employee performance options and rights granted under the Company's LTIP at 30 June 2020 are as follows.

	Number	Exercise Price	Expiry Date
Performance Options	407,577	\$13.45	30 September 2020
Performance Options	17,340	\$14.97	30 September 2020
Performance Options	382,446	\$13.45	30 September 2021
Performance Options	15,920	\$14.97	30 September 2021
Performance Options	666,352	\$16.64	30 September 2022
Performance Rights	104,419	-	30 September 2020
Performance Rights	109,994	-	30 September 2021
Performance Rights	119,856	-	30 September 2022
Performance Rights	346,691	-	30 September 2023
Performance Rights	16,899	-	31 October 2020
	2,187,494		

8. Reserves**(a) Acquisition Reserve**

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

9. Borrowings

	Consolidated Group	
	2020 \$'000	2019 \$'000
Current		
Bank loans – at amortised cost	11,706	8,779
Non-current		
Bank loans – at amortised cost	251,914	319,520
Total bank loans	263,620	328,299

(a) Bank borrowings

Borrowing	Maturity dates	Facility in Local Currency \$'000	Facility \$'000	Used ⁴ \$'000	Unused \$'000
Revolving	31/03/2022	AUD130,670	130,670	112,800	17,870
Revolving	31/03/2023	AUD45,000	45,000	25,000	20,000
Revolving	31/03/2024	AUD20,000	20,000	4,000	16,000
Amortising ¹	29/09/2022	AUD7,224	7,224	7,224	-
Amortising ¹	31/12/2022	AUD7,650	7,650	7,650	-
Revolving	31/03/2022	NZD30,000	28,065	25,446	2,619
Revolving	31/03/2023	NZD15,000	14,033	6,643	7,390
Amortising ³	31/01/2021	GBP1,540	2,764	2,764	-
Amortising ²	31/03/2022	GBP3,950	7,089	7,089	-
Revolving	31/10/2021	GBP47,000	84,347	66,759	17,588

1. This facility has been used for the acquisition of the Presidian Group.
2. This facility has been used for the acquisition of EVC and CAPEX in the UK.
3. This facility has been used for the acquisition of CLM in the UK.
4. Drawn amounts are before borrowing costs.

10. Cash and Cash Equivalents

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

(a) Cash and cash equivalents

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

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

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

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

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

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

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

11. Cash Flow Information

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

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

(b) Working capital

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

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

12. Dividends

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

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

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

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

13. Earnings Per Share

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

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

	Consolidated Group	
	2020	2019
Diluted earnings per share		
Diluted EPS – cents per share	1.6	76.4
Earnings used to calculate basic earnings per share (\$'000)		
Weighted average number of ordinary shares outstanding during the year used in the calculation of basic EPS ('000)	78,945	82,667
Weighted average number of options on issue outstanding ('000)	869	2,392
Weighted average number of ordinary shares outstanding during the year used in the calculation of diluted EPS ('000)	79,814	85,059

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

14. Contingent liabilities

(a) Financial guarantees

	Consolidated Group	
	2020 \$'000	2019 \$'000
Guarantee provided for the performance of a contractual obligation not supported by term deposit	11,550	12,550
Guarantees provided for obligations under principal and agency facilities	14,088	14,478
Guarantee provided in respect of a working capital facility	10,768	10,724
Guarantees provided in respect of property leases	5,603	5,512
Guarantee provided for a related entity	448	-
	42,457	43,264

(b) Class action update

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

Davantage Group Pty Ltd attended a mediation in June 2020. The parties are continuing confidential discussions. The next case management conference is currently scheduled for 28 August 2020.

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

15. Commitments

(a) Operating lease commitments

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

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

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

16. Events subsequent to the reporting date

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

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

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

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